Performance Reviews are Dead, Long Live Performance Management!

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Deloitte, Microsoft, and many other companies have abandoned performance reviews and ratings. But is this really a good idea? Herman Aguinis and Jing Burgi-Tian explain how effective performance management is the antidote to failed performance review systems and will help organizations to motivate and engage employees and use effective talent management to achieve strategic goals.

In March 2012, Donna Morris, then senior vice president of people resources at Adobe, and now executive vice president and chief people officer at Walmart, was interviewed during a business trip by the *Economics Times* of India. Jet-lagged and sleep-deprived, she was pressed about how she could shake up human resources. Although she had not consulted her team, her colleagues or even her boss, she declared that she planned to "abolish the performance review format."[1] A few days later, the most widely-read business newspaper in India ran a front-page story titled: "Adobe Set to Junk Annual Appraisals: Company to rely on regular feedback round the year to rate and reward staff." As Morris later recalled:

"Adobe's People Resources leaders decided that annual performance reviews were too time-consuming, negative, and slow to be the foundation for performance management moving forward. Through an unplanned conversation with an Indian journalist, events were set into motion rapidly and the company announced the end to annual performance reviews a few months later."[2]

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Traditional Performance Reviews and Ratings are Dead

Morris's spontaneous announcement and Adobe's subsequent changes were met with great enthusiasm elsewhere, quickly launching a talent management revolution. A series of companies, including Deloitte, Accenture, PwC, Gap, General Electric, Microsoft, Dell, and Motorola followed suit, making their own announcements about the death of performance reviews and ratings. Many more have joined the movement since.[3]

This dramatic trend revealed a deep dissatisfaction with traditional performance reviews and ratings, with many managers and employees seeing them as a waste of time, an unnecessary burden, a mere box to check. The type of performance review system that is now under attack looks something like this: once a year, managers solicit written feedback from stakeholders who work with their employees; they then assign each employee a rating, either against a pre-established yardstick, or more often relative to other employees. The managers then draft a report and deliver a performance review to each employee, often combining it with unpleasant and difficult conversations. Decisions about salary increases, bonuses, and promotions are based to a large extent on each employee's rating or ranking.

This type of annual performance review is now considered obsolete, a relic of manufacturers in the industrial age, and not suitable to our contemporary knowledge economy and workforce. Such reviews focus almost exclusively on past behaviors and so lose sight of how companies can help workers to improve, nurturing better performance in the future.[4] According to a 2014 Corporate Executive Board survey, among Fortune 1,000 companies, 95 percent of managers were not satisfied with their organization's performance review processes, while 90 percent of HR professionals did not believe that performance reviews provided accurate information. Meanwhile, 66 percent of employees felt that the performance review processes actually interfered with, instead of increasing, their productivity.[5] Before Adobe abandoned annual reviews, it calculated that they required 2,000 managers to devote more than 80,000 hours each year – the equivalent of forty full-time employees.[6]

Indeed, a poor performance review system can cause quite a bit of damage, lowering employee self-esteem, increasing turnover, damaging relationships, decreasing workers' motivation, causing employee burnout and job dissatisfaction, generating misleading information, wasting time and money, and increasing the company's risk of litigation.[7] According to the Equal Employment Opportunity Commission (EEOC), in Fiscal Year 2019, there were 72,675 charges of discrimination, and most of those lawsuits cited information from performance reviews.[8] In 2016, for example, Yahoo was sued by two former employees who alleged that the company's performance reviews were manipulated and biased.[9]

Performance ratings are often described as biased, unclear, unfair, unjustified, and inaccurate. A study by Steven Scullen, Michael Mount, and Maynard Goff, which surveyed 2,142 managers in a wide variety of industries, found that 62 percent of the variability in employee ratings could be attributed to the personal perceptions of individual raters and only 21 percent to performance itself.[10] In other words, ratings unfortunately reveal more about the raters than about the ratees. As Walmart's Donna Morris asks, if, as many executives claim, people truly are the greatest asset of a company, why are we putting them through this soul-crushing experience which reduces them to numbers, instead of treating them with the respect their great talent deserves?

The questions we must ask, then, are: Without performance information, how can organizations make decisions about promotions and salary increases? How can they provide their employees with developmental feedback, help them to improve and chart their careers? How can leaders distribute rewards fairly and forecast their organization's talent needs?

