The Problem with Performance Review

The practice of performance review has been around for more than a century. Although the practice didn't become mainstream until the 1950s, the primary function of performance appraisals was to provide a process for organizations to rate the effectiveness of their employees. The problem is most organizations don't do them very well. In 1972, legendary organizational behavior researcher Douglas McGregor published an article in *Harvard Business Review* titled "An Uneasy Look at Performance Appraisal" in which he outlined the pitfalls of traditional performance review.

According to the Society for Human Resource Management, nine out of ten companies reported using annual or semi-annual performance reviews—but only three out of ten believed they conducted them well. In a study published in *Compensation and Benefits Review*, the authors, Edward Lawler et al., state that performance appraisals are one of the most frequently criticized talent management practices.

Research by the Conference Executive Board (CEB) indicates that 90 percent of managers are dissatisfied with how their company conducts annual performance reviews. These statistics are a key reason organizations like GE, Adobe, Gap, Accenture, Deloitte, and others are reportedly "abandoning" their current performance review processes.

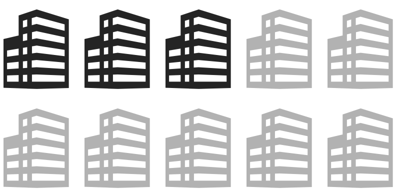
Performance appraisals were initiated by Robert Owen in the early 1800s. Owen monitored performance at his cotton mills in Scotland by appointing people to observe and track the line workers.

A closer look suggests that these organizations aren't necessarily abandoning the performance review process, but rather revamping it. This is supported by Lawler's study of 100 large organizations, in which all reported having a performance review system; while more than half were considering making major changes with existing processes, only six reported that they were considering dropping theirs altogether.

Given this, organizations pondering whether or not to ditch their performance review processes would be better off focusing on ways to make their current one a more effective part of the overall performance management approach to developing people. An effective performance review process should help an individual feel good about their contributions to the organization, and allow them to understand where they are excelling and where they may still need to improve.

So what's wrong with the way we conduct performance reviews?

There are many reasons performance review systems are often criticized, ranging from the amount of time spent preparing for and conducting them, to the reliability of the rating instruments, the failure to focus on developmental issues, an individual's reaction to feedback, and the ineffective rating systems organizations use. Of particular concern is the issue of rater bias and its effect on the individual being rated.



Only three out of ten companies believe they conducted annual performance reviews well.

Some organizations require that their managers evaluate and plot their people on a distribution curve, rating them against one another. This requires managers to assign a number to each worker's performance with the goal of eliminating the bottom tier of the workforce, which can also negatively impact productivity. Managers must rate only a few people high, a few people low, and the rest in the middle just to meet a specific quota that has been set by the organization, a counterproductive method for tapping and recognizing people's true potential.

But the real problem occurs when managers use the performance review as one of their only points of connection with their direct reports within the annual performance review cycle. Performance reviews need to be part of a comprehensive performance management system that supports the development of the individual all year long.

The Pitfalls with Rating Systems

Performance ratings are frequently used to measure and depict an employee's performance at a company and from these ratings, crucial decisions such as promotions and pay raises are determined. However, research has found that performance ratings may not be achieving the goals they were intended to accomplish. In light of these findings, managers and companies alike are reviewing their current system of performance ratings to truly analyze the system they've created and its goals and purposes.

DIFFERING DEFINITIONS

Before delving into the problems and frustrations that performance ratings can create, it is important to start at the beginning. How are we defining performance ratings?

A source of confusion regarding performance ratings in general stems from miscommunications regarding the purpose and varying scales of performance rating systems. Because performance ratings are designed for organizational and departmental context, confusion and misperceptions can result. Even further, performance ratings often are conflated with a larger performance management process. Performance ratings must be made a distinct aspect of performance management instead of its sole representative.

When designing a new workplace practice, it is important to outline the purpose of the system. This will drive the utility, efficacy, and development of the performance rating system as a whole. In essence, we must ask, "What's the point of all this work?"

The confusion as to the goal and purpose of performance ratings impacts how performance ratings are both conducted and interpreted by different people. A seminal work by Cleveland, Murphy, and Williams on the goals of performance ratings unveiled that performance ratings are most effective when the perceived purpose is consistent across raters and their training. The goal of the ratings, the authors found, varied from within/across people's comparisons to documentation and systems maintenance purposes. Stemming from this work, research continued on to discover that the purpose of the performance ratings greatly influenced how raters then marked an employee. Therefore, companies must take caution in how performance rating systems are presented in order to minimize confusion, misconceptions, and, ultimately, inaccurate feedback.

