Transforming the Traditional Performance Review Process

By: Kimberly Schaufenbuel
Program Director
UNC Executive Development

Introduction

"I am a 4." "I am a 3, but she is a 5; it was her turn this year." How many times have you overheard this type of conversation? Performance reviews are a tool, not a being, and yet on performance review day that is how most employees feel. Studies have found that performance reviews are the second-most disliked work activity by managers after firing employees (Human Capital Institute staff, 2015), and 86 percent of employers report being unhappy with their performance management systems (Rock, Davis and Jones, 2013). Other research has found that only 8 percent of HR executives thought their performance management systems made a significant contribution to employee performance (Rock, Davis and Jones, 2013). Universal dissatisfaction with the traditional performance management process is causing more and more employers—like Accenture, GE, Microsoft, Adobe, and Deloitte, to name a few—to very publically retire their old performance management systems of rankings and ratings in favor of less formal and more frequent performance discussions.

This white paper:

- Examines why traditional performance management systems are not effective and why employers are increasingly rethinking their approach to performance management;

- Studies the neuroscience behind why the traditional approach to performance management is universally disliked among managers and employees;

- Reviews the processes employers are using to replace the traditional performance appraisal and the positive outcomes they have realized, and;

- Spotlights a few organizations that have tossed out their annual review processes.

Why Traditional Performance Management Systems Aren't Working

Employers are increasingly frustrated with traditional performance management systems because the purpose and terminology has changed. In the not-too-distant past, employers did not use the traditional performance management process to develop employees. Instead, they used an annual performance *review* process to assess an employee's past performance. In recent years, however, employers want to more actively manage—and develop—employees, and a shift in terminology— from review to management—evolved. The annual performance review process, however, did not. The purpose changed but the process did not. As a result, the backwards-looking process no longer fits the needs of employers looking to develop and promote better performance.

Traditional performance management processes are viewed by many HR professionals and leaders as a high effort, low return check-box activity. A recent survey by the Human Capital Institute (HCI) found that less than one-third of HR professionals responding to the survey said they were satisfied with their organization's performance management process, and only 35 percent of survey respondents said they trusted their employee ratings to be an accurate reflection of actual performance. The survey also found that:

- Only 27 percent of survey respondents thought their performance management process was effective in developing their employees' knowledge, skills, and abilities.

- Only 30 percent of survey respondents thought their performance management process improved employee performance (Human Capital Institute staff, 2015).

Company Spotlight: Microsoft

Microsoft drastically changed its performance management approach nearly two years ago when it eliminated ratings, forced rankings, and grading on a bell curve. It replaced its former system with a system that makes it easier for managers to reward employees for their contributions. Microsoft also eliminated forced timelines for performance management and now encourages managers to give employees more timely feedback based on the rhythm of their business units. In addition, the company abolished the practice of giving a pre-determined target distribution of bonuses. Managers can now allocate rewards in ways that best reflect their teams' performance, as long as they stay within their compensation budgets.

Business.com editorial staff, 2015

Employers are increasingly dubious about the effectiveness of their performance management processes. A 2014 study by SHRM found that nine out of 10 employers surveyed said they used an annual or semi-annual performance review process—but only three out of 10 employers said they thought the process was effective (Christensen, 2015). This may be because there is mounting evidence that they are not effective, at least not in terms of improving performance. A study by CEB, a leadership advisory organization, found that two-thirds of employees who received the highest scores on their annual performance reviews were not actually their organization's highest performers. The same study found that annual performance reviews result in only a 3 to 5 percent improvement in employee performance (McGregor, 2013). Research has also found that employees who believed their organization's review process was poor in quality were more likely to have lower job satisfaction and higher intentions to quit (Human Capital Institute staff, 2015).

The traditional performance review process is simply not designed to improve performance or develop employees. It was designed to assess past performance to determine an employee's annual raise and is rooted in a tradition that does not reflect how work gets done today. Today's work requires goal cycles as short as a month or a week, yet the traditional performance review process remains based on a 12-month cycle. The traditional performance review process also fails to take into account that organizations are increasingly working in teams and emphasizing collaboration. Performance review processes based on rankings and ratings are a poor fit in these synergistic working environments because they encourage competition and discourage collaboration among team members (Business.com editorial staff, 2015).

In today's workplaces, employers want managers and supervisors to talk to employees about their development and their performance more than once a year, a trend being demanded by Millennials who place a premium on communication, continued learning, and career growth.

Employers are also reconsidering their traditional performance management approaches because they are viewed as costly and cumbersome without equitable return. When management consulting firm Deloitte reassessed its performance management approach, Deloitte found performance reviews took an average of 28 hours per employee, with most of that time falling on senior leaders in the firm (Abcarian, 2015).

