

## Executive Summary

### Research Question

What are some best practices in assessing employee performance without using performance reviews? What are the implications for employees that underperform?

### Introduction

A 2014 Deloitte Survey reported that 58% of organizations believed that performance appraisals were an ineffective use of time.<sup>1</sup> This finding carries great significance given a typical manager spends on average 210 hours a year working on appraisals.<sup>2</sup> Due to the incongruence between time spent and value, many companies are eliminating formal reviews. Some companies are opting to eliminate ratings all together while others are choosing to eliminate the numerical/ranking component of the appraisal. Case studies that include outcomes are a useful tool in examining how this pertains to the management of low performers.

### Case Studies

- I. **General Electric:** In the 2<sup>nd</sup> half of 2016, GE announced that after successfully running a pilot with 30,000 employees, it was eliminating formal appraisals.<sup>3</sup> Change was part of a cultural shift to promote innovation. Instead of a formal appraisal, GE encourages frequent touch points between managers and employees that focus on “what am I doing that I should keep doing?” and “what am I doing that I should change?<sup>4</sup> GE also replaced annual goals with short term “priorities” to mimic the brief cycle nature of business in general and encourage periodic feedback.<sup>5</sup> GE complements this initiative with PD@GE app that stores notes and observations that enrichen feedback.<sup>6</sup>
- II. **Adobe:** In 2012, the firm eliminated formal reviews. In lieu of them, Adobe developed a “check in” with the expectation that at minimum they would occur once a quarter.<sup>7</sup> The expectation also is that once a project or a “sprint” is completed, that employee receives feedback from manager.<sup>8</sup> Adobe reports that because of this practice, their attrition has fallen by 30%.<sup>9</sup> Adobe takes several steps to ensure the success of this initiative. The firm monitors the quality of feedback via employee engagement surveys and incorporates a training session on the process in new hire orientation.<sup>10</sup>
- III. **Deloitte:** Initially the firm eliminated numerical ratings in favor of constant feedback. However, in 2016 the firm pivoted and reintroduced ratings. Now however, employees receive numerous ratings four times a year while still receiving continuous feedback.<sup>11</sup>. This way employees are not handcuffed to an individual number, rather they can see where they stand relative to competencies firm values. Additionally, since the occurs various times, employees can correct their behaviors.

## Performance Improvement

- I. **Identifying Poor Performers:** As companies move away from formal appraisal systems it becomes challenging to consistently identify underperforming employees. However, there are examples of companies that have addressed and solved this issue following their departure from the use of formal rating systems. Juniper Systems, for example, asks that supervisors report whether their subordinates are performing to expectations. On average, only 3% of employees are reported as being below expectations, pointing to the efficacy of the system. Another example is Adobe's check-in system. Employees are monitored much more closely, due to the frequency of feedback. This results in more frequent coaching and fewer dismissals. However, no company that has removed annual performance reviews has done so without utilizing performance improvement plans to address poor performers<sup>13</sup>.
- II. **Metrics Used to Assess Performance:** The metrics used to measure the quality of performance vary across companies and should be tailored to the needs of the organization and the expectations of particular employees. General Electric's system focused on three primary components: 1. Tasks being completed efficiently, 2. Tasks being completed in a way that aligns them with organizational goals, 3. Progress made towards development goals<sup>14</sup>. Adobe used a similar three-tiered framework that used progress toward the achievement of expectations, feedback given and received by the employee, and actions taken toward professional growth<sup>15</sup>. The outcomes of Adobe's check-in system were overwhelmingly positive. Annual performance reviews had taken a considerable amount of managers' time, which was estimated to have totaled 80,000 hours across 2,000 managers. This represented cost savings equivalent to that of 40 full time employees. Many employees also reported higher engagement and motivation following the implementation of the check-in system<sup>16</sup>.

## Conclusion

Underperforming employees can be managed effectively when performance reviews are abolished. The platform used should be easily usable and accessible by both supervisors and subordinates, while also encouraging continuous feedback regarding development and performance. Companies such as General Electric and Adobe have been cited throughout this paper as examples of how this can be done effectively.

Performance criteria should be tailored to the needs of the organization, but should be multi-faceted and diverse. Typically goals are aligned with organizational needs and are measured on quality of work, effectiveness of the employee, and complement development goals set by the employee. Feedback should be given regularly enough to quickly identify and rectify underperformance. A clear line of communication between managers, employees, and human resources personnel is necessary to address underperformance effectively.

## References

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