Appraisal systems for measuring managerial and professional employee performance weren't used extensively until about 1955.

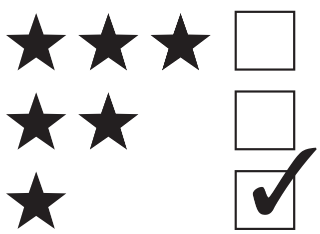
VALIDITY

When analyzing an organizational system, such as performance ratings, it is crucial to ask, "What are we trying to measure here?" and "Are we doing that?" to ensure that the effort being put into the process is worthwhile. Unfortunately, while performance ratings can provide useful information, the judgment of raters has proven to be biased and inaccurate.

Performance ratings are influenced by a wide range of personal and organizational components outside of the individual's actual performance. Factors that influence ratings include intimidation from superiors to provide positive ratings, wanting to curry favor with the ratee, and selectively paying attention to only the positive in order to maintain social relationships. Furthermore, ratings are influenced by perceived similarity and liking between the rater and ratee.

In addition to social factors, the perceived purpose of the ratings and rater training were also found to influence how performance was analyzed. It is no surprise then that performance ratings are more influenced by individual rater idiosyncrasies than the employee's unique contributions. The multitude of extra-performance factors that influence performance ratings evidently reveal more about the organization

SATISFACTION



Recent research has found that among direct reports and managers alike, there is a significant lack of satisfaction, training, effectiveness, and useful feedback with their current performance rating systems.

and rater than the employee's performance. Consequently, performance rating systems must be evaluated and intentionally designed to assure that they are accurately measuring employee performance.

Beyond rater inaccuracies, performance ratings face additional validity problems. For example, performance varies greatly over time and across projects and resources, yet performance rating systems fail to take these fluctuations into consideration. Although the popularity of 360 degree feedback has increased to provide a fuller picture of employee performance, research is quick to warn that more raters are not necessarily better for the process. A performance rating system that is flawed does not benefit from increased input, but instead the errors and miscommunications compound. Even the mismatched perceptions of the purpose of the rating system can greatly influence how individual ratings are given. As a result of this research, many managers and companies have begun to wonder if their performance rating system is truly all they believed it would be.

EMPLOYEE RECEPTION

When reviewing performance rating systems within an organization, it is important to consider the perceptions of those who are implementing it and those who are being judged by it. Employees offer a unique outlook to their organizations in regard to the efficacy and value of the rating system. Recent research has found that among direct reports and managers alike, there is a significant lack of satisfaction, training, effectiveness, and useful feedback with their current performance rating systems. This provides valuable insight to the company, as those interacting most with the rating systems appear to be least satisfied with the process and results. This challenges companies to truly reevaluate their performance rating systems, because as many systems stand now, they are invalid, unreliable, and poorly received by employees.

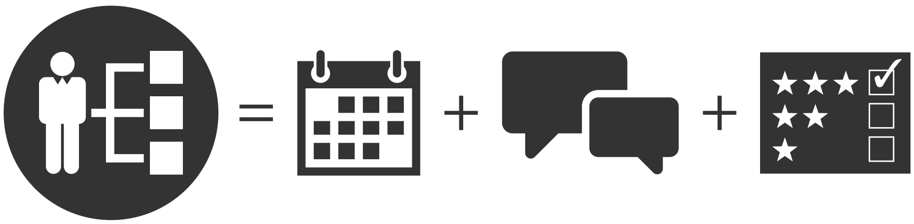
REACTIONS TO FEEDBACK

Initial reactions to feedback, especially emotional reactions, influence whether individuals will use the feedback to set goals and make performance improvements. Negative feedback can cause the receiver to reject the feedback and even abandon goals in connection with the feedback, or to feel anger or discouragement. How recipients react to negative feedback can depend on their beliefs about change, how they receive feedback, and their perception about whether the source is reliable.

The latest research in social neuroscience suggests that in some cases, performance reviews can put the individual into fight-or-flight mode. Done poorly, performance reviews can make people feel intractably judged or defensive, which can lead to poorer performance even in high-performing individuals. When managers provide frequent feedback throughout the year rather than just during the review process, they lessen the risk of surprising their direct reports with feedback that is delivered long after the fact and therefore might not be received well.

