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## Do appraisals really have to be worse than going to the dentist?

These days you could be forgiven for thinking that 'Performance appraisals' are swear words for the strong emotions they evoke in management and HR media. The movement started in 2012 with the likes of Adobe, and escalated more recently with firms such as Deloitte, Accenture, Gap, KPMG and Microsoft all abolishing their annual performance appraisals and forced rankings. To date, nearly 10% of the Fortune 500 companies are opting out of the traditional annual appraisal format<sup>1</sup>. Some see this stampede to abolish annual appraisals as extreme, heading over a cliff with insufficient thought about what really works and what should be put in their place. Some see this as a cynical move by large consultancies to sell new HR services. Others surmise that line managers, tired of the time it takes and the challenge of giving candid feedback, are taking matters into their own hands and forcing human resource practitioners to rethink the approach to managing performance.

Research shows that employees enjoy going to the dentist more than performance appraisals<sup>2</sup>, one in five think they had an unfair appraisal and almost half don't think their boss is honest during the process. So with employees perceiving current methods as unfair, leaders citing appraisals as onerous and the rush by major companies to abolish annual appraisals and forced rankings, what went so wrong? Why do so many, studies say up to 30%, performance reviews end up in decreased employee performance<sup>3</sup>?

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For years, we have been asking a tremendous amount from the conventional review process: evaluation of past performance, data to determine compensation, motivating and developing staff, all whilst the world around us changes and the manager's role becomes more complex. Something had to give. What is apparent is that the conventional appraisal and ratings approach is no longer fit for purpose in a vastly different environment from when Jack Welch at General Electric honed performance management as a craft.

### Changing workplace

The changing nature of work, increasing complexity, volatility and ambiguity of the business environment, as well as changing workplace demographics, place additional demands on leaders and the need to shift to new appraisal models.

- The accelerated pace of change in the business environment means goals set annually or bi-annually are often out of date within a matter of weeks. Taking a snapshot of performance once a year and relying on that to determine the goals ahead for the next year is becoming more and more unrealistic.

- The complexity of the modern world is demanding leaders act with an agility and responsiveness, unlike the traditional hierarchical leader. The 'rigid-like' nature of the annual evaluation is therefore becoming less of an accurate representation of the reality of the demands on a leader's life.
- High achievers and younger generations such as Generation Z are known to be more feedback hungry, wanting almost continual feedback and development to keep pace with the progress desired and faster pace of completed projects.
- Demands on managers' responsibilities have increased significantly over the past decade – an average increase of 4 to 7 direct reports<sup>4</sup>, making it harder to follow direct reports' progress in sufficient detail.
- The collaborative nature of work means that people are working with many different teams and leaders, so the traditional one-to-one with the manager is unlikely to give the full picture of their performance. Mike Vessey, Managing Partner of MDV Consulting, explains: *"The sheer number of projects that are now possible during the course of a year means that waiting six months to a year to find out how you're doing from a manager often no longer applies."*

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### Insight from past experience and research

Traditional performance appraisals have received a lot of attention by HR practitioners, as well as academics, over the last few decades, highlighting the benefits and the pitfalls of these. Some criticisms of the traditional approaches include:

- Performance issues need addressing immediately in real-time conversations and not just at a review. Leaving such conversations until the review changes the nature of the meeting, taking it from something potentially motivating to a more threatening or stressful experience for the individual.
- Traditionally, the evaluation has been focused on historic performance rather than forward looking towards goals and development. Many relegate the development planning element to a box and hurried discussion at the end of the evaluation.
- Performance ratings are never completely objective and are skewed by the individual rater's personal perceptions - a study found that as much as 62% of the variance in the ratings on an individual by their bosses, peers and subordinates, could be accounted for by the unique rating tendencies of the raters rather than any difference in actual performance<sup>5</sup>.
- Conventional rigid processes and forms do not cater for those managers and employees who may be more developmentally advanced and seek the flexibility to adapt to the style of the conversation. In these cases, the evaluation can be a disengaging process.

All of this indicates that the performance review process can and certainly needs to be improved but are we at risk of throwing the 'baby out with the bath water' in the stampede to do away with appraisals, ratings and bell curves? Although there is much talk of companies ditching these, practice on the ground has not kept pace on what should replace them. We see certain moves to dilute ratings: some moving away from employee assessment to manager calibration forums, some using output against corporate goals and others using future performance actions such as the individual's potential for promotion. Most companies, however, are still finding their feet in this new world of managing performance.

As Keith Robson, an experienced HR and talent professional with 30 years reviewing these trends, says: "*The next challenge that the world of performance management has to face is factoring in many facets of someone's performance in a way that is understandable and scalable. Bell curves and ratings should not be regarded as a way to oversimplify someone's performance. Instead, providing the richest possible snapshot of someone's performance should be the next stage to conquer in the rapid evolution of a new approach to performance management.*"

Mike Vessey adds: "*The crux is knowing what is needed from the managing performance process when so often this is muddled trying to achieve too much. Companies should spend the time upfront to determine what aspects are the most important. This might be evaluation of past performance to determine pay. On the other hand, what might actually be required is a general attempt to improve corporate performance through more forward-looking feedback and development. Without prioritising, the review process is operating to unclear expectations.*"

So despite all their faults, there are still valid arguments for undertaking a well-structured review which contributes to the rich snapshot of someone's performance and to help take company goals forward:

- It provides a system to recognise the organisation's high performers, which in turn enables them to be better understood and supported.
- Setting performance goals more frequently than annually shows a dramatic increase in performance, with companies setting performance goals quarterly seeing 31% greater returns<sup>6</sup> from their performance process than those who do it annually.
- More personalised compensation plans see bonuses and rewards paid more frequently than annually. These changes bring a corresponding need for more regular feedback data to inform these goals and bonus plans.
- Poor performance will always need to be dealt with and if feedback can be given constructively this can contribute to better performance. Obviously

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judgement is needed as to whether the review should be used as a remedial tool in such cases.

