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A Study of Cutting Edge Performance Management Practices: Ongoing Feedback, Ratingless Reviews, and Crowd-Sourced Feedback

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No society can provide its members with a high quality of life unless it has effective organizations.

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Abstract

Three cutting edge performance management practices – ratingless reviews, ongoing feedback, and crowd-sourced feedback – have received tremendous attention from the business press, but there has been almost no research that can guide the design and implementation of these practices.

Using data from a survey of 244 companies, we examine patterns of use, what types of organizations use these practices, reasons for adoption, design and implementation processes, and the effectiveness of these practices.

Performance management has long been the human resources practice that employees and managers dislike the most. There are many familiar shortcomings of performance management. Employees don't like receiving appraisals and managers don't like conducting them; the rating process can be subjective and unfair; an annual process can't keep up with the fast pace of business today. Our favorite laundry list is John Sullivan's (2011) catalog of 50 flaws of performance management.

In the past 18 months, there has been an astonishing level of interest in three possible solutions to these problems: ongoing feedback, ratingless reviews, and crowd-sourced feedback. Ongoing feedback replaces an annual review process with reviews that are quarterly, monthly, or on an irregular schedule (for example, after project completion). Ratingless reviews eliminate any scoring or labeling of performance; employees receive text-based feedback only. Crowd-sourced feedback uses social media so that peers and others can provide freeform feedback anytime, anywhere.

A variety of approaches and companies have been featured in recent articles about changes in performance management practices. The Harvard Business Review published an article about Deloitte's overhaul of its process (Buckingham and Goodall, 2015) as well as a blizzard of online articles (Baldassare and Finken, 2015; Mosley, 2015; Rock and Jones, 2015). Almost every business publication has had one or more articles about performance management in 2015. Interest has been so high that even the mainstream media have published articles about performance management, including the Washington Post (Cunningham, 2015) and the New York Times (Kantor and Streitfeld, 2015). Companies mentioned in these articles include Deloitte, GE, Jet Blue, Accenture, Amazon, and many others.

This article presents one of the first data based studies of cutting edge practices. It is notable for its large sample size (244 companies) and for the range of issues that the study investigates.

Origins of Cutting Edge Practices

There have been three periods of performance management practice. *Conventional performance management* practices were created and implemented in the 1950s and 1960s. These practices include an annual review process; an assessment of goal attainment, as in Management by Objectives; appraisal using performance rating scales that are often quite complex; a balanced emphasis on both appraising performance and fostering development; and supervisor responsibility for ratings and allocating rewards based on the ratings. These practices are familiar to most employees today and are still the most common practices in use.

Figure 1
Evolution of Performance Management

	Conventional PM	Transitional PM	Cutting Edge PM
Period of prominence	1950 – today	1995 – today	2010 – today
Timing of reviews	Annual	Annual, sometimes also midyear	Monthly or quarterly
Basis for performance appraisal	Goal attainment; traits	Cascaded goals; competencies	Cascaded goals; competencies
Appraisal scale	Complex ratings	Simplified ratings	Ratingless
Input from peers and others	None	360 appraisals	Crowd-sourced feedback
Reward allocation method	Supervisor determines using ratings	Calibration meetings and formulas	Varied
Method of differentiation	Varies: Open, stacked rank, forced distribution	Distribution guidelines	?
Appraisal target	Individuals	Mostly individual, some teams	Mostly individual, some teams
Balance of performance versus development	Balanced	Balanced	More development emphasis

Transitional performance management evolved from the conventional model, starting in the mid 1990s. Goals are cascaded through the organization, creating alignment with organizational objectives. Ratings often are radically simplified, for example to a three-point scale, recognizing

that heavy differentiation is pointless in an era of 3% average annual increases. Ratings typically take into account not just performance, but also competencies and behaviors (the “how” of performance). Rating distribution guidelines and calibration sessions limit supervisor discretion to set rewards, recognizing the limited perspective supervisors have on performance outside their immediate group. Midyear reviews often supplement the annual review process. Formal 360 reviews may be used to obtain input from co-workers. These practices in combination are often considered to be “best practices” in performance management today, but surveys indicate that less than half of companies use them systematically.

