Reexamining the Annual Performance Review **September 2015**

Is it time for organizations to rethink how they evaluate their employees? Many top executives believe it is. A recent survey by Deloitte found that 58% of executives believe their current performance management processes are ineffective. In April of this year, Deloitte redesigned its own internal performance management process to assess future potential rather than past performance. Deloitte is just one of several large organizations that have drastically changed, or eliminated altogether, performance reviews over the last few years.

Since the 1950s, when the US government mandated an annual review of federal employees, most large organizations have used some system to rate employees' performance. They are intended to evaluate an employee's overall performance and eligibility for a salary increase, bonus, promotion or other reward. On the flip side, a negative review often precipitates an employee's voluntary or forced departure.

In recent years, the annual review process has garnered criticism from many human resources experts and managers. Among the chief complaints:

- Performance reviews focus too much on the past. By the time the employee gets feedback at year end or the first quarter of the following year, it may be too late to be effective.
- They don't happen frequently enough. Due to rapid advances in technology, we now live in a "real time" world. Giving praise or criticism once a year does little to coach or motivate employees.
- Performance reviews typically use a one-size-fits-all model. While workforces are increasingly diverse, organizations often use a standard rating system (meets expectations, exceeds expectations, etc.) and fail to recognize differences in individuals and their positions.
- Ranking employees on a curve can promote negative competition and back-stabbing. Individuals are less likely to collaborate on teams when they are being ranked against one another.
- The review process is often cumbersome and time-consuming. Managers spend precious time and resources. Many rush the paperwork by just "checking boxes." Often little time is left to give valuable feedback that benefits the individual and the organization.

More and more employers have taken steps to scale back or eliminate performance reviews altogether. Accenture recently announced that it is changing 90% of its performance management process. Last year, Microsoft replaced its annual stacked rating bell curve system with more collaborative and frequent reviews. Adobe, which employs more than 10,000, chucked its performance review completely. It now asks managers to conduct regular "check ins" with their employees and encourages open dialogues. Adobe's top HR executive says getting rid of the company's yearly performance review has saved 80,000 hours of employee time and has reduced voluntary attrition by 30%.

Still, despite the many criticisms of annual performance reviews, few organizations have made major changes. Why? Is the practice so ingrained in our workplace culture that we can't let it go? And what would we replace it with?

Please share your thoughts with us. Does your organization still conduct annual performance reviews? How are they viewed internally? Could you imagine changing or eliminating your current performance reviews?

Further reading:

https://hbr.org/2015/04/reinventing-performance-management
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