- Dedicated review time set aside from daily demands is an excellent time to focus on identifying areas for development, new skills and training required by the individual and what future goals should look like.

### All about the conversation

So amongst all the media hype, what is the real reflection on this topic amongst our clients? We consistently see one clear thread weaving through the criticism. The need to build a culture of continuous feedback is again and again at the top of HR practitioners' wish lists to improve the outcomes of their companies' performance management. Key to this, is the perceived failure of managers to be able to conduct the insightful reviews which engage, encourage better performance and move development on. Even high performing, bright managers with a good sense of self-awareness, struggle with the interpersonal capabilities to deal with conflict and to have those fruitful conversations to motivate the individual to perform better.

Research supports this - PwC finds that 91% of respondents believe that the inability of management to hold difficult conversations is preventing performance management from achieving its aims. Simply, unless employees are given honest and constructive feedback regularly, they are not aware of how and where they need to improve and clear expectations on both sides are not set or met.

Before a continuous feedback culture can be built and better review conversations had, the thorny issue of calibration, ratings and setting of priorities needs resolving. Objectives sought by the performance management approach will inevitably drive the review conversations and if not clear may be confusing. For example, are there competing priorities for the reviewee, such as arguing for bonus compensation whilst also being expected to review where performance could have been improved?

### Building a continuous feedback culture

So how can organisations build a culture of continuous feedback? One where reviews are not just an annual

affair but a well-managed operation where trust is acquired, progress against goals is shared and insight sought into why the individual may be succeeding or failing. How do we encourage regular review interactions whilst events are fresh in everyone's minds and appropriate and timely goals and development are identified?

This requires better equipping of managers to have insightful feedback conversations but as importantly, helping recipients to hear the message and understand what to take from it. It is worth bearing in mind that having this sort of conversation rarely comes naturally to anyone. Reviewers struggle with negative feedback, talking about successes but seldom about failures and yet discussing these brings about tremendous development and innovation benefits. Many great leaders credit their greatest success to the process of learning from prior mistakes. As Thomas Edison said, "I have not failed, I have just found 10,000 ways that won't work."

Training, practice and principles, such as those shown below, used together can minimise the dread that many appraisees feel beforehand. Mike Vessey explains: "*If done well there should be no surprises in the performance feedback discussion - performance issues and positive feedback would have been covered at some point in a not so distant previous touch point discussion.*"

### Seven principles for a culture of continuous feedback

#### 1. Develop managers' coaching abilities

- Develop the ability of your managers to encourage two-way conversations which place development and an emphasis on the future at the heart of the discussion.

#### 2. Great conversations start with great questions

Build trust by allowing the appraisee to tell their story the way they see it. Jennifer Garvey Berger<sup>7</sup> emphasises the importance of listening carefully as two views of the world can be very different. She offers a framework within which to structure questions:

- To elicit the data and facts, e.g. "What evidence do you have?"

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- To identify the strength of emotion surrounding the topic, e.g. "How do you feel about your success in that project?"
- To show the impact of the behaviour, e.g. "What was the impact of that decision for the rest of the team?"

### 3. Be specific with feedback

- Give managers the tools (such as 360 feedback) and access to real-time performance data so they can provide clear examples.
- Focus on the behaviours that can change – as opposed to focusing on personality (which can't).

### 4. Give negative feedback constructively to encourage innovation and development

- Draw on 'open' perspectives to understand the underlying reasons behind failures.
- View feedback on failures as a development opportunity to help the individual learn from, rather than seeking to give insipid, self-esteem enhancing comment.
- Acknowledge that if significant negative feedback is being discussed for the first time, the individual is unlikely to be able to focus effectively on other aspects of the conversation.

### 5. Tailor feedback to the individual's stage of development

- Distinguishing where an individual is at with their development stage enables the manager to adapt how feedback is given. A knowledge worker / professional who sees the world through their craft logic or 'what they know' will make sense of feedback very differently to the more developed individual who wants to know how they can use feedback to get ahead.
- Understanding when someone is willing and ready to make a development shift, creates a better discussion about career experiences, performance goals and development.

### 6. Practice beforehand

- Managers welcome the opportunity to practice conversations in a safe environment with colleagues and peers. This can encourage honest discussion and embed an understanding of any ratings criteria being used by the company.

### 7. Take accountability for the discussion

- Be pragmatic about the expected outcomes from the conversation. Encourage managers to get input from the individual on whether goals are achievable.
- Agree who will do what as a result of the discussion and follow-up on these actions, updating the other on progress.

So whatever your process, whether backward looking 'performance management' or future-focused developmental 'managing performance', light or heavy touch, building that culture of continuous feedback is key to making it achieve for the company. HR has a valuable role to clarify review expectations and help managers build the relational trust which delivers insightful two-way conversations. Companies which give their managers the support and development to achieve these ongoing conversations will benefit from employees who stop dreading the appraisal pain and start enjoying the feedback.

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