

The Risks of Reviews

Research says performance reviews do real harm

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BIG COMPANIES are starting to rethink how they do performance reviews. And that might do a lot to help their employees' mental health.

In recent years, giants like Microsoft Corp. and **Eli Lilly & Co.** have dropped the standard model of performance reviews where an employee meets with a manager once a year and gets a grade. They're moving toward setups where bosses and workers have frequent, low-pressure conversations about performance and expectations, and they're ditching grades in favor of more nuanced ways to judge performance.

A deep effect

Companies have been debating and tinkering with performance reviews for a long time. Now, though, there's science to back up the changes they're making. In a 2014 paper in the journal *Strategy + Business*, David Rock, Josh Davis and Beth Jones, all researchers at the Neuroleadership Institute, concluded that the very act of giving employees a rating jolts them into a "fight or flight" scenario—"the same type of 'brain hijack' that occurs when there is an imminent physical threat like a confrontation with a wild animal."

"The employee may not say anything overtly," the researchers wrote, "but he or she feels disregarded and undermined—and thus intensely inclined to ignore feedback, push back against stretch goals and reject the example of positive role models."

What's more, the researchers found, performance ratings send a strong signal to em-

ployees that their performance is based on innate abilities, which cannot be improved.

Finally, the study shows ratings can blindside employees and affect performance. Of the

Pulling Ranks

Some U.S. firms that are pulling employee-performance ratings:

Microsoft • Lilly • Cigna

General Electric • Oppenheimer

Dell • Gap • Cargill • Accenture

Juniper Networks • Adobe

Deloitte • New York Life

Source: NeuroLeadership Institute, 2015
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half of all workers who are surprised at the rating they receive, 90% are unhappy, because they expected a higher rating. Those displeased workers have a 23% drop in engagement, curtailing "collaboration, innovation and agility," says Mr. Rock, the head of the Neuroleadership Institute.

For many companies, the spur for change was realizing that the old performance reviews took a big toll in morale.

In July, health insurer Cigna Corp. jettisoned its performance-rating system. The company realized staffers were fighting to prove they deserved the best grade, which only a certain number could attain, and were disappointed when they got lower ones.

Now, formal evaluation meetings and ratings are gone, and managers are encouraged to have frequent conversations that mainly involve coaching staffers to help them up a career ladder. Karen Kocher, chief learning officer, says: "Employees are saying, 'This is the first real honest conversation I've had with my manager

about me, about what I should do, instead of these goals that aren't really related to me.'"

At Microsoft, a mandated ratings curve meant most employees received the middle ranking on a 1-to-5 scale. That caused angst, says Lisa Dodge, director of global performance programs: "We hired all-their-lives A students, and they felt they were getting a C." While data showed employees thought they were paid well, the system fostered an obsession with the ratings.

Microsoft now has managers schedule more frequent conversations about what impact the employee has had and how to do better. "The lack of rating, we have heard back from our people, mitigates the threat, distraction and internal competition," Ms. Dodge says.

Refining the method

To be sure, the vast majority of big companies are sticking with traditional ratings. And some that have switched say there are problems with new methods—such as properly rating performance. Some have said "they haven't been able to get away from shadow rankings," says Paul Rubenstein, a partner in the Leadership, Talent Strategy and Assessment practice at benefits-consulting firm Aon Hewitt.

He argues the best move is to keep rankings but teach managers how to have useful conversations, focusing on how employees can do their jobs better and work better with others. "You can still have good numerical rankings that motivate people if you put as much effort into the quality of the conversation," he says.

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