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Performance Management: How is it Different from Performance Reviews?

In the early twentieth century, coal miners took caged canaries with them into the mine tunnels as a way to detect airborne toxins. If the canary fainted, or even died, the miners would know to get above ground as quickly as possible. The hapless bird was not the problem; it was an indicator of deadly gases that were otherwise unobservable.[11] Failed performance reviews are, in many ways, like the now-proverbial canary in the coal mine. They are not themselves the problem; they are a warning sign of "toxic gases" lurking in their own composition. For example, performance reviews and ratings are often not directly related to an organization's strategic goals, they may not reflect dimensions of performance which employees can control, or their complicated and convoluted forms may take too long for supervisors to fill out. When the organization analyzes them, these "toxic gases" make them useless and even biased. Worse still, they can contribute to a culture which lacks openness and communication, has murky strategic goals, and whose C-suite team views the organization's talent as an impediment rather than an asset. Coal miners couldn't solve their problem by getting rid of the canary, nor should companies abandon performance reviews outright. Doing that is, to use another picturesque proverb, just throwing the baby out with the bath water.

Performance management is often *incorrectly* equated with performance reviews. The book *Performance Management for Dummies*, which summarizes the existing research on the topic, defines performance management as: "a continuous process of identifying, measuring, and developing the performance of individuals and workgroups and aligning performance with the strategic goals of the organization."[12] A typical performance review, by contrast, is an isolated depiction of the strengths and weaknesses of employees, usually produced only once a year. It is also just one of the components of performance management.[13] Table 1 outlines four key differences between performance management and the traditional performance review.

Good performance management is administrative, strategic, informational, developmental, documentary, and helps to maintain the organization. Performance management helps organizations to achieve strategic business objectives. An effective performance management system reinforces the behaviors, norms, and values that further organizational goals. It also creates a communication channel through which organizations and managers can keep employees updated on their own performance and reinforce the broader strategic message. During the difficult time of COVID-19, for example, many organizations were forced to abruptly change their strategic direction to provide old services differently as well as entirely new services. Unlike the traditional performance review, a performance management system adapts quickly to changing conditions, updating performance expectations and strengthening the new vision.

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Table 1: Four Key Differences Between Performance Review and Performance Management[14]

Differences	Traditional performance review	Performance management
Setting priorities	Employee priorities are set at the start of the year and often not revisited	Priorities are regularly discussed and adjusted with a manager
Feedback process	Lengthy, formal process of soliciting feedback, writing reviews, and submitting documents, usually once a year	Ongoing, informal feedback
Leadership perspective	Transactional view of performance	Transformational view of performance
Role of HR	Administering paperwork and processes—HR "owns" the process	Supporting and equipping managers and employees to have productive and constructive conversations—managers and employees "own" the process

Performance management also serves a critical developmental function, supporting the professional development of employees with ongoing feedback that promotes their success. Workforce planning also benefits because performance management helps organizations to maintain an inventory of workers with the necessary skills, abilities, and experiences, and to identify any potential talent gaps, hiring demands, and training needs. Organizations that use performance management are also better able to identify and retain star performers, who contribute disproportionately more to performance than average employees.[15]

When well designed and implemented, performance management contributes powerfully to the company's talent management strategies and, consequently, to its effectiveness, profitability, market share, and other bottom-line indicators. A study conducted by the global human resources firm Development Dimensions International (DDI) found that organizations with formal and systematic performance management systems are 51 percent more likely to financially outperform other organizations and 41 percent more likely to outperform others in customer satisfaction, employee retention, and other important metrics.[16] It can be no surprise, then, that of the many organizations that have abandoned traditional performance reviews, most have adopted a comprehensive and continuous performance management system.

Table 2 summarizes the contributions of a performance management system, based on the characteristics described in Table 1, to the success of employees, managers, HR, and the entire organization.