Cutting edge performance management has been used on a reasonably large scale only in the past few years. Three practices distinguish cutting edge performance management: ratingless reviews, ongoing feedback, and crowd-sourced feedback. Ratingless reviews are an evolution from simplified ratings. Ongoing feedback expands the annual or mid-year review to monthly or quarterly. Crowd-sourced feedback uses social media platforms to permit peer feedback in a free-form manner compared to 360 reviews. These practices appear to be spreading rapidly, but companies using these practices remain a distinct minority. In using the term “cutting edge,” we are arguing that the large-scale use of these practices is newer, but we are not assuming that newer is better. Our study is an attempt to assess the effectiveness of these practices.

Why are cutting edge practices being adopted now? To a degree, all are being adopted because they are in fashion and are receiving considerable attention. There are also other reasons that appear to be driving each practice.

- Ratingless reviews are designed to avoid the myriad of problems with appraisal ratings and to improve the experience for employees and managers as well as focus more on development than performance evaluation.
- Ongoing feedback is intended to ensure that managers build the kind of sustained relationships with their subordinates that make performance conversations more timely and likely to occur.

- Crowd-sourced feedback attempts to overcome the limitations of 360 reviews in obtaining peer feedback. It also recognizes the increasingly team-based structure of work and the opportunity afforded by social media technology.

Study Background and Methodology

The Center for Effective Organizations (CEO) at the University of Southern California has been conducting research on performance management since it was founded in 1979. For example, the Center conducted a survey of contemporary practice in 2001 and 2012. Analysis of those data showed that the vast majority of companies were still using traditional annual ratings and performance management processes. Very few companies were using practices that we characterize as cutting edge in either 2001 or 2012.

This year, WorldatWork, the association of rewards professionals, provided support for CEO to conduct a survey focused specifically on cutting edge performance management practices. The study examined three practices that have received extensive attention in the business press: ratingless reviews, ongoing feedback, and crowd-sourced feedback.

During August and September 2015, we emailed invitations to the mailing list of the Center for Effective Organizations at the University of Southern California and a large part of the mailing list of WorldatWork. Study invitations reached approximately 15,000 individuals by using the combination of these two mailing lists. We also advertised the study on a number of forum on LinkedIn and elsewhere, reaching perhaps another 1,000 candidates. We also directly solicited managers from several companies that had been mentioned in the business press as using cutting edge practices. Finally, we asked survey participants to provide us with contact information for potential respondents in other companies that were using cutting edge practices. All communications about the study indicated that we were collecting data about organizations that were using one or more of the three cutting edge practices.

The campaign led 455 individuals to participate in an online screening hosted by CEO. The screening defined ratingless performance reviews, on-going feedback, and crowd-sourced feedback and asked if the respondent's organization used each practice anywhere in the organization. We thanked those who responded "No," and discontinued the survey process. Those who responded "Yes" to using any of these three practices were asked to complete an online questionnaire about their performance management systems. In fewer than 10 cases, we received multiple questionnaires from the same company. We used the responses from the more senior respondent and/or chose respondents from the corporate office as opposed to a single division or subsidiary. Our final sample included data from 244 unique corporations or similar entities (e.g., not-for-profits and government agencies). Thus, we received usable data from 53% of those who were screened.

It is notable that we found far more cases than we expected. Based on a listing that we compiled of companies mentioned in the business press as users of cutting edge practices, we believed that less than 100 companies in the U.S. were using these practices, and we hoped to receive 35 to 50 responses. Obviously, the sample size was far larger. We received so many responses to the survey that we terminated data collection one month earlier than originally planned. We believe that the large sample in our study indicates that companies are rapidly adopting cutting edge practices and are keenly interested in this topic.

Patterns of Use For Cutting Edge Practices

Given the considerable attention given to ratingless reviews in the business press, we expected that it would be the most common cutting edge practice. In fact, the most common practice by far is ongoing feedback. Nearly every company in the sample (97%) uses it. Ratingless reviews were far behind at 51%, while crowd-sourced feedback was used by 27%. It is notable that even though the use of crowd-sourced feedback has not gotten nearly as much attention in the press as ratingless appraisal or ongoing feedback, it was used by more than a quarter of the respondents.