Company Spotlight: Deloitte

Deloitte recently replaced its performance management process (that included "consensus meetings" where employees were compared to each other) with a new system. After the close of every project, managers are required to review employee performance using a five-point scale or by answering yes or no to the following four straightforward statements:

- Given what I know of this person's performance, and if it were my money, I would reward this person the highest possible compensation increase and bonus.
- Given what I know of this person's performance, I would always want him or her on my team.
- This person is at risk for low performance.
- This person is ready for a promotion today.

Vara, 2015.

All of these are valid business reasons why more employers are looking to modernize a performance management approach that falls short in today's workplaces. There is also mounting evidence from a neuroscience perspective that gives insight into why the traditional performance management approach is (nearly) universally loathed amongst employees and may actually do more harm than good.

Neuroscience and Performance Management

N euroscience is the study of how the nervous system develops, its structure, and what it does. The field's focus is on the workings of the brain. Neuroscience is still in its infancy, but it has already led to insights that are applicable to the workplace including how to promote creative thinking and how to structure rewards. In doing so, it has shed light on why the traditional performance appraisal approach utilizing rankings and ratings are counterproductive in today's more developmentally-focused performance management trends.

Company Spotlight: Adobe

Adobe introduced a new performance management system called "Check In" three years ago. The new performance management system allows managers to give informal, on-going, real-time feedback to employees. There is no prescribed timing or forms to complete and send to HR. Managers decide how often and in what format they set goals and provide employees with feedback. Managers have been coached to not dwell on workers' shortcomings, but to focus on goals, objectives, career development, and strategies for improvement. Individual employees are not compared to their peers. As a result, Adobe says that they have seen fewer valued employees leaving and more "involuntary, non-regrettable" attrition because managers are not putting off difficult conversations. Adobe also attributes the changes to a boost in its stock prices, noting that providing employees with real-time feedback has helped them stay on track and increase productivity. Adobe's stock price has increased from $30 to $80 since Check In began.

Business.com editorial staff, 2015

David Rock, founder and CEO of the NeuroLeadership Group, developed the SCARF model to help business leaders understand the top five social rewards and threats identified through neuroscience that are deeply important to the brain. These five social rewards include status, certainty, autonomy, relatedness, and fairness (for more information about the SCARF model and leadership, see: *The Neuroscience of Leadership: Practical Applications*).

During a traditional performance review, the recipient's status is often threatened. This causes brain activity to diminish, and according to Rock, when that happens, a person's field of view constricts and takes in a narrower stream of data— which also restricts creativity (McGregor, 2013). In essence, performance reviews actually dull the brain.

Additional neuroscience implications indicate why traditional performance management systems are not

effective. In a 2013 article in *People and Strategy*, authors Rock, Davis, and Jones proposed that neuroscience research suggests that traditional performance management systems encourage a way of thinking that actually limits the ability to grow talent. Traditional performance managements systems, they note, operate on the assumption that talent is fixed, not able to be developed. This "fixed" mindset, neuroscience research suggests, staunches growth and creativity.

Many organizations and HR processes have been developed with this philosophy in mind, and this works against improving performance, notes Rock, Davis, and Jones. Employers, employees, and organizations with fixed mindsets:

- Shut down in reaction to feedback.

- Avoid stretch goals.

- Are motivated by seeking approval.

- Avoid effort.

- See the success of others as a threat to their status (Rock, Davis, and Jones, 2013).

In contrast, employers and employees who believe that talent can be developed—or those with "growth" mindsets:

- Thrive with stretch goals because they are seen as opportunities to learn, not as a threat to one's own status.

- Believe motivation comes from mastery.

- View effort as the path to mastery and success.

- View the success of others as something to learn from (Rock, Davis, and Jones, 2013).

Research supports this theory. In one study, Stanford University psychologist Carol Dweck found that children who were praised for a "fixed" mindset ("You are smart.") were more likely to inflate the reporting of their test scores versus children who were praised for a "growth" mindset ("You worked hard."). Children in the fixed group were also more likely to give up sooner, enjoyed the work less, and attributed failure more to ability than to effort. Dweck surmised that when children are primed to believe in either a "fixed" or "growth" mindset—whether intentionally or not—their everyday learning and performance is significantly impacted (Rock, Davis, and Jones, 2013).

