Haunted by annual performance evaluations:
can you kill that which will not die?

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There is a lot of talk in the HR market about killing annual performance evaluations.   The Halloween season got me wondering about our obsession with the death of performance evaluations and whether they actually can be killed. As I've written elsewhere, no company can get rid of performance ratings entirely, but companies can and often should radically change the process by which they evaluate employees. This often includes downplaying annual performance evaluations. But can we truly kill them?

The term "annual evaluations" refers to any process where once a year a company places it employees into different categories based on their perceived value to the organization. The most traditional is the annual compensation review.   Other common annual evaluations include performance reviews where managers rate employees' overall performance for that year, and talent reviews where managers meet to categorize employees in terms of their contributions, skills, potential, or other characteristic the company values.

I believe many of the old paper-based or electronic annual review forms used by many companies should be killed, or at least severely maimed.   These traditional annual evaluation processes are often cumbersome and inaccurate. Some inadvertently encourage managers to talk to employees about performance just once a year.   Yet they still stumble along year after year like a zombie from the past terrifying employees, sucking up manager time, and decreasing value for the company.   So how can we kill them?

How not to kill annual evaluations. It is a mistake to kill an annual evaluation without putting something else in its place.   Remember, the question is not whether companies will rate employees but how they will rate them.   Simply killing the annual evaluation may get rid of a monstrous formal process everyone despises, but it will be replaced by the haunting, malevolent spirit of informal, hidden evaluations. This spirit stalks the organization in the form of whispered back-room discussions about employee performance that encourage biased, inaccurate and unfair decisions about compensation and staffing. Employees cannot see this spirit or effectively influence its actions, but they will soon live in fear as it starts exerting more and more control over their careers.

How might we kill annual evaluations, or at least wound them? The easiest way to rid an organization of the horrors created by a bad annual evaluation process without releasing the evil spirit of informal evaluation is to actually increase the frequency and number of evaluations you conduct.   By constantly interacting with employees throughout the year reviewing progress, discussing work activities and developmental topics, the need for a formal annual evaluation largely ceases to exist.   For example, if a manager has a structured review conversation on a weekly basis with their employees, and the company still requires an annual evaluation, they just look at weekly reviews going back as far as needed to get an accurate read on the employee's true performance level. This method eliminates the cumbersome annual evaluation process and provides the added benefit of giving employees ongoing feedback throughout the year.

Is killing annual evaluations the right goal?   It is important to note that in the previous example the company might still be conducting an annual evaluation, but they aren't having to prepare annual performance data from scratch.   They are simply compiling data that already exists from ongoing reviews. This raises a question about whether the goal is to kill annual evaluations, or to kill processes that encourage managers to only formally discuss performance with people once a year.

Assume managers are evaluating and providing employees with feedback throughout the year (I realize this is a big assumption).   Many companies will still want to compile employee performance data on an annual basis.   This annual evaluation is typically not about giving employees feedback. It is about knowing who the most valuable employees are in the organization and whether productivity levels across the company are going up or down.   The purpose is to guide other annual decisions such as setting strategic goals and allocating workforce budgets.

To be effective, this type of annual evaluation needs to be accurate.   Since the foundation of measurement accuracy is consistency, doing the review annually at the same time each year could generate more accurate information.   For example, the weather has been shown to affect people's attitudes toward themselves and others. People also tend to feel more productive during periods of good weather (http://www.smithschool.ox.ac.uk/library/working-papers/workingpaper%2013-04.pdf; http://rjohnsoncorp.com/the-link-between-weather-and-productivity/) . It seems likely that performance evaluations conducted in the summer may be more positive than evaluations conducted in the winter. Similar arguments could be made about the influence of collecting performance evaluations during the beginning vs. the end of the quarter when people are rushing to hit quarterly objectives. This suggests that if you want the most accurate evaluations of employees, you should use a process that evaluates all employees at roughly the same time each year.

Is it even possible to kill annual evaluations?   The most common reason for conducting annual evaluations is to guide compensation decisions.   The timetable for allocating compensation budgets in most companies is ultimately managed by the finance department, not the HR department. And most finance departments operate off of an annual financial calendar.   From this perspective, it seems that the only way a company could truly kill annual performance evaluations would be to get the company to stop operating off an annual financial planning process.   Trying to kill a company's annual financial process seems questionable and is probably futile. It is also the sort of thing that could easily send an HR professional's career to an early grave.

Upon reflection, maybe the goal shouldn't be to kill annual performance evaluations. The goal should be to make them friendlier to live with.   But that's a blog for another holiday.