Ongoing feedback is not just the most common practice; it is the driver of this set of practices. Only seven of 244 companies used either ratingless reviews or crowd-sourced feedback without ongoing feedback, making it misleading to look at either of those practices in isolation. The combinations of practices found in our sample are shown in Table 1. We use this classification in many analyses that we report in this article, less the two tiny groups that used ratingless reviews only or crowd-sourced performance feedback only.

Table 1
Patterns of Practice – Cutting Edge Performance Management

	Number of Companies	Percentage of Companies
Ongoing feedback only	89	37%
Ratingless reviews only	7	3%
Crowd-sourced performance feedback only	1	< 1%
Ongoing feedback and ratingless reviews	82	34%
Ongoing feedback plus crowd-sourced feedback	29	12%
All three practices	36	15%

Different sets of cutting edge practice have interesting patterns of use in combination with older practices. First, Table 2 shows that cutting edge practices do not really replace older practices, despite talk of “blowing up” performance management. All older practices are used to some degree with each pattern of cutting edge practices. A majority of companies use cascaded goals, 360 feedback, competency assessment, and calibration in combination with at least one of the cutting edge practices. Second, the table shows that the use of ongoing feedback plus ratingless reviews is associated with *less* use of all older practices. This is consistent with the statements of many advocates of ratingless reviews. They are hostile to traditional performance management and advocate for a less structured, less bureaucratic approach. However, the lesser use of older

practices is only a matter of degree. Third, the use of ongoing feedback plus crowd-sourced feedback and the use of all three practices are associated with the *greater* use of older practices. This suggests that these patterns are an attempt to create a more complete and systematic performance management process.

Table 2
Patterns of Use Versus Established Practices

	Ongoing Feedback Only	Ongoing + Ratingless	Ongoing + Crowd-Sourced	All Three
Greatly simplified ratings	34%	30%	28%	47%
Cascaded goals	87%	80%	93%	89%
360 feedback	59%	51%	83%	83%
Assessment of team or unit performance	48%	43%	83%	75%
Assessment of employee competencies	80%	62%	90%	83%
Calibration meetings	82%	70%	93%	81%

N =236

Who Uses Cutting Edge Practices?

Most press reports of changes in performance management practices feature either technology or professional services firms. There is a natural question of the degree to which cutting edge performance management practices appeal to specific kinds of organizations or workforces. Survey results clearly indicate widespread interest. Our respondents ranged from small private companies to some of the world’s largest multi-nationals. They also included non - profits, NGO’s, and even public sector organizations. We find that organizations of nearly all types, sizes and sectors are adopting ratingless systems, ongoing feedback and crowd-sourced performance feedback.

Table 3 reports practice adoption by industry. While tech firms and professional services certainly are early adopters, we also find that manufacturing firms are leading adopters. Industries for which most of the labor force is unlikely to receive a traditional annual performance appraisal – agriculture, construction, extraction, and personal services – are least represented in our sample.

Table 3
Patterns of Use By Industry

	Ongoing Feedback Only	Ongoing + Ratingless	Ongoing + Crowd-Sourced	All Three
Agriculture, forestry, & fishing	2%	1%	0%	0%
Mining	0%	2%	0%	6%
Construction	0%	0%	0%	0%
Manufacturing	27%	17%	24%	8%
Information technology	9%	15%	24%	39%
Transportation & Utilities	8%	4%	3%	3%
Wholesale trade	1%	2%	0%	0%
Retail trade	8%	4%	3%	3%
Finance, insurance, and real estate	25%	17%	14%	14%
Services: Hotels, personal services, repairs, and similar	2%	4%	0%	0%
Professional services	13%	28%	28%	19%
Public administration	2%	4%	3%	0%
Other	2%	2%	0%	8%

N =236

Table 4 shows the percentage of respondents by number of FTE employees. We find that most of our respondents were small and medium-sized companies with fewer than 10,000 employees. This reflects the size of U.S. corporations; there are far more small and mid-sized firms

than large firms. Clearly, cutting edge practices are being adopted by far more of these firms than the large, prominent companies featured in most business press articles.

