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# What are Alternatives to Traditional Performance Rating Cycles and Processes?

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# What are Alternatives to Traditional Performance Rating Cycles and Processes?

## **Abstract**

The dominant format for performance appraisal systems in large U.S. industrial companies continues to be an objective-based approach such as management by objectives (MBO). Most companies conduct formal performance ratings annually or semi-annually. However, the traditional way of performance rating is receiving more and more doubt. With the development of HR theories, practices and technology, many companies are trying to manage employee performance in new ways.

## **Keywords**

human resources, performance rating, performance management, feedback, 360 feedback, assessments, no assessments, performance ratings, millennials, generation Y, coaching, getting rid of ratings, performance feedback, everyday performance management, constructive feedback, performance issues, goals, priorities, technology, human capital, pay, compensation, rewards, incentives

## **Comments**

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## Executive Summary

### Research Question

What are alternatives to traditional performance rating cycles and processes?

### Introduction

The dominant format for performance appraisal systems in large U.S. industrial companies continues to be an objective-based approach such as management by objectives (MBO)<sup>1</sup>. Most companies conduct formal performance ratings annually or semi-annually. However, the traditional way of performance rating is receiving more and more doubt. With the development of HR theories, practices and technology, many companies are trying to manage employee performance in new ways.

### New Performance Evaluations: When, What & How

#### When: More Frequent Check-ins Instead of an Annual Number

Instead of an annual performance evaluation, some companies adopt more frequent check-ins and feedback. Here are their main reasons: first, the nature of the workplace has changed, leading to employees' needs for a much shorter goal cycle ranging from months to even weeks<sup>2</sup>. Second, the nature of the workforce has changed. Not only do companies need to develop talent faster, the new workforce, especially the millennials, want feedback and coaching right away (Appendix 1)<sup>3</sup>. Besides, it is more fair than an annual evaluation because managers are more motivated to communicate to their employees regularly, and thus have a better understanding of their performance<sup>2</sup>. Additionally, it promotes employee engagement, as it motivates employees to be more mindful of their performance all year round<sup>2</sup>.

#### What: Getting Rid of Ratings:

There are many reasons for companies to eliminate ratings: (a) the disagreement when multiple raters evaluate the same performance, (b) the failure to develop adequate criteria for evaluating ratings, (c) the weak relationship between the performance of ratees and the ratings they receive, (d) the inconsistent effects of performance feedback on subsequent performance<sup>4</sup>, and (e) the enormous amount of time spent on the numbers themselves instead of focusing on how to improve performance<sup>2</sup>.

#### *Case Studies:*

1. Cargill Inc.: In 2012, Cargill introduced its "Everyday Performance Management" system to incorporate daily encouragement and feedback into on-the-job conversations. Cargill says it's seen measurable improvements after managers began giving constructive feedback that was forward-looking, instead of reviewing what had happened in the past.<sup>5</sup>
2. Adobe: Adobe introduced a frequent check in program which requires executives and

managers to have regular “tough discussions” with employees who are struggling with performance issues rather than putting them off until the next performance review cycles comes around. After implementing this program, the company cut voluntary employee turnover by some 30%.<sup>6</sup>

3. General Electric: Supervisors still have an end-of-year summary discussion with subordinates, but the goal is to push frequent conversations with employees and keep revisiting two basic questions: What am I doing that I should keep doing? What am I doing that I should change? Annual goals have been replaced with shorter-term “priorities” which are based on customer needs.<sup>7</sup>
4. Deloitte: Deloitte advocates every team leader to check in with each team member once a week. These brief conversations allow leaders to set expectations for the upcoming week, review priorities, comment on recent work, and provide course correction, coaching, or important new information.<sup>8</sup>
5. Accenture: Accenture had been quietly preparing to revamp up to 90% of its old methodologies with a new process it began rolling out in September 2015. The company is shifting focus to immediate performance development, rather than an annual forced ranking based on the past year's metrics.<sup>9</sup>

#### How: Use More Technology in Performance Rating:

More and more organizations are relying on innovative technology solutions to implement performance management best practices and automate painful manual processes. For example, GE and Accenture both use an app to help those within the organization deliver feedback and relay feedback.<sup>10</sup> Here are six ways HR professionals who manage performance can use technology to serve internal customers.

1. Simplify the evaluation process for managers;
2. Help employees feel a greater sense of alignment with the organizational mission;
3. Make employees more active participants in their evaluations;
4. Communicate clear expectations to employees;
5. Demonstrate to executives where organizational strengths and weaknesses lie;
6. Provide leaders with the information they need for the board of directors, as well as for compliance and regulatory purposes.<sup>11</sup>

### **Conclusion**

With traditional performance ratings, companies spend a significant amount of time on evaluation but comparatively little on development. These new trends in performance assessment have one thing in common: they're all switching their focus from dictating what employees should do at work to helping develop their skills as individuals.<sup>12</sup> Since human capital is every business's greatest resource, the future of performance management will include more feedback and place a greater emphasis on development. Because performance impacts employees' pay, promotion and other career opportunities, cares must be taken when companies are trying to change their performance rating system.<sup>13</sup>

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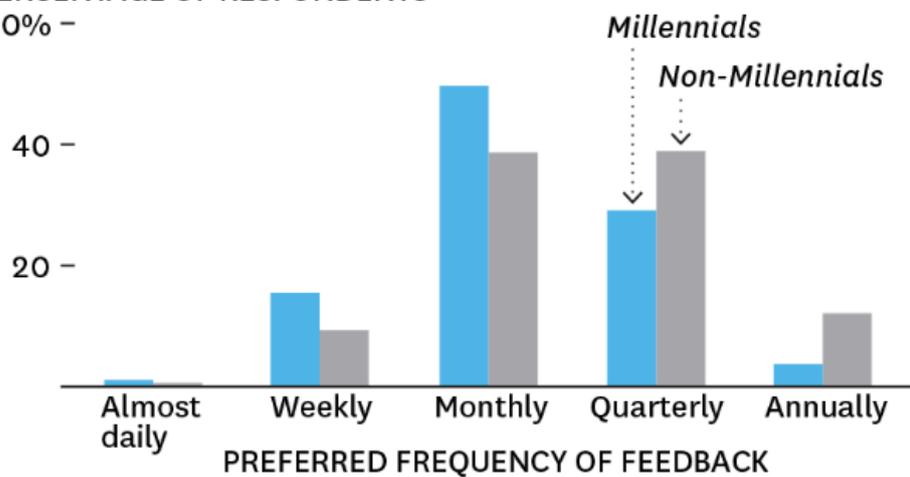
## Appendix 1.

### HOW OFTEN EMPLOYEES WANT FEEDBACK FROM MANAGERS

Most millennials prefer monthly.

PERCENTAGE OF RESPONDENTS

60% -



SOURCE SAP

HBR.ORG