

Fatal flaws in Performance Appraisal Systems

Although a wide variety of Performance Appraisal System (PAS) models exist, most of them rely on beliefs, perceptions, dangerous half-truths, or poor evidence. Several studies^[1] identify flaws in the performance appraisal process.

Just consider a few findings from consulting firm Leadership IQ: In a survey of nearly 50,000 corporate CEOs, managers, and employees, only 13% thought their performance appraisal was effective; and only 6% of CEOs thought the process was effective.

Despite this dissatisfaction, most CEOs and HR managers are not sure how to address performance problems in the workplace, so they continue to implement sub-standard techniques. The alleged purposes of PAS are to improve employee performance and to provide data for decisions about promotions, transfers, terminations, salary increases and bonuses.^[2]

I see nothing constructive about an annual performance review. It's a mainstream practice that has confused both managers and employees for years. Annual performance reviews are hammers looking for nails to pound, and hurting employee engagement, productivity, and health in the process.^[3] To make my case, I offer several reasons why I find performance reviews bogus. (More to come in the next issue of the *Budapest Business Journal*.)

INTIMIDATION

Most people are frightened of

performance reviews — even in HR. They do not necessarily take it public, they often just natter in the canteen. The one-side-accountable, boss-administered review is little more than a dysfunctional pretense, it is the main obstacle to honest interpersonal connections, and it is the primary reason for low morale. I see it as intimidation aimed at preserving the boss' authority and power advantage. Such intimidation is unnecessary, though: the boss has the power with or without the performance review.

DIFFERENT MINDSETS

The mindsets held by the two participants in a performance review work at cross-purposes. The boss wants to discuss where performance needs to be improved, while the subordinate is focused on such small issues as compensation, job progression and career advancement. The boss is thinking about missed opportunities, skill limitations and relationships that could use enhancing, while the subordinate wants to put his or her best foot forward, believing he or she is negotiating pay. All of this puts the participants at odds, talking past each other. The discussion most likely creates tensions that carry over to their everyday relationships.

OBJECTIVITY IS SUBJECTIVE

Most performance reviews are staged as "objective" commentary, as if any two supervisors would reach the same conclusions about the merits and faults of the subordinate. But consider that when people switch bosses, they often receive sharply different evaluations from the new boss to whom they now report.

The absurdity is even more obvious when bosses base their reviews on 360-degree feedback. The fatal flaw with 360-degree surveys is that the data generated is bad. And

since the data is bad, no matter how well intended, how insightful the feedback, how coherent the leadership model, it leads your leaders astray.

Virtually all 360s are built the same way.^[4] They measure a set of competencies by breaking these competencies down into behaviors, and then various colleagues — your peers, your boss, and your direct reports — rate you on these behaviors. For example, to measure the leadership competency "vision", your evaluators score a list of behavioral statements such as, "You set a clear vision for your team" or "You show how your team's work fits the vision of the entire company."

On the surface, breaking down a complex competency such as "vision" into specific behaviors and then rating you on these behaviors makes sense. But probe a little deeper and you realize that by doing so they ruin your survey, because their rating

reveals more about them than it does about you. If they rate you high on setting a clear vision for your team, all you learn is that you are clearer on that vision than they are; if they rate you low, you learn that they are clearer only relative to you. This applies to any question where they are rating your behavior. The bottom line is that, when it comes to rating your behavior, they are not objective. They are, in statistical parlance, unreliable. They give you bad data.

DISRUPTION TO TEAMWORK

The team play that is most critical to ensuring that an organization runs effectively is the one-on-one relationship between a boss and each of his or her subordinates. The PAS undermines that

relationship, because the boss in the performance review thinks of himself or herself as the evaluator, and does not engage in teamwork with the subordinate. It's not the joint performance that is at issue. It is the employee's performance that is a problem. The performance review is a battle for the subordinate to get better rankings rather than a constructive discussion about what they could do better.

Ultimately, this leads to inauthentic behavior, destructive internal competition^[5], daily deception, and a ubiquitous need for subordinates to spin all facts and viewpoints in directions they believe the boss will find pleasing.

WHAT'S THE ALTERNATIVE?

Replace the traditional performance review structure with a more lightweight, continuous model, incorporate the constructive aspects of reviews, and establish one-on-one meetings with team members as an opportunity for feedback and coaching. Every month or each time either the boss or the subordinate has the feeling that they aren't working well together, a meeting should be dedicated to a discussion on how the person can enhance performance and play to his or her strengths.

I will suggest some tips and ideas about how to conclude such a discussion in the next issue of the *BBJ*. ■

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[1] Jeffrey Pfeffer, Robert I. Sutton — *Hard Facts, Dangerous Half-Truths & Total Nonsense: Profiting From Evidence Based Management*, p. 126, HBS Press, 2006

[2] Patricia Buhler — *Human Resources Management: All the Information You Need to Manage Your Staff and Meet Your Business Objectives*, p. 93, Adams Media, 2002

[3] "Many Companies Fail to Achieve Success with Pay-for-Performance Programs", Hewitt Associates News & Information, June 9, 2004

[4] Marcus Buckingham — *The Fatal Flaw with 360 Surveys*, Harvard Business Review Blog, October 17, 2011

[5] Jeffrey Pfeffer, Robert I. Sutton — *The Knowing-Doing Gap: How Smart Companies Turn Knowledge into Action*, p. 179, HBS Press, 2000