

Alternatives to Performance Reviews

You can get rid of those troublesome yearly evaluations if you really want to. But it isn't easy.

AT MOST COMPANIES, performance reviews are as popular as root canals. Abolish them, you might think, and managers and employees alike would breathe a collective sigh of relief. But then what would happen to motivation, merit-pay differentials, even performance itself—all those things that reviews are supposed to drive or inform?

This is a debate that has rumbled along quietly for years now, both in HR circles and in executive suites. On the one hand, companies are sorely tempted to eliminate reviews completely. Because people regard them with so much fear and loathing, they're postponed, gamed, glossed over, and generally viewed as something to be survived rather than used. Moreover, critics argue persuasively that reviews fail to accomplish their ostensible purposes and succeed only in demoralizing and demotivating employees.

On the other hand are all those nagging concerns. If managers aren't required to give feedback, they may not do so at all. Employees' motivation and personal development will suffer. Performance will decline. The company will have no basis for awarding pay increases and no paper trail to cover itself if an employee must be let go.

What's the solution? Some companies actually have abolished annual reviews. But it isn't an easy move to make. Managers have to change some fundamental assumptions about what really produces high performance, and companies have to work with employees differently on a variety of fronts, from feedback to compensation.

The case against reviews

The issue wouldn't arise if performance appraisals weren't so fraught with difficulties. Part of the problem is that people on both sides of the desk hate the process and therefore find ways to manipulate or avoid it. But even in the best of circumstances, reviews may not accomplish their objectives. Consider just a few of the critics' charges:

Managers can't assess employees' performance accurately.

Everybody can recognize a true superstar or a world-class slacker. But how many managers can accurately judge the performance of 10 or 20 direct reports, most of whom are in the broad middle range and probably doing as good a job as their tools, training, and work environment allow? Attempts to hand out individual ratings are inevitably colored by personality, emotion, and selective memory.

Formal evaluations demotivate more than they motivate.

If a performance-review system hands out high marks to all, it's a charade that no one will take seriously. To prevent rate inflation of this sort, many companies require managers to grade employees on a curve and hand out merit-pay increases accordingly. Now the company has another problem: the losers may be little different in outlook or performance from the winners, but there's no doubt in anyone's mind that they have been dubbed losers. "In the span of a 30-minute meeting, [a review] can transform a vibrant, highly committed employee into a demoralized, indifferent wallflower who reads the want-ads on the weekend," write Tom Coens and Mary Jenkins in their book *Abolishing Performance Appraisals: Why They Backfire and What to Do Instead* (Berrett-Koehler, 2000).

Reviews don't improve firm performance.

Reviews examine what individuals do and (in theory) motivate them to do better. But individual performance is seldom the key to better organizational performance. "Most problems, and therefore most opportunities for improvement, are in your systems and processes, not in your individuals and groups," argues Peter R. Scholtes, author of *Total Quality Versus Performance Appraisal, Choose One* (Oriel, 1992), who has been in the vanguard of attacks on annual reviews. Scholtes—reflecting the thinking of the late W. Edwards Deming—assumes that most people want to do a good job and are constrained in their efforts by poorly designed systems or work environments. His conclusions? Fix the system, not the people. Judge performance by the output of work groups and business units, not by the efforts exerted by individuals.

Over the years, companies have monkeyed with the review process—for example, by asking employees to establish goals and using those as the basis for the review. Critics such as Coens and Jenkins cast a jaundiced eye on these reforms as well. If people don't accomplish their goals, they ask, is that their fault, or did something about "the system in which they work" impede them? If people do accomplish their written goals, have they unwittingly sacrificed other objectives? Have they blindly stuck to what they decided on six or nine months ago, rather than adapting their behavior to what's needed now?

The alternative: Unbundling

What keeps performance reviews alive is a combination of hope and despair: hope that reviews will somehow accomplish their objectives despite the odds, despair over the difficulty of accomplishing those objectives any other way. But a handful of companies have done just what the critics recommend, which is to unbundle these functions and create separate methods for achieving the desired results. Some examples of this approach:

Feedback.

Reviews are meant to provide feedback so that employees can learn from mistakes and build on their strengths. The objective is valid, but the tool is problematic. Reviews offer feedback only once or twice a year. The feedback is initiated by the boss (or by HR), focuses entirely on the individual, goes into the personnel file, and may be tied directly to a raise. The system thus provides every incentive for employees to make themselves look good and for kindhearted managers to overlook mistakes.

Companies that have abolished performance reviews approach feedback differently. SAS Institute, a Cary, N.C., software firm, encourages each division to design its own feedback procedures but expects that some kind of discussion between employees and managers will take place at least monthly. No one is rated, says HR project manager Annette Holesh, and nothing goes in the file unless the employee requests it. Wheaton Franciscan Services, a health care and housing company in Wheaton, Ill., holds feedback sessions that focus on “the working relationship between the employee and the system within which they work,” says former Wheaton SVP Bob Strickland. The purpose of these sessions isn’t to assess an individual’s performance; rather, manager and employee use the session “to identify where improvements could be made and then to plan those improvements,” says Strickland.

Merit pay.

Performance reviews at many companies provide both the basis for determining raises and a forum for discussing them with employees. This is not a marriage made in heaven: if money is on the agenda, everything else invariably dwindles in importance. But there’s a more fundamental problem with linking appraisals to pay, which is that the two may not correlate. “If you have wages based on

performance reviews, and you have a tight lid on raises,” one HR expert recently pointed out in the magazine *Nation’s Business*, “it means your performance reviews can’t be very good.”

Deming aficionados and other performance-review critics tend to be critical of merit pay itself. So most of the companies that have eliminated reviews have also created different procedures for determining raises. General Motors’ powertrain division awards pay increases based on an employee’s experience within a given pay grade. Some companies award raises to employees who acquire specific new skills. SAS does offer merit-based raises but handles the pay process separately from the feedback system.

Legal cover.

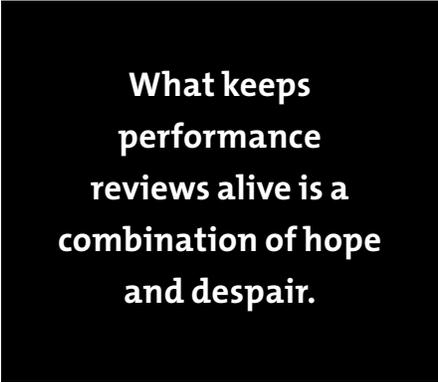
Reviews provide a paper trail of an individual’s performance; when an employee must be dismissed, the record offers protection against lawsuits, or so goes the theory. In fact, experts say, a broad-based performance-appraisal system is an ineffective means to this end. Reviews are infrequent. The language contained in them is often ambiguous. Most companies’ records exhibit inconsistencies that a skilled lawyer can pick apart easily in court.

A better alternative may be a special evaluation system designed only for the tiny minority of employees who risk dismissal.

Scholtes favors performance appraisal “as a temporary intervention with an employee whose work is outstandingly poor, to remove any possible ambiguity regarding short-term expectations.”

This isn’t a complete list of the problems posed by abolishing performance reviews. Companies must also come up with alternative ways to identify candidates for promotion. They must ascertain employees’ training needs and make sure that people are encouraged to take advantage of skill-building opportunities. These and other tasks ensure that eliminating reviews is a challenging undertaking.

Is it worth it? Many companies will decide it isn’t. But some may find that abolishing reviews forces them to think about management practices they take for granted. They also may find that it cuts down on turnover, simply because both managers and employees like the new practices better than the old. ♦



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