In another study on how self-efficacy—the belief in one's ability to succeed—affects workplace performance, managers who thought it would be difficult to influence group behavior (e.g., those who had "fixed" mindsets) gave up on themselves and on achievable goals sooner than managers who thought change was possible (e.g., those who had "open" mindsets). The managers who had higher self-efficacy also set more challenging goals, continued to add to those goals, and had groups that performed well. (Rock, Davis, and Jones 2013).

Other studies demonstrate the importance of one's mindset and performance:

- Studies show that people who believe in free will (or who have more "open" mindsets) are "significantly better performers" at work when rated by themselves and others (Stillman et al, 2010 in Rock, Davis, and Jones, 2013).

- A 2008 study found that people who held determinism beliefs (or who had more "fixed" mindsets) were more likely to cheat and pay themselves more than they deserved (Vohs and Schooler, 2008 in Rock, Davis, and Jones, 2013).

- A 2009 study found that people who believed in free will were less likely to be aggressive and more likely to be helpful to others (Baumeister, Masicampo, and DeWall, 2009 in Rock, Davis, and Jones, 2013).

To improve the effectiveness of performance management systems, Rock and his colleagues concluded, organizations should look at their talent philosophy and ensure that it is one that believes in a growth mindset. This is exactly what many employers are starting to do.

Replacing the Traditional Performance Management Approach

According to research by Bersin by Deloitte, about 70 percent of organizations are reconsidering their performance management strategies (Business.com editorial staff). New performance appraisal approaches look forward, not backward. The approaches also allow people to learn from their mistakes and grow because they are based on the belief that talent can—and should—be developed. There are three ways employers are revamping performance reviews. They are *(next page)*:

Company Spotlight: GE

GE, which is widely credited with creating the "rank and yank" system where employees were ranked against their peers and fired ("yanked") if they wound up in the bottom 10 percent of performers, eliminated that practice about 10 years ago. They recently announced that they were going to eradicate all formal annual reviews in favor of a less regimented system. The new system will encourage more frequent feedback through a specially designed app. Employees will be given more near-term goals, and managers will be expected to hold more frequent discussions about progress toward those goals. The emphasis in the new system will be on coaching. Managers will still have an annual "summary conversation" with employees during which they will review the year and set new goals, but it will be far less formal.

Nisen, 2015

1. **Eliminating the annual performance review altogether in favor of more regular, real-time feedback**. Retail giant The Gap, for example, has replaced their annual performance reviews with monthly coaching sessions between employees and managers. General Electric (GE) has taken advantage of technology by using a performance tracking mobile app that allows employees to make text or audio notes.

2. **Removing rating systems that cause competition amongst employees**. Research firm CEB found that 6 percent of Fortune 500 organizations had already eliminated rankings because they believe they lower performance, increase attrition, and have a negative effect on stock prices (Business.com editorial staff, 2015). Instead, more employers are assessing employees based on their personal objectives, not against their peers. Others are using more multi-rated feedback methods, such as peer feedback, to improve communication and collaboration; according to the HR research firm Mercer, 35 percent of organizations with more than 1,000 employees currently collect peer feedback (Sipek, 2015).

   The HCI survey mentioned earlier found that employers are eliminating ranking systems because they do not improve performance, are often inaccurate, and are universally disliked. Further, employers who have already eliminated rankings and ratings were more likely to say their performance management processes have improved employee engagement. Methods that are replacing rankings and rating systems to determine bonuses and raises include basing them on company performance, benchmarking employees against established goals, and giving managers a lump sum to allocate bonuses and raises to their team members (Human Capital Institute staff, 2015).

3. **Revamping compensation systems to more personally reward employees**. Some organizations are moving to bi-annual bonuses and peer-to-peer rewards. Co-workers at Google, for example, can give $100 rewards to peers for jobs well done (Christensen, 2015).

All of these options—or combinations thereof—share similar characteristics: they are more continuous than static, more conversation-based than rankings-based, and focus more on development rather than remediation (Human Capital Institute staff, 2015).

The Human Capital Institute has developed an Agile Performance Management Approach to performance management that is a better match for today's world of work than the traditional performance appraisal. The model focuses on continuous feedback and development. Elements of the model include:

- Recognition
- Rewards
- Coaching for performance
- Effective continuous feedback
- Agile goal setting
- Strength-based development

This model—and other similar emerging models—are aligned with Rock's neuroscience research that suggests that people with an open mindset outperform people with a fixed mindset.

Conclusion

Leaders and HR professionals are reviewing the research and realities of today's performance reviews and evaluating what they need for tomorrow. The field of performance management has evolved in recent years from a focus on remediation to one of development. The traditional performance appraisal process, however, has lagged behind. An increasing number of employers are moving away from the traditional process to better reflect how work today gets done and to improve employee performance. For many employers, this change saves time and money and improves teamwork and collaboration. It also aligns with a neuroscience perspective which suggests that organizations with open mindsets encourage creativity and innovation amongst their teams.

