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The Cost of Bad Performance Reviews

‘I’m getting sued because my evaluations were too nice?’



For many companies, employee performance reviews are often an afterthought. A recent survey showed that only 10 percent of employers actually found their current performance review process a “good use of time.” Many businesses just go through the motions — each year wheeling out the performance review form and rating employees by checking the box on bland categories like “meets expectations” or “exceeds expectations.” To avoid confrontation, employers either overrate the employee or fail to give the employee necessary details for performance improvement.

Now more than ever, detailed, honest performance reviews matter. Moreover, most companies are changing the way they handle performance reviews. Here’s why:

1. Being too “rosy” in a performance review can get you sued. In one notable case, the manager gave the employee a positive performance review and said the employee was qualified to be promoted to a supervisor position. When denied promotion, the employee sued ... and won! With too rosy a review, employees can argue that they were deprived of the knowledge needed to sign up for additional training

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that could help address skill deficits. An honest review highlighting opportunities for improvement would have alerted the employee to seek those necessary skills and may have avoided a lawsuit.

2. An honest review can create a good defense to a lawsuit. Regular, timely performance reviews, which detail areas for improvement, can be a big help when defending wrongful discharge, disability discrimination or retaliation claims. In one recent case, the employer prevailed in a retaliation case solely because the performance issues flagged earlier by the employer proved the employer was not retaliating for the employee’s complaint about safety.

3. To improve employee performance, retention and engagement, companies are moving away from numerical rating of employees in categories such as “meets expectations” and are moving toward frequent coaching and detailed feedback. According to a 2015

Deloitte survey, almost 90 percent of companies are changing their performance review process. Research indicates that year-end numeric rating in categories actually decreases employee morale and performance. For example, the Corporate Executive Board analyzed data of 30,000 employees and concluded that “ratings” do not have a direct positive impact on performance. Moreover, the NeuroLeadership Institute, which applies neuroscience to the workplace, explains that workers may contribute less for months after receiving a poor rating because ratings create a “threat response” in workers or “a sensation of danger,” especially if the worker does not achieve the expected rating. This research reflects the teaching of W. Edwards Deming, who opposed merit pay and ratings because he thought they made for a less efficient workplace.

Instead, companies are beginning to focus less on rating and more on goal setting and coaching employees to succeed. Intel, for example, uses a goal management process that focuses on giving employees stretch goals and then having management help them establish regular results. Adobe abolished performance ratings in 2012. Instead, it now uses “check-ins” — ongoing discussions between managers and employees — to set expectations and offer feedback. Adobe experienced a 30 percent decrease in voluntary turnover. Juniper Networks and Microsoft either eliminated or reduced the impact of ratings on performance reviews, as they perceived ratings impeded worker collaboration. Reports are that Microsoft is seeing increased collaboration. The Gap also recently did away with ratings, instituting monthly coaching sessions and frequent employee-manager conversations.

Best workplaces focus on feedback to enhance performance and employee engagement. The newest trend is to remove rated categories and instead provide meaningful and more frequent goal setting and feedback. The newest research confirms this approach can improve performance, collaboration and teamwork.

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