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WORKSTATION

Invasion of the Annual Reviews

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I don’t know many people who look forward to performance evaluations — on the giving or the receiving side.

In a previous job, I had to prepare and deliver them, and I remember giving a review to one of our star performers. It was a glowing review, but I felt obligated to find some area that he could work on, having been told that an all-positive review was pointless and that there was always room for improvement. I saw him bristle as I mentioned his flaw, and I wondered if that one criticism overshadowed all the praise.

Then there are the underperformers. Managers are told that nothing in a performance review should be a surprise, and yet it’s understandable that they would delay bringing up unpleasant issues with an employee. So problems may well fester until they explode in an annual review.

For many workers, the annual performance evaluation is “this weird form you fill out every year that has nothing to do with everyday life,” said Robert Sutton, a professor and organizational psychologist at Stanford and co-author of the forthcoming book “Scaling Up Excellence.”

Some companies have given up annual evaluations altogether. At Adobe, “we abolished our annual performance review in favor of lighter-weight check-in conversations that center on ongoing feedback,” wrote Donna Morris, senior vice president in human resources for the company, in a blog post last summer. “We don’t have labels, a formal tool or prescriptive time of year it all has to happen — we just ask people to have conversations.”

But many businesses feel that they must use formal reviews and rankings to create an objective measurement of performance and goals, so that managers can reward and promote good employees, and give poorly performing ones a chance to improve (while creating a paper trail in case they must be dismissed).

Some companies go so far as to rate employees on a bell curve, a process known as forced or stack ranking. Jack Welch, the former C.E.O. of General Electric, advocated a system in which the 20 percent of employees deemed top performers were rewarded, the middle 70 percent were coached on ways to improve, and the bottom 10 percent were shown the door.

Advocates of forced ranking say it's a concrete way for managers to identify top performers and to explain the steps that middling ones must take to rise to the highest tier. They also say it can be an effective way to force managers to take the painful step of dismissing a subpar worker.

A problem with forced rankings is that a company is assuming, in effect, that a certain percentage of its parts is defective, Professor Sutton said. Suppose a manager works wonders and everyone in the department improves. Under forced rankings, he or she might still have to let some workers go, he said. On the other end of the bell curve, only a specific number of employees, say 20 percent, may be singled out for the highest raises and bonuses. But "why can't more than 20 percent of the people in a group be great?" he asked.

With forced rankings, high ratings should go to people who not only do great individual work but also contribute to the performance of the entire organization, he said. Otherwise, an "internal dysfunctional competition" can result, with cooperation coming to a halt and employees potentially sabotaging one another to stay high in the rankings.

Microsoft recently ended a forced-ranking approach; employees had complained for years that it discouraged teamwork, according to reports.

Grading employees on a curve is a way to force managers to differentiate among employees, but it can also create angst, said Jon Picoult, founder of Watermark Consulting, a management consulting firm in Simsbury, Conn. Rankings can work if they are flexible — for example, if they don't mandate that a fixed percentage of employees be dismissed, he said. But if they are poorly administered, he said, they can damage morale. At the same time, "an egalitarian approach to ratings and rewards is just as poisonous," he added. "Few things are as demotivating to a work force as seeing poor performance tolerated and exceptional performance ignored."

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Yahoo began a new approach to employee evaluation last year, and has been tweaking it. But contrary to recent reports, it is not a forced ranking, said Sarah Meron, a company spokeswoman. Rather, she said in an email, "Our system lets employees understand how they are performing relative to expectations (exceeding, achieving or missing), and there are no hard and fast rules" around categorizing them.

Professor Sutton is wary of rankings and yearly evaluations in general. Many organizations, he said, would be better off if they provided continuous feedback, with formal evaluations coming into play mainly if a worker is being eyed for promotion or has shown substandard performance.

"If performance evaluations were a drug, they would not receive F.D.A. approval," he said, because "they have so many side effects, and so often they fail."

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