NANO TOOLS FOR LEADERS®

THE ANNUAL PERFORMANCE REVIEW: SHOULD YOU ELIMINATE IT?

Nano Tools for Leaders® are fast, effective leadership tools that you can learn and start using in less than 15 minutes — with the potential to significantly impact your success as a leader and the engagement and productivity of the people you lead.

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THE GOAL:

Use a review system that provides feedback, holds employees accountable, and encourages talent development and retention.

NANO TOOL:

The performance review is already a thing of the past at firms like IBM, OppenheimerFunds, and General Electric. In fact, Deloitte reported in 2015 that only 12 percent of the U.S. companies it surveyed were not planning to rethink their performance management systems. These firms cite compelling reasons: first, there is widespread evidence that performance reviews as traditionally practiced aren't working. Second, they prioritize and make people liable for past behavior instead of helping them improve. And third, an important assumption underlying performance reviews, one that strongly impedes talent development, is that poor performers will never change — their behaviors are incorrectly assigned to disposition, not circumstance.

If you're concerned about developing and retaining talent, while also holding employees accountable and helping them set and reach performance benchmarks, you might also consider an alternative to the traditional yearly review.

ACTION STEPS:

1. **Determine whether traditional performance reviews are achieving your goals**. Ask: Do they provide accurate assessments of performance? Are they helping our employees improve and develop? Do the rewards that come with superior reviews aid in the development and retention of talent?

2. **Consider a more informal review system**. This method involves managers checking in more frequently with their direct reports, and should include ways to: identify poor performers quickly so they can be monitored and coached; determine merit pay; and collect and summarize managers' feedback. These check-ins can include numerical rankings, as Deloitte does, or not, as at Juniper Systems and Cargill. At Deloitte, a new model of frequent, informal check-ins has led to more meaningful discussions, deeper insights, and greater employee satisfaction. It assigns employees several numbers four times a year, to give them rolling feedback on different dimensions.

3. **Get support from senior leadership and reinforcement from organizational culture**. Like any organizational change, replacing traditional performance reviews requires buy-in from the top down. Before rolling out any new review system, make sure there is a clear and consistent message about its validity, especially from HR.

HOW LEADERS USE IT:

- At Adobe, projects are broken down into "sprints" that are immediately followed by debriefing sessions. Adobe explicitly brought this notion of constant assessment and feedback into performance management, emphasizing principles such as collaboration, self-organization, self-direction, and regular reflection on how to work more effectively. Frequent check-ins to assess these principles replace annual appraisals. Juniper Systems, Dell, and Microsoft were prominent followers.

- At GE, a new business strategy based on innovation was the biggest reason the company recently began eliminating individual ratings and annual reviews. Its new approach to performance management is aligned with its FastWorks platform for creating products and bringing them to market. Supervisors still have an end-of-year summary discussion with subordinates, but the goal is to push frequent conversations with employees (GE calls them "touchpoints") and keep revisiting two basic questions: What am I doing that I should keep doing? And what am I doing that I should change? Annual goals have been replaced with shorter-term "priorities." GE first launched a pilot, with about 87,000 employees in 2015, before adopting the changes across the company.

- Many companies use apps that enable supervisors to give feedback anytime and to record it if desired. At General Electric, the PD@GE app ("PD" stands for "performance development") allows managers to call up notes and materials from prior conversations and summarize that information. Employees can use the app to ask for direction when they need it. IBM has a similar app that adds another feature: It enables employees to give feedback to peers and choose whether the recipient's boss gets a copy. Amazon's Anytime Feedback tool does much the same thing. The great advantage of these apps is that supervisors can easily review all the discussion text when it is time to take actions such as award merit pay or consider promotions and job reassignments. If your company doesn't have such an app, check the app store. There are new apps springing up regularly that help leaders create their own feedback systems.

- Adobe's director of business partnering Megan Taylor says a move to an informal system requires a culture that will keep the continuous feedback going. Adobe, which has gone totally numberless but still gives merit increases based on informal assessments, reports that regular conversations between managers and their employees are now occurring without HR's prompting.

- PwC moved to a scoreless review system, but after pushback from employees, especially those on a partner track, they reinstituted rankings in its client-services practices. Employees still don't receive a single rating each year, but they now get scores on five competencies, along with other development feedback.

- Juniper Systems also formally asks supervisors each quarter to confirm that their subordinates are performing up to company standards. Only 3%, on average, are not, and HR is brought in to address them. Adobe reports that its new system has reduced dismissals, because struggling employees are monitored and coached much more closely.

ADDITIONAL RESOURCES:

- "[An Imperfect Test: The Problem with Job Performance Appraisals](#)," *Knowledge@Wharton*, May 23, 2016. Provides a discussion of new research by Peter Cappelli and Martin Conyon on the usefulness and accuracy of performance appraisals.

- "The Performance Management Revolution," Peter Cappelli and Anna Tavis, *Harvard Business Review*, October 2016. Offers a historical context for the move away from traditional performance reviews.

- "Reinventing Performance Management," Marcus Buckingham and Ashley Goodall, *Harvard Business Review*, April 2015. https://hbr.org/2015/04/reinventing-performance-management Explains Deloitte's assessment of its former performance review methods and gives an overview of its redesigned system.

- "Ahead of the Curve: Rethinking Performance Management," Boris Ewenstein, Bryan Hancock, and Asmus Komm, *McKinsey Quarterly*, May 2016. http://www.mckinsey.com/business-functions/organization/our-insights/ahead-of-the-curve-the-future-of-performance-management Explores some of the new methods for evaluating performance from companies that have moved away from traditional performance reviews, and provides context for that move.

- Peter Cappelli is academic director of Wharton's executive program *Leading People in Organizations — India* and teaches in the *CEO Academy* and *Business Essentials for Executives*.

ABOUT NANO TOOLS:

Nano Tools for Leaders® was conceived and developed by Deb Giffen, MCC, Director of Innovative Learning Solutions at Wharton Executive Education. It is jointly sponsored by Wharton Executive Education and Wharton's Center for Leadership and Change Management, Wharton Professor of Management Michael Useem, Director. Nano Tools Academic Director is Professor John Paul MacDuffie, Professor of Management at the Wharton School and Director of the Program on Vehicle and Mobility Innovation (PVMI) at Wharton's Mack Institute for Innovation Management.