Table 4

Patterns of Use By Company Size

	Ongoing Feedback Only	Ongoing + Ratingless	Ongoing + Crowd-Sourced	All Three
Less than 500 FTE's	15%	23%	10%	26%
500 – 2,500 FTE's	19%	26%	28%	20%
2,501 – 5,000 FTE's	13%	6%	14%	11%
5,001 – 10,000 FTE's	17%	22%	10%	17%
10,001 – 15,000 FTE's	5%	2%	14%	9%
15,001 – 20,000 FTE's	5%	2%	3%	6%
20,001 – 30,000 FTE's	3%	6%	0%	3%
30,001 – 50,000 FTE's	5%	2%	14%	0%

N =236

Why Use Cutting Edge Practices?

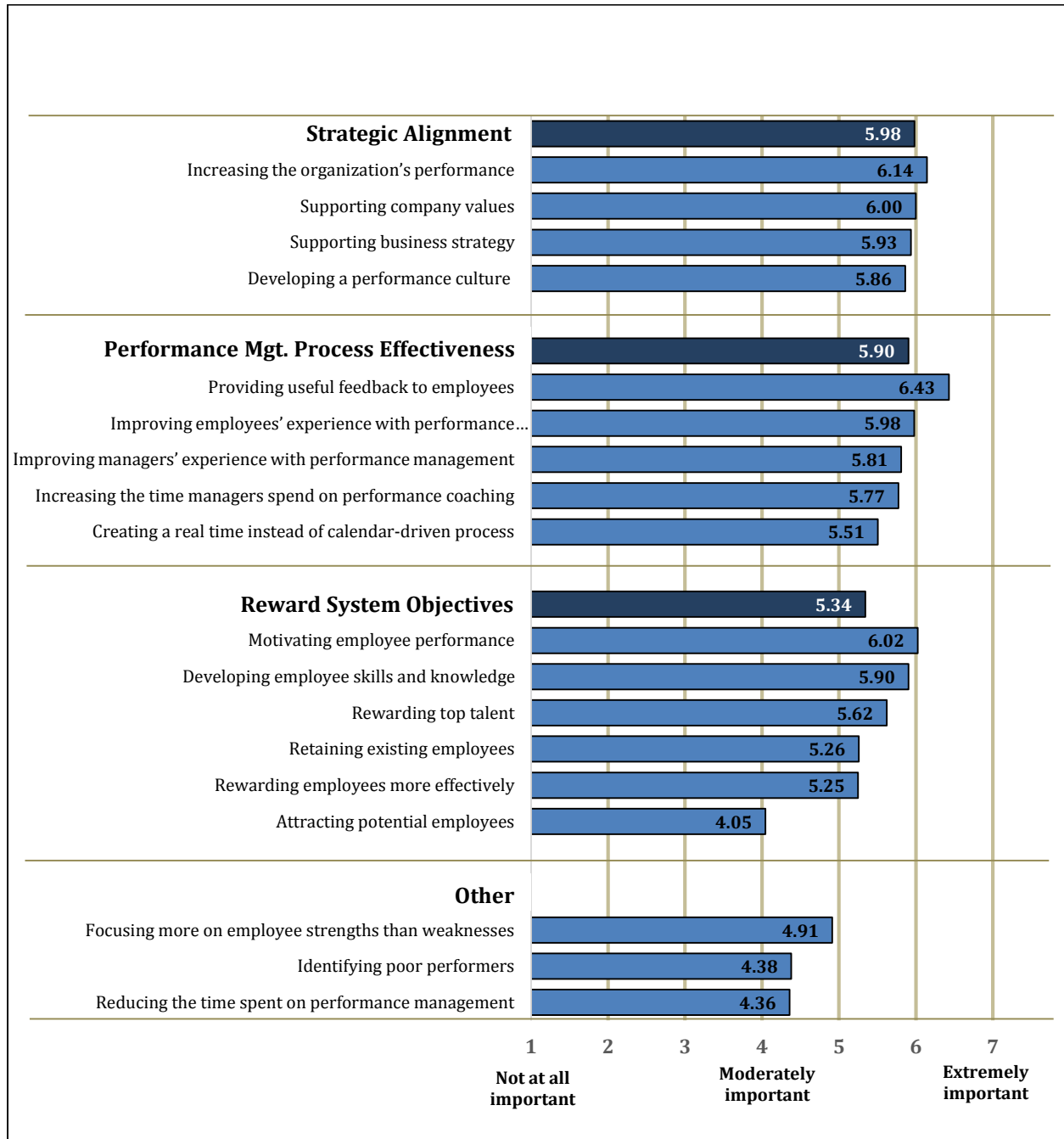
We asked respondents about the importance of 18 different reasons for adopting cutting edge practices. Using factor analysis and reliability testing, we condensed these causes into three primary categories: strategic alignment with business needs, performance management process, and reward system objectives. Strategic alignment with business needs included increasing performance, supporting the company's values and strategy, and developing a performance culture. Improving the effectiveness of the performance management process included providing useful feedback, improving managers' and employees' experience with the process, and using a real time rather than calendar-driven process. Meeting reward system objectives included employee motivation, development, rewards for performance, and retention. Three reasons did not fit in any

