THE BRAVE NEW WORLD OF PERFORMANCE MANAGEMENT

By **Richard Citrin** and **Michael Couch**

Performance Reviews, Appraisals, Audits . . . whatever you call them . . . we've long known that they are not very effective.

The groundswell of research and surveys reflecting just how terribly flawed typical performance management (PM) systems are is finally reaching a tipping point.

For example, a global survey by the CEB/Corporate Leadership Council found that 95% of managers were dissatisfied with their company's performance management system. And only 25% of the HR executives in the study believed that their performance reviews accurately reflect employees' contributions. This was confirmed in another CEB study in 2012 that found no relationship of performance review ratings to business unit performance.

Why are performance reviews not effective? From our perspective, one of the top factors is that by trying to serve too many purposes (set goals, provide feedback, determine training needs, document performance, determine pay, etc.), typical performance management systems do none of them well. Our guidance is to narrow the purpose and scope of a PM process (and maybe change the name).

ALIGNING EVERYONE TO THE STRATEGY AND VISION OF THE BUSINESS DRIVES ENGAGEMENT. REGULARLY REVIEWING AND ADJUSTING GOALS ALSO INCREASES AN ORGANIZATION'S ABILITY TO REACT AND ADJUST AS ITS COMPETITIVE ENVIRONMENT CHANGES.

The Strategic Talent Management Survey we conducted in 2016 with the Pittsburgh Technology Council found that high-performing companies (in profitability and customer retention) were five times more likely to use their PM systems to link employees to business goals and to cascade the links down through the organization.

Aligning everyone to the strategy and vision of the business drives engagement. Regularly reviewing and adjusting goals also increases an organization's ability to react and adjust as its competitive environment changes. This approach better matches the reality of the nature of work today – work that requires increased collaboration and pace.

Then there is the fallacy of performance ratings. Our evaluation of a number of client's PM systems consistently finds the same rating flaws.

- Ratings are never applied the same across different raters, departments or units. (A study published in the Journal of Applied Psychology in 2000 with a very large sample size concluded that performance ratings tell you more about the idiosyncrasies of raters than of the ratees!)
- Ratings by different raters/bosses of the same employees show very little agreement.
- Ratings are always skewed and truncated (everyone is above average) especially if pay is tied to the rating.
- Performance ratings show very little agreement to calibrated, multi-rater talent assessments.
- Ratings often focus on employees' individual accomplishments and miss two factors that are even more important to overall company performance – how much the individual contributes to the success of others and how effectively they align their work to the work of others.

The fast-growing field of neuroscience has helped us understand the basic underlying problem with ratings. Performance reviews and ratings elicit a basic "fight or flight" reaction in our brains. Just the act of giving feedback can be perceived as a threat. Think about your reaction when the boss says, "Stop by my office later, I have some feedback for you."

The threat response is even worse when the performance discussion includes a rating and documentation. Your boss might as well have sneaked up behind you with a spear! Our brain's response to the threat is the same. Imposed feedback is perceived as a threat. Changing the process to allow feedback to be requested can be a reward.

Eliminating performance ratings faces cultural hurdles in many companies. We have one client that recognized the fallacies of performance ratings but decided to phase them out over time, not all at once. Their leaders just weren't ready to "chuck the ratings." They decided to first focus on improving the quality of conversations that managers and employees were having, to improve goal setting and to significantly scale back documentation and lengthy written reviews.

Managers and employees could then focus their energy on more frequent, meaningful conversations throughout the year. Another global client decided to go all in and to chuck the ratings along with focusing on more frequent feedback and coaching discussions. Three years into the change, they couldn't be more pleased.

Changing ingrained performance management systems can be daunting, but the benefits can make the effort worth your while. It's time to change the ways of yesterday is to improve the world of work today and into the future.

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King Wuling of the Zhao kingdom, 307 B.C.