

# HR Insights

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## Saying Goodbye to Annual Performance Reviews

Annual performance reviews have dominated the HR landscape for decades. In recent years, though, questions have been raised about the effectiveness of annual performance reviews, due to the time strain they pose on leadership and the outcomes achieved (or lack thereof).

According to a study from CEB, a management research firm, 95% of managers are dissatisfied with their companies' performance review methods, and 90% of HR professionals believe that the annual performance review process does not produce accurate information—leaving many in search for better methods. This realization has led some companies to get rid of annual performance reviews in favor of more frequent check-ins with their employees, including high-profile companies like GE, Accenture, Adobe, Gap and Medtronic.

### Why Companies Are Giving up Annual Performance Reviews

From attending training sessions to completing evaluations forms and communicating those results to employees, time spent on performance evaluation-related activities adds up quickly—to the tune of more than 200 hours per year, according to a study by CEB. Furthermore, studies have shown that there is little to be gained through annual performance reviews in terms of productivity, and that the process can be demoralizing for high- and low-performing staff alike.

Annual performance reviews have been criticized for focusing too much on the past rather than the future, since employees are being evaluated and given feedback on projects they worked on months

ago—many of which are no longer fresh in their minds. As a result, many employees are left in the dark wondering about their performance for months and are unsure about where they can improve and how.

Furthermore, annual reviews that use numerical rankings which judge individuals against their peers can pit employees against each other and discourage teamwork, since employees know that only a few of them can make it into the top rankings.

### The Impact of Millennials

Also driving the move away from annual performance reviews is the desire to meet the needs of millennials, the fastest growing sector of the U.S. workforce. Millennials grew up with the internet and social media, and, as such, are more accustomed to instant gratification and fast feedback. The desire for feedback, though, should not be confused with the need for constant praise. Instead, it is driven by their ambition to keep learning and growing and moving up in an organization.

Furthermore, according to a recent survey from Multiple Generations at Work, 91% of millennials will stay at a job for less than three years. Given this heightened turnover, waiting a year to address performance issues is not conducive—further necessitating the need for a new model.

## What Companies Are Looking to Instead

As a result of the factors mentioned above, some employers are replacing annual performance reviews with more frequent manager-employee check-ins—occurring monthly or even weekly. These check-ins do not need to be lengthy meetings, but can be as simple as taking a short walk or coffee break.

For example, instead of waiting until the end of the year to review a year's worth of projects, managers can give immediate feedback after projects are completed. At this time, managers can discuss what was done well and areas for improvement, and employees can bring up any questions or ideas they may have. Frequent check-ins between managers and employees help promote continuous growth, since they give managers the chance to identify and resolve performance issues in a timely manner. As a result, feedback can seem less confrontational and managers can seem more supportive.

Some organizations are even looking for ways to incorporate technology into performance reviews. For example, GE recently launched "PD@GE," its new performance development app. Within this app, employees have a series of near-term goals or "priorities" clearly outlined, and managers hold frequent discussions called "touchpoints" with their employees to discuss goal progress. Both employees and managers have the ability to give and request feedback, even to people outside of their departments. The app does not provide any numerical performance scores or rank employees against their peers, but rather its goal is continuous improvement.

It is important to note, though, that GE still holds an annual summary conversation with its employees in December to reflect on employees' progress and set goals for the upcoming year. However, this conversation is much less formal than the traditional annual performance review and is not all that different than the "touchpoints" held throughout the year.

## Determine What's Best For You

While implementing more frequent reviews may not necessarily save your managers time, they can help produce more successful outcomes. Regular feedback can help

employees feel like their work is appreciated and that they are valuable members of their teams—keeping them more engaged in their work. This, in turn, can lead to more productive workers. Furthermore, when employees have a clear idea of what they need to do to improve and advance in their careers, they are more likely to stick around—helping to reduce turnover-related costs.

Before implementing such a program, it is important to determine your organization's needs. Evaluate your current performance review process to identify areas for improvement and even consider surveying employees to ask about their feedback preferences. While an overhaul of your performance review method can seem like a daunting task, there are significant financial benefits that can be achieved by providing more frequent feedback.