



The Impact of Year End Evaluations

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Most corporate performance management system do not work today because they are rooted in models for specializing and continually optimizing discrete work tasks.

Over the last 100 years, performance management system has evolved but did not change fundamentally. A measure like the no. of pins produced in a single day could become a more sophisticated one, such as a balanced score card of key performance indicators (KPIs) that link bank to overarching company goals. What began as a single mechanistic principle acquired layers of complexity over the decades as companies tried to adapt industrial era performance systems to ever larger organizations and more complicated work.

What was measured and weighted became even more micro. Many companies struggle to monitor and measure a proliferation of individual employee KPIs – a development that has created two kinds of challenges. First, collecting accurate data for 15-20 individuals. Indicators can be cumbersome and often generates inaccurate information. In fact, many organizations ask employees to report these data themselves. Second, a proliferation of indicators, often weighed by impact, produces immaterial KPIs and dilutes the focus of employees. We regularly encounter KPIs that account for less than 5% of an overall performance rating. Since only few employees' standouts, it makes little sense to risk demotivating the broad majority by linking pay and performance.

The worst kept secret in companies has been the fact that the yearly ritual of evaluating (and sometimes rating and ranking) the performance of employees epitomizes the absorption of corporate life. Managers and staff alike too often view performance management as time consuming, excessively too subjective, demotivating and ultimately unhelpful. In these cases, it does little to improve the performance as they struggle with ratings, worry about compensation and try to make sense of performance feedback.

These are not new issues but they have become increasingly blatant as jobs in many businesses evolved over the past 15 years. More and more positions require employees with deeper expertise, more independent, judgmental and better problem-solving skills. They are shouldering even greater responsibilities in their interactions with customers business partners and creating values in ways that industrial era performance management systems struggle to identify. Soon enough, most rituals executives say they dislike will be so outdated that it will be reasonable trying to conduct financial transactions with carrier pigeons.

Yet, nearly 9 out of 10 companies around the world continue not only to generate performance scores for employees but also to use them as the basis for compensation decision. The problem that prevents managers dissatisfaction with the process from actually changing it is uncertainty over what a revamped performance management system ought to look like.

Companies like GE & Microsoft that have long epitomized the 'stack & rack' approach have been blowing up their annual systems for rating and evaluating employees and are instead tasting new ideas that give them continual and coaching. Netflix, no longer measures its people against annual objectives because its objectives have become more fluid and can change quite rapidly. Google transformed the way it compensates high performers at every level. Some other tech companies too such as Atlassian, have automated many evaluation activities that managers elsewhere perform annually.

The changes these and other companies making are new, varied and in some instances, experimental. But patterns are beginning to emerge.

Some companies are rethinking what constitutes employee performance by focusing specifically on individuals who are a step function away from average at either the high or the low end of performance rather than trying to differentiate among the bulk of employees in the middle.

Many companies are also collecting more objective performance data through systems that automate real time analysis.

Performance data are used less and less as a crude instrument for setting compensation. Indeed, some companies are severing the link between evaluation and compensation, at least for the majority of the work force, while linking them even more comprehensively at the high and low ends of performance.

Better data back up a shift in emphasis from forward looking evaluations to fact based performance & development, discussions which are becoming frequent and as-needed rather than actual events.

How these energizing patterns play out will vary, of course, from company to company. The pace of change will differ too. Some companies may use multiple approaches to performance management, holding on to hard-wired targets for sales teams, say, while shifting other functions or business units to new approaches.

“BUT CHANGE THEY MUST”

