

The Dark Side of Performance Reviews: Why People Hate Them and Why They Fail



While performance review is conducted with a variety of good intentions, the reality of the review experience—for both managers and employees—delivers disappointing results. An abundance of research over the last several years indicates a seriously high level of dissatisfaction with performance review across all organizations. Yet, despite routinely putting up with the very negative impact of the unintended consequences of the performance review process, we march on seeking to arrive at a destination that for most organizations remains elusive.

Those who remain blind to the systemic problems inherent with performance reviews state that the problem isn't the review process itself, but the ineffective skills of the managers who are responsible for the reviews. While it is very clear that performance review skills are lacking, this doesn't fly as an excuse for the poor results most review systems deliver. The other stake in the ground for continuing an ineffective process is the idea that you need performance reviews to protect against lawsuits by terminated employees. This argument also doesn't hold water. It is a well-known fact that most performance reviews hurt a company's case because they aren't accurate assessments of a worker's performance.

We believe the essential purpose of a performance review process is to clearly differentiate top performers. While there are other valid reasons, if the process doesn't deliver on this ultimate purpose, the downside to the organization can be devastating. Talent management is about the ability to retain those employees who perform at a level that significantly contributes to an organization's competitive advantage. Unfortunately, the majority of performance review systems we have seen and experienced do a pitiful job of achieving this critical purpose.

Secondarily, we believe the review process should provide valid justification for personnel decisions—such as promotion, succession planning, and termination when necessary. Once again, this is in line with the goal of effective talent management in two important ways. We need to ensure that the top performers—those who truly make significant contributions to the success of the organization—are given the opportunities for upward mobility. We also need to separate out employees who routinely do not perform their jobs at an acceptable level. Talented employees get very de-motivated when they must continue to work side by side with employees who put out little effort. They get disillusioned when under-performing employees receive performance

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marks—much less merit increases—that communicate that they are performing satisfactorily. When our talented employees quit and leave, and when our underperforming people stay, we corrupt a performance culture.

Important Considerations

We offer six considerations regarding performance review. Failing to critically examine the performance review process leads to the continuation of the negative, unintended consequences that befall organizations. We hope these considerations will help avert the “instant headaches” that materialize during performance review time. We hope to help others create performance review systems that move away from the charade of pretending to be perfect, which traditional systems promote, and toward a realistic assessment of contribution that lays the foundation for continual improvement.

Does the performance review process clearly differentiate top performers?

Top performers need to believe that performance evaluation marks truly identify them as “better performers” than others. The actual mark and the “merit” dollars that they receive must be statistically different from the rank and file. It’s usually no secret to anyone who these top performers are. Yet, we find often that these high performers are moved into the normative trend of performance marks as a result of the performance review process and, as a result, their “merit” dollars are not significantly greater than average performers.

A recent study we conducted with our partner, HRMarketer, indicated this issue is a problem in many organizations. Thirty-eight percent of the responders in our survey believed that outstanding performers were satisfied with their performance ratings. Significantly, while senior leaders believed their system did a good job of differentiating their top performers, the employees themselves believed this was not the case. Predictably, there will be significant ramifications because when the best performers feel undervalued or underappreciated, they look for other opportunities.

Does the performance review system provide valid justification for personnel decisions?

Performance marks—reflecting the quality of an employee’s contribution to the success of the organization—should serve as the basis for decisions on succession planning, promotions, and termination. For a

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variety of reasons, valid criteria for these decisions influence employee motivation issues, creates a sense of fairness and consistency, and makes these decisions defensible. When employee performance isn't clearly differentiated relative to a person's results and specific behavior, the reliability of personnel decisions is eroded. In our study with HRMarketer, we found problems in this area. In response to the question of "performance" marks making it easy and justifiable to take appropriate action with poor performers, over 50% of the respondents believed that the statement was just sometimes true or never true. There is a clear implication that performance marks allow poor performers to linger in their jobs—continuing to hurt the organization's performance.

Does the performance review system evaluate results or activity and effort?

The renowned basketball coach John Wooden often advised, *"Never confuse accomplishment with activity."* We believe this is a critical element for performance review. Simply put, manage tasks and activities—but evaluate results. More often than not, we find performance evaluations that evaluate activity or effort instead of results. Employees get evaluated on vague attributes and a wide variety of tasks without anyone ever identifying the quality of the "results" or outcomes that were achieved through the employee's attributes or effort. The organization delivers results—to customers and to stakeholders—and this should be the focus of the evaluation process and what employees should be graded on. Contribution is critical— effort, not necessarily so.

Our study with HRMarketer indicated that the focus of the performance review process is often NOT on results. In response to the question "Performance goals and expectations reflect the delivery of results and not activity, effort, and input," we found a significant disparity between how senior executives and other employee levels saw this issue. Only 43% of non-executives—compared with 63% of executives—responded that this statement was often or always true. Even more unsettling was the over 50% who responded that this statement was sometimes or never true. The indications are clear that performance review is not doing an even adequate job of evaluating contribution.

Do performance marks group towards the middle?