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How to Update Your Performance Management System

Given the benefits of performance management, you may be thinking: How can I turn failed performance reviews into effective performance management? What does a successful and effective performance management system look like? Table 3 lists the key characteristics of an ideal performance management system according to the

Table 2: The Contributions of Performance Management[17]

Contribution	What does it mean
For employees	
Clarified definitions of jobs and success	Employees have a better understanding of what behaviors and results constitute doing their job well
For managers	
Insights about employees	Managers gain insights into the performance, personality, skills, and contributions of their direct reports
Better and more timely differentiation between good and bad performance	Managers can quickly identify star performers who might grow into leaders, as well as poor performers who need extra support
Clear communication of performance views	Supervisors can discuss performance expectations directly with workers and give feedback frequently and informally
For organizations	
Increased employee engagement	Employees feel more involved, committed, passionate, and empowered, which drives innovation, organizational citizenship, and company performance and success
Reduced employee misconduct	Employees with a clear definition of misconduct are less likely to transgress
Early warning of declines in performance	The ongoing feedback system detects problems early, allowing managers to intervene immediately
Increased motivation, commitment, and loyalty	Employees are more motivated to perform well, more committed to their organizations, and less likely to leave
More fair and appropriate administrative actions	Administrators can base their actions on valid information, which improves relationships and trust in the organization.
Clarified organizational goals	Employees can understand organizational goals and how they can personally contribute to success
Facilitates organizational change	Managers expectations for individual performance are better aligned with the changing directions of their organization

available research.[18] You can use this table as a checklist to learn how to transform your current performance review system into performance management.

These eight vital characteristics have been put into use at GAP, Adobe, the US National Security Agency (NSA), and many other organizations. Ensuring a practical system is vital, and one easy way to achieve it is through the Performance Promoter Score (PPS). PPS is rooted in the well-established Net Promoter Score used in marketing. It starts by asking simply: "on a scale of 1-10, how likely is it that you would recommend working with [name of individual, workgroup, or unit] to a friend or a colleague?" Managers can collect more information with two follow-up questions: "why did you choose that rating?" and "what would it take to raise that score by just one point."[20] We are currently collecting data on the relationship between PPS and employee wellbeing, retention, and productivity, as well as its effect on firm-level profitability and customer outcomes.

To keep PPS working well, use frequent, in-the-moment feedback and check-ins instead of just the prescribed, periodic conversations. Deloitte schedules such casual feedback conversations once a week, while Adobe prefers to have them quarterly. Make sure that managers check in during times of stress or change, such as when their employees finish a project, achieve a milestone, or face a particular challenge. If they apply the policy of "see something (good or bad), say something," managers will be better able to provide timely feedback which supports the ongoing learning of employees. It is also important to hold supervisors accountable for having these frequent conversations—their own performance evaluations should include how well they are managing the performance of their direct reports.

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Conclusion

Organizations of all sizes and in all industries need to manage the performance of their employees. As the way we work evolves, we need to make sure that performance management systems do too. Still, we cannot entirely eliminate performance measurement systems because without them we would have no method for making decisions about promotions, providing employees with development feedback, helping them to improve, distributing rewards fairly, or forecasting an organization's talent needs. It is time, then, to move our companies away from obsolete, expensive, painful, and inaccurate performance reviews and to replace them with strategic, empowering, agile performance management. Managing the performance of employees is not a side job for leaders—it is central to their work at all levels of the organization and should be central to their own performance evaluations. After all, the success of a firm is a direct result of the successful management of its employees and their performance. ■

Table 3: Eight Key Characteristics of an Ideal Performance Management System[19]

Key characteristic	What does it mean?
1. Strategic congruence	Individual goals are aligned with unit goals and the organization's mission
2. Meaningfulness	Evaluations use only standards that are important, relevant, and under the employees' control; they take place at regular intervals and allow evaluators to continue developing their own skills; their results inform personnel decisions
3. Thoroughness	All employees, including managers, are evaluated; all aspects of the job, including both results and behaviors, are evaluated; the evaluation covers the entire review period; evaluators provide both positive and constructive feedback
4. Inclusiveness	All participants have a voice, including the employees themselves
5. Identification of effective and ineffective performance	Evaluations provide useful information on how to distinguish between effective and ineffective behaviors and results
6. Acceptability and fairness	The system is perceived by all participants as providing distributive, procedural, interpersonal, and informational justice
7. Openness and honesty	Communication is honest, two-way, frequent, and ongoing
8. Practicality	The system is satisfactory in terms of cost, time, resources, and user-friendliness—consider using the Performance Promoter Score (PPS)

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