The Problems with Performance Reviews

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Long Journey

- Performance Management (PM)
- Management by Objective (MBO)
- Job Analysis
- Critical Incidents Technique
- Behavioral Anchored Ratings (BARS)
- Graphic Rating Scales
- Self Appraisals
- Stacked Rankings
- Ratings Scales
- Essay Methods
- Paired Comparisons
- 360 Degree Feedback
- Assessment Centers
Yuck!

• What do managers hate most?
  1. Losing their job
  2. Seeing their people lose their jobs
  3. Performance reviews

• In one study, 58% of HR executives considered reviews an ineffective use of supervisors’ time

• Are employee attitudes any different?
Historical Perspective

• Ratings began in WWI and WWII
• By 1960s 90% of organizations were using performance ratings
  – Unions were based on seniority
  – Non-union used evaluation scores for merit (NOT for performance or development)
# Evolution of Performance Reviews

**Cappelli, HBR ‘16**

<table>
<thead>
<tr>
<th>Period</th>
<th>Event</th>
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<tbody>
<tr>
<td>WWI</td>
<td>The U.S. military created merit-rating system to flag and dismiss poor performers.</td>
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<td>WWII</td>
<td>The Army devised forced ranking to identify enlisted soldiers with potential to become officers.</td>
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<td>1940s</td>
<td>About 60% of U.S. companies were using appraisals to document workers’ performance and allocate rewards.</td>
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<td>1950s</td>
<td>Social psychologist Douglas McGregor argued for engaging employees in assessments and goal setting.</td>
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<td>1960s</td>
<td>Led by General Electric, companies began splitting appraisals into separate discussions about accountability and growth, to give development its due.</td>
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<td>1970s</td>
<td>Inflation rates shot up, and organizations felt pressure to award merit pay more objectively, so accountability again became the priority in the appraisal process.</td>
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## Evolution of Performance Reviews

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<td>1980s</td>
<td>Jack Welch championed forced ranking at GE to reward top performers, accommodate those in the middle, and get rid of those at the bottom.</td>
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<td>1990s</td>
<td>McKinsey’s War for Talent study pointed to a shortage of capable executives and reinforced the emphasis on assessing and rewarding performance.</td>
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<td>2000</td>
<td>Organizations got flatter, which dramatically increased the number of direct reports each manager had, making it harder to invest time in developing them.</td>
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<td>2011</td>
<td>Kelly Services was the first big professional services firm to drop appraisals, and other major firms followed suit, emphasizing frequent, informal feedback.</td>
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<td>2012</td>
<td>Adobe ended annual performance reviews, in keeping with the famous “Agile Manifesto” and the notion that annual targets were irrelevant to the way its business operated.</td>
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<td>2016</td>
<td>Deloitte, PwC, and others that tried going numberless are reinstating performance ratings but using more than one number and keeping the new emphasis on developmental feedback.</td>
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ASOK, YOUR WORK HAS BEEN EXCELLENT ALL YEAR.

I'M RATING YOU "POOR" SO I'LL HAVE A PAPER TRAIL IN CASE I EVER NEED TO FIRE YOU.

YOU'LL PROBABLY FEEL A LITTLE SURGE OF MOTIVATION BECAUSE YOU GOT FEEDBACK.
Dropouts

- Adobe
- Juniper Systems
- Dell
- Microsoft
- IBM
- Deloitte
- Accenture
- PwC

- Gap
- Lear
- OppenheimerFunds
- General Electric
- Morgan Stanley
- Goldman Sachs
- Lilly
- Google
Why the Movement?

• Problems
  – My “dirty dozen” problems with traditional performance reviews
Problem #1

• Frequency
  – Once a year. Really?
    • Primacy-Recency
  – Really good organizations may conduct a mid-year or quarterly reviews
    • Is that enough?
Problem #2

- **Time/Cost Invested**
  - Deloitte
    - 1.8 million hours across the firm
  - Flatter Organizations
    - In 1960s about 6 direct reports, today 20
  - McGregor (Theory Y) assumed employees wanted to perform well
    - Doing it right would take managers several days per subordinate each year.
  - CEB
    - Managers report 210 hours for appraisals (5 weeks!) per year
Problem #3

• **Rewards**
  – Is the motivation the huge raises?
    • In 1970s merit raises of 20% were not uncommon
  – Today, what is the financial difference between a score of 4 vs. 5 in annual salary?
Problem #4

• Management Styles Have Changed
  – Movement from “Command and Control” to “Innovative Teamwork”
  – Annual performance reviews are so “last century”
  – Do your best people need you to tell them how to do their jobs?
Problem #5

• **Millennial Generation**
  – Instagram and Facebook generation
  – How rapidly do they expect feedback?
  – As these folks evaluate employment options, what do they seek?
Problem#6

• **Measurement Scales & Bias**
  - Have all the appraisal questions you have been presented with made sense?
  - One study found that 98% of federal government employees received “satisfactory” ratings, while only 2% got either of the other two outcomes: “unsatisfactory” or “outstanding.”
  - There are many human biases that influence ratings, even when scales are scientifically created!
Problem #7

• Developmental vs. Evaluative
  – How much development is actually associated with a poor “score”?
  – How excited are people really, for negative feedback?
  – What is your experience with employee reactions to negative feedback?
  – One study found only 25% of emps said their managers discussed strengths at all
Problem #8

- **Focused on the Past, Not Future**
  - Does talking about poor performance a year ago really help future performance?
  - How much can you really change people?
  - Should the focus be on hiring the right people and trusting them to do a good job, or improving “bad” performers with great evaluation and development tools?
Problem #9

- **Pace of change and Planning**
  - How comfortable are you with guessing your assignments one year from now?
  - How quickly do organizational priorities change? Will the pace of change continue to increase?
  - If many changes, can we use standard evaluation tools and scales?
  - What do your best performers do?
    - Agile Manifesto (2001), coders prefer responding to change rather than following a specific plan.
Problem #10

• Legally Required
  – Decades of advice to standardize processes and be objective – HR has tried to comply
  – But, poor documentation may be worse than none
  – Perhaps rating scores tell more about biases than performance (consider times when women and minorities consistently get lower scores)
  – Is HR the punching bag for Legal Eagles and Bean Counters? Should HR drive some processes?
Problem #11

• Objectivity is Very Subjective
  – Does your manager know more about your work than you do?
  – Unless you are counting “widgets” made, sales achieved, or time completed, it is very hard to objectively measure performance.
  – Knowledge work, in particular, requires subjective judgment.
  – Objectivity is largely an illusion
  – Some scores measure 2 decimal places!
Problem #12

• Teamwork is Destroyed
  – Traditional systems often pit employees against each other, when collaboration is needed to be competitive in the current marketplace
W. Edwards Deming

[The annual performance review] “nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork, nourishes rivalry and politics... It leaves people bitter, crushed, bruised, battered, desolate, despondent, dejected, feeling inferior, some even depressed, unfit for weeks after receipt of rating, unable to comprehend why they are inferior. It is unfair, as it ascribes to people in a group difference that may be caused totally by the system they work in.”
Don’t Throw the Baby Out!

• But... Pendulums swing both ways
• Managers often go from one fad to another just because others do it
• Deloitte has already decided to bring back some numeric ratings because they have had too many problems
• The theoretical basis for performance feedback is very sound – how can we improve implementation?
Thank You!