A majority of complaints we have heard over the years—and verified—is that the end-of-year performance marks tend to aggregate to the middle ("Meets expectations"). Rating almost everyone as "satisfactory" or "meets expectations" reflects a performance review system that doesn't differentiate employee performance, truncating the critical purpose of the

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—John Wooden
UCLA

Only 7% of respondents in our study believed that the tendency for marks to be grouped toward the middle rating was “never true.”

system. This tendency to group marks toward the middle happens for a variety of reasons—avoiding difficult conversations, poorly set expectations and standards, managers’ and supervisors’ poor performance management skills, difficult and time-consuming forms that focus on vague generalities rather than results—just to mention a few.

Again, our study indicated a less than optimum response on this issue. In response to the question “Performance marks are grouped toward the middle of the rating scale,” only 7% of respondents believed that this was never true. Our survey results indicated that while executives didn’t believe their system trends toward the middle, a significant portion of the non-executive respondents believed the trend toward the middle is occurring. This illustrates another critical downside to performance review systems—the assumption by senior leaders that their system is functioning in the most optimum way. Perhaps this is why these systems are so slow to evolve?

Does the system evaluate employees against performance standards or against each other?

Performance standards are the foundation of accurate and fair performance evaluations. Therefore, performance expectations must be evaluated against valid performance standards for the job—not against the “expectations” for that particular employee. Developing performance standards and evaluating performance based on what is “expected” from the individual performer (based on past performance) leads to many undesirable unintended consequences. When managers have high expectations of an individual because of past performance, many times that high performer receives an “average” performance mark when they meet the manager’s very high expectations. Having high expectations regarding the performance of an employee should not result in that employee being punished for meeting the high expectations with exceptional performance.

Again, our study indicated a less-than-optimum response on this issue. In response to the question “Employees are rated against job standards and do not rate employees against each other” in our study, we found that the majority of respondents believed the statement to be true. This indicates that this issue isn’t perceived as problematic. That said, our last question indicates that this perception may be more myth than truth.

Does your system have “forced rankings” or forced distribution?

By its nature, when forced rankings or forced distribution occurs in a performance review process, the actual reflection of an employee’s contribution and performance is diluted. This dilution occurs as the organization reacts to ensure employee marks fit some pre-determined formula. No matter how you cut it, pre-determination of performance will result in people management difficulties. Usually, some version of forced distribution is done to reduce the escalation of performance marks and the resultant distribution of “merit” dollars. Instead of addressing the root cause of the problem of escalation (usually poorly defined standards of excellence and poorly defined standards of acceptable performance), a forced distribution Band-Aid is put on the system that normally results in a different problem of a more significant magnitude.

The responses we received to the statement, “Our performance rating system requires, or creates a perception, that managers and supervisors must use a forced ranking approach when evaluating employee performance” raises an interesting question. Significant differences exist between the perception of executives and the perceptions of non-executives. The executives trend toward seeing their system as not influencing forced distribution, while the tendency of non-executives was to see an influence toward forced distribution. Additionally, it’s worthy of note that over 37% of all respondents said the statement was often or always true. The reality, or even the perception, of forced ranking creates significant dissatisfaction as people perform under the illusion of achieving a specific standard of performance and then experience their marks being altered from on high to meet a forced ranking approach or some pre-determined formula.

Prescriptions:

In lieu of what might be best—a total overhaul of the traditional performance review systems—we offer the following short-term solutions:

1. Ensure that managers have the required skill set for establishing goals and objectives that are result- or output-oriented and ensure that the forms evaluate results and not activity—that the process evaluates specific behaviors and not vague, general labels.
2. Ensure that managers have the required skill set for establishing standards of performance (what “good work” looks like) so that at the very least employees understand clearly how they earn marks of “acceptable performance” and “significant contribution.”

The reality or even the perception of “forced distribution” distorts the reality of the employee’s performance.

3. Ensure that employees are given performance evaluation marks or ratings that describe performance against established standards.
 - a. Refrain from evaluating employees against each other (especially for the same job/same pay).
 - b. Avoid forced ranking or forced distribution. Acceptable performance should be indicative of solid performance for what is being paid for the job. The bottom performers in a company should be designated as such as a result of their performance against this solid performance rating. This will raise the bar of performance over time without creating poor teamwork and internal competition.
4. Ensure the system does not reward all employees who deliver acceptable, solid performance with “merit” dollars. Let COLAs and market study determine pay increases as necessary. Use “merit” dollars for those individuals who routinely perform at the highest levels to ensure their contribution is recognized and valued and to influence the retention of your best talent.

Summary

Effective performance review should communicate the clear truth of how well people perform on the job and what level of contribution each person delivers. Pre-determination of ratings using types of forced distribution; focus on activity, tasks, and effort in lieu of results and specific behaviors; and poorly developed performance standards result in skewed realities, candy-coated feedback for many, and ratings that group towards the middle—hindering the differentiation that is at the heart of an effective performance review system.

About Impact Achievement Group

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To find out how Impact Achievement Group can transform your managers into more effective leaders, visit www.impactachievement.com.

Performance review should communicate the clear truth regarding how well people contribute to the organization's success.