Performance Appraisal versus Performance Management

One potential reason that performance appraisal processes are getting so much bad press is that organizations and leaders aren't focusing enough attention on the holistic system of performance management. A comprehensive performance management process should be composed of performance planning, day-to-day coaching, and performance appraisal.



Performance Management = Performance planning + day-to-day coaching + performance review

- Performance Planning: where goals are set and standards established
- Day-to-Day Coaching: the everyday interactions managers have with their direct reports, where leaders monitor performance and facilitate progress through coaching and feedback
- Performance Evaluation: the traditional annual performance review, where employee performance is evaluated against yearly goals

The performance planning and day-to-day coaching components are the pillars that support a performance appraisal process.

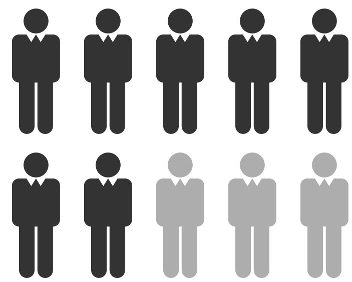
However, a study conducted by researchers at The Ken Blanchard Companies® revealed significant gaps between what direct reports wanted and needed from their leaders compared to what they experienced in regard to performance planning and day-to-day coaching.

THE PERFORMANCE MANAGEMENT GAP

The study shows surprising gaps between what people want from their managers and what they receive.

Employees...	WANT	RECEIVE
want to have goal-setting conversations often or all the time	**70%**	**36%**
say they rarely or never discuss future goals and tasks		**28%**
want to have Goal Review conversations often or all the time	**73%**	**26%**
want Performance Feedback conversations often or all the time	**67%**	**29%**
say they rarely or never receive Performance Feedback		**36%**
would like to solicit support on their projects from their manager	**63%**	**18%**

Study conducted by Training *magazine and The Ken Blanchard Companies®, with more than 700 respondents*



70% of people want to have goal-setting conversations often or all the time, but only 36% actually do.

Real problems occur when managers deliver *the bulk of their development feedback during the performance review rather than in ongoing development discussions between them and their direct report*. When this happens, the performance review can often have a negative impact on the person being reviewed. And if a leader and direct report have had little connection time throughout the year, the review process and resulting performance feedback may even come as a surprise to the direct report and does little toward helping the individual develop.

If used effectively, performance appraisal is an influential tool for organizations to organize and coordinate the power of every employee of the organization toward the achievement of the strategic goals. The review should be a time to celebrate wins and accomplishments and discuss areas that may still need improvement. In this scenario, no part of the review discussion would come as a surprise to the Individual.

Leadership, at its best, is a partnership between the leader and the direct report where the two work together to achieve common goals. When this occurs, both parties have an opportunity to influence each other and play a role in determining how to get things done.

HONING PERFORMANCE PLANNING

All good performance begins with goal setting. The literature on goal setting offers a definitive view that goals can enhance individual performance in ways that contribute to greater organizational effectiveness.

Goals should be set well in advance of the review process, jointly agreed upon by managers and direct reports, and linked to business strategy. Lawler's study clearly showed that performance goals set jointly by the manager and direct report and those that link to business strategy are the most highly correlated to management effectiveness, human resource performance, and organizational performance. Conversely, goals that were set by the manager without direct input from the employee can result in a lack of motivation and lack of internal commitment to goal achievement.

It's important that the agreed-upon goals be

- Reasonable and achievable—managers must identify the skills needed and determine whether the individual has the skills to achieve the goals; skill gaps should be addressed through the appropriate training
- Prioritized—to provide a sense of where to focus first
- Clearly measurable—with standards in place to determine what constitutes excellent, good, and poor performance
- Revisited and discussed often—between managers and direct reports
- Defined and supported—with detailed action planning

MAXIMIZING DAY-TO-DAY COACHING

Day-to-day coaching involves communicating with direct reports to monitor performance, providing feedback on progress in a timely manner, listening, and providing direction and support. It's where the majority of a manager's time should be spent. The key components of day-to-day coaching are monitoring behavior, providing feedback, and coaching to improve performance:

- Providing feedback that compares the work being done to the standards that were set during the performance-planning discussion
- Reviewing goals and performance expectations and modifying them if necessary in light of changes in priorities and resources, and potential shifts in the organization's strategic direction
- Offering feedback when people have done something well, not just when they've done something wrong
- Celebrating performance improvement
- Allowing for two-way feedback in which the manager makes it easy for a direct report to share feedback
- Providing the resources and training that allow people to achieve their goals
- Ensuring that leaders are available to listen, answer questions, and offer support
- Treating mistakes as well-intentioned efforts and opportunities to learn