There is no one solution for every organization's performance management process, but most organizations would benefit from thoughtfully revisiting their performance management goals. Leaders will always need information on employee performance and employees will always desire feedback. Employers are seeking an easy and effective way to do that within the model of a flexible system. The solution for many may be as simple as small, more frequent performance conversations in a feedback-oriented business environment.

Company Spotlight: Accenture

Management consulting firm Accenture eliminated its traditional performance review process in September 2015 because senior leaders there felt they did not promote improved employee performance. The company announced that it would switch to a system that would offer employees more regular feedback, eliminate rankings, and evaluate employees based on their individual roles and performances.

Business.com editorial staff, 2015

About UNC Executive Development

Our approach to program design and delivery draws upon the power of real-world, applicable experiences from our faculty and staff, integrated with the knowledge our client partners share about the challenges they face.

We combine traditional with experiential and unique learning to ensure that all individuals gain relevant new skills that they can easily implement within their own organizations. Through action learning and business simulation activities, we challenge participants to think, reflect and make decisions differently.

Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty and program managers. We are dedicated to following-up with our clients and individual participants to ensure that their learning experiences have been meaningful and impactful. This integrated approach consistently drives strong outcomes.

Our Approach: The Results

Our executive education programs are designed with results in mind, and we are focused on successfully meeting our clients' business and academic expectations. Below are a few examples of the results our client partners have achieved:

- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined

- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

Contact Us

Website: www.execdev.unc.edu | **Phone:** 1.800.862.3932 | **Email:** unc_exec@unc.edu

Sources

Abcarian, M. (01 October 2015). Requiem for the annual employee performance review. *Fisher & Phillips, LLP*. Retrieved from http://www.lexology.com/library/detail.aspx?g=c4b20523-b6a5-40c6-8941-19b8391e84b3.

Business.com editorial staff (06 October 2015). Break free from performance management shackles: Companies that are paving the way. *Business.com*. Retrieved from http://www.business.com/management/performance-management-companies-that-are-breaking-free/.

Christensen, S. (02 October 2015). 3 ways companies are changing the dreaded performance review. *Fast Company*. Retrieved from http://www.fastcompany.com/3051779/lessons-learned/3-ways-companies-are-changing-the-dreaded-performance-review.

Frontier Software staff (17 September 2015). RIP performance appraisals? *HCOnline*. Retrieved from http://www.hcamag.com/features/rip-performance-appraisals-205709.aspx.

Human Capital Institute staff (2015). No review, no problem: Making talent decisions without ratings. *Human Capital Institute*. Retrieved from http://www.hci.org/hr-research/2015-talent-pulse-no-review-no-problem-making-talent-decisions-without-ratings.

McGregor, J. (14 February 2013). The corporate kabuki of performance reviews. *The Washington Post*. Retrieved from https://www.washingtonpost.com/national/on-leadership/the-corporate-kabuki-of-performance-reviews/2013/02/14/59b60e86-7624-11e2-aa12-e6cf1d31106b_story.html.

Nisen, M. (13 August 2015). Why GE had to kill its annual performance reviews after more than three decades. *Quartz*. Retrieved from http://qz.com/428813/ge-performance-review-strategy-shift/.

Rock, D., Davis, J., and Jones, E. (2013). One simple idea that can transform performance management. *People and Strategy*. Retrieved from http://blueroom.neuroleadership.com/assets/documents/readings/HRPS_PS-36-2_ResearchCorner.pdf.

Sahadi, J. (25 September 2015). Goodbye annual review, see ya performance ratings. *CNN Money*. Retrieved from http://money.cnn.com/2015/09/25/pf/annual-review/

Schaufenbuel, K. (2014). The Neuroscience of Leadership: Practical Applications. Retrieved from http://execdev.kenan-flagler.unc.edu/the-neuroscience-of-leadership.

Sipek, S. (09 October 2015). Peer review to the rescue? *Talent Management*. Retrieved from http://www.talentmgt.com/articles/7569-peer-review-to-the-rescue?utm_source=MyEmma&utm_medium=Email&utm_campaign=HR%20NB&utm_source=newsletter&utm_medium=email&utm_content=Read%20More&utm_campaign=HR_NB_100715.

Vara, V. (24 July 2015). The push against performance reviews. *The New Yorker*. Retrieved from http://www.newyorker.com/business/currency/the-push-against-performance-reviews.