PERFECTING PERFORMANCE REVIEW

While performance appraisals have been under fire in the last few years, it's unlikely that organizations can assess and manage their talent pool without gathering information on how well individuals are doing their jobs, what their current skills are, and what skills are needed for future development. But as stated earlier, problems arise when managers combine development discussions with appraisal discussions. A compelling reason for separating development discussions from performance review discussions is that the review component can be more difficult if ongoing development hasn't been taking place—especially if those development discussions contain negative feedback. An individual is less likely to focus on the feedback being shared and participate meaningfully if negative feedback is dominating the discussion.

Oddly, while organizations have increasingly moved to web-based appraisal systems, a considerable amount of paperwork is still required. In Lawler's study, the researchers found that web-based systems weren't necessarily more effective than paper-based systems, yet they predicted that more and more organizations would make the shift to a web-based approach.

Considerations for making performance appraisal more successful

- Establish buy-in and ownership from senior leaders. Research from Lawler's study shows when leaders own the process and system, the process is more effective. (HR is the implementing arm, but the process must have the support of senior leaders.) When management puts metrics behind the behaviors they want to see, the appraisal process is much more likely to be effective.

- Consider an audit of the current performance review system and ensure that the review process is integrated with the overall HR strategy
- Separate development discussions from performance review discussions
- Provide training for managers doing appraisals and have them do role plays with other managers
- Consider providing training for nonmanagers. Individuals being appraised are more likely to gain from it if they have an understanding of what is going to occur and what their role in the event should be.
- Increase the number of performance-related and feedback conversations between managers and direct reports to ensure real-time feedback and support the overall review process: feedback should be an in-the-moment and ongoing process between leaders and direct reports. Think about moving from a performance review (judgment day) to ongoing coaching.
- Support existing review process with performance-tracking apps that allow employees and managers to monitor progress via notes and uploaded documents. This allows for collaboration on priorities, progress, and projects. Some apps can allow for project summaries via recorded messages, which keep managers informed.
- Rethink outdated rating systems and broaden the scope to include ratings from peers, colleagues, and customers rather than only the ratings of the manager
- Revamp compensation to make it more personally compelling by setting up targets that trigger bonuses or even peer-to-peer rewards that are generated by colleagues from an established fund
- Reconsider systems that rely solely on check boxes and numeric scales. Comprehensive systems need to highlight significant events and incidents and provide clear examples of behaviors both positive and negative.
- Make sure that any measurement tool used has been validated

Conclusion

Performance review is a useful tool for evaluating performance but it must be part of an integrated performance review system where the focus is on the development and support of individuals tasked with working on projects that support the organization's overall well-being. While performance review systems, on the whole, are far from perfect, the notion of accountability and feedback are essential in the performance-improvement and people-development equation. Productive and positive annual reviews need to be supported by an ongoing developmental dialogue between managers and their direct reports in order for it to be an effective part of a more comprehensive system.

About the Researchers

Madeleine Homan Blanchard is a Master Certified Coach, author, and speaker. Madeleine has been a coach since 1989 and is a cofounder of Blanchard Coaching Services. She is also an expert in the field of neuroscience and a pioneer in the field of coaching.

Dobie Houson is Director of Marketing Research for The Ken Blanchard Companies and is responsible for competitive, market, and customer intelligence.

Andrea Sargent is a master's student at Claremont Graduate University in Southern California. She is in her second year of studying Positive Organizational Psychology and Evaluation. Her interests include organizational development and culture as well as improving the employee experience.

References

Cintrón, Rosa; Flaniken, Forrest. 2015. "Performance Appraisal: A Supervision or Leadership Tool?" *International Journal of Business and Social Science*, Vol 2(17).

Lawler, Edward E.; Benson, George S.; and McDermott, Michael. 2012. "What Makes Performance Appraisals Effective?" *Compensation & Benefits Review*, SAGE Publications, 44(4) 191–200.

Adler, Seymour; Campion, Michael; Colquitt, Alan; Grubb, Amy; Murphy, Kevin; Ollander-Krane, Rob; and Pulakos, Elaine D. 2016. "Getting Rid of Performance Ratings: Genius or Folly? A Debate." *Industrial and Organizational Psychology*, 9, 219–252. doi:10.1017/iop.2015.106

Cook, Dan. 2015. "Performance Reviews: They're Broke, Need Fixing." *BenefitsPRO*. Published online.

Cleveland, Jeanette N.; Murphy, Kevin R.; Williams, Richard E. February 1989. "Multiple Uses of Performance Appraisal: Prevalence and Correlates." *Journal of Applied Psychology*, Vol 74(1), 130–135.

Wayne, Sandy J., Linden, Robert C. February 1995. "Effects of Impression Management on Performance Ratings: A Longitudinal Study." *The Academy of Management Journal*, 38(1).

Spence, Jeffery R., Keeping, Lisa M. May 2010. "The Impact of Non-Performance Information on Ratings of Job Performance: A Policy-Capturing Approach." *Journal of Organizational Behavior*, Vol 31(4), 587–608.

Anderson, Shannon W.; Dekker, Henri; and Sedatole, Karen L. 2013. "Halo Effects in Subjective Performance Evaluation: The Influence of Data Gathering Costs and Relationship Preservation." *UC Davis*. Published online.

McIntyre, Robert M.; Smith, David E.; Hassett, Catherine E. February 1984. "Accuracy of Performance Ratings as Affected by Rater Training and Perceived Purpose of Rating." *Journal of Applied Psychology*, Vol 69(1), 147–156.

Reb, Jochen; Greguras, Gary J. January 2010. "Understanding Performance Ratings: Dynamic Performance, Attributions, and Rating Purpose." *Journal of Applied Psychology*, Vol 95(1), 213–220. http://dx.doi.org/10.1037/a0017237

O'Neill, Thomas A.; McLarnon, Matthew J. W.; and Carswell, Julie J. 2015. "Variance Components of Job Performance Ratings." *Human Performance*, 28:1, 66–91, DOI: 10.1080/08959285.2014.974756

Scullen, Steven E.; Mount, Michael K.; Goff, Maynard. 2000. "Understanding the Latent Structure of Job Performance Ratings." *Journal of Applied Psychology*, Vol 85(6), 956–970.

The Ken Blanchard Companies® is the global leader in management training. For more than 35 years, Blanchard® has been creating the best managers in the world, training over 150,000 people per year. From the award-winning First-time Manager program—based on the time-tested secrets of the best-selling business book, The New One Minute Manager®—to SLII®, the most widely taught leadership model in the world, Blanchard is the expert in management training across all levels of an organization
and is the provider of choice by Fortune 500 companies as well as small to medium businesses, governments, and educational and nonprofit organizations.

To learn more, visit
blanchardiaustralia.com.au

Elev8 LEARNING

Melbourne | Sydney | Australia-wide
Within Australia: 1300 43 53 88
From Anywhere: +61 3 9863 7031
Fax: +61 2 9243 4690
Email: info@elev8learning.au

elev8learning.au

References (cont.)

Fisher, Cynthia D. 2008. "What If We Took Within-Person Performance Variability Seriously?" Bond University *ePublications@bond*.

Conway, James M., Huffcutt, Allen I. 2009. "Psychometric Properties of Multisource Performance Ratings: A Meta-Analysis of Subordinate, Supervisor, Peer, and Self-Ratings." *Human Performance*, 331–360.

Viswesvaran, Chockalingam; Ones, Deniz S.; Schmidt, Frank L. October 1996. "Comparative Analysis of the Reliability of Job Performance Ratings." *Journal of Applied Psychology*, Vol 81(5), 557–574.

Christiansen, Stephanie Taylor. October 2015. "Three Ways Companies Are Changing the Dreaded Performance Review." *Fast Company*.

Wike, Dana. August 2015. "Is the Annual Performance Review Dead?" *SHRM*.

Buckingham, Marcus; Goodall, Ashley. April 2015. "Reinventing Performance Management." *Harvard Business Review*.

Vara, Vauhini. July 2015. "The Push against Performance Reviews." *The New Yorker*.

Cunningham, Lillian. July 2015. "In a Big Move, Accenture Will Get Rid of Annual Performance Reviews and Rankings." *The Washington Post*.

Cunningham, Lillian. August 2015. "More U.S. Companies Moving Away from Traditional Performance Reviews." *The Washington Post*.

Bersin, Josh. May 2013. "Time to Scrap Performance Appraisals?" *Forbes*.

Windus, Jon. February 2015. "What Can Netflix, HubSpot, Zappos and Google Teach You about the Future of Performance Management?" *Cognology*.