cluster: focusing more on employee strengths than weaknesses, identifying poor performers, and reducing the time spent on performance management.

Figure 2 reports the reasons for adoption of cutting edge practices. All three primary reasons for adoption are at least moderately important, but strategic alignment and process effectiveness are somewhat more important than reward system objectives. Looking at items within the clusters, the most important specific reasons for adoption are providing useful feedback to employees, increasing organizational performance, motivating employee performance, and supporting company values. The least important reasons for adoption are attracting potential employees, identifying poor performers, and reducing time spent on performance management. Using the new process for attraction and identifying poor performers both pose practical problems, so the lower importance of these reasons is understandable. However, the relatively low emphasis on reducing time spent is surprising, given that total hours required by older processes is such a common criticism of traditional performance management.

Figure 2

Reasons for Adoption: Mean Responses



N = 244

We performed additional analyses to look at how the reasons for adoption are related to each pattern of cutting edge practice. We found few significant differences in reasons for adoption

except for reward system objectives (see Table 5). Reward system objectives are significantly more important for ongoing feedback plus crowd-sourced feedback, and less important for ongoing feedback plus ratingless reviews. This pattern is especially pronounced for attraction, retention, development, and rewarding top talent. In all cases, these reasons were significantly less important for ongoing feedback plus ratingless than for ongoing feedback only and/or ongoing feedback plus crowd-sourced feedback. The same pattern holds for identifying poor performers.

Table 5
Patterns of Use Versus Reasons for Adoption: Mean Responses

	Ongoing Feedback Only	Ongoing + Ratingless	Ongoing + Crowd-Sourced	All Three
Reward System Objectives	5.41	5.08	6.01	5.44
Rewarding employees more effectively	5.38	5.04	5.66	5.11
Attracting potential employees	4.02	3.64	5.31	4.22
Retaining existing employees	5.43	4.94	5.76	5.36
Motivating employee performance	6.09	5.85	6.31	6.19
Developing employee skill and knowledge	5.76	5.85	6.43	6.11
Rewarding top talent	5.89	5.26	6.15	5.61
Identifying poor performers	4.70	4.02	4.90	4.11

N =236

1 = Not at all important; 4 = Moderately important; 7 = Extremely important

Design and Implementation Processes

The vast majority of respondents were established companies that were changing to cutting edge practices from an older performance management system. We asked a number of questions related to the ways in which the three cutting edge practices were designed, implemented and evaluated (see Table 6). Respondents indicated that HR executives are driving adoptions of new

performance management practices, with support from top executives in the organization. This suggests that performance management is one area in which HR leaders are playing a strategic role in the change process. Respondents indicate that the change process is guided by a clear strategy and is based on a clear business need or opportunity “to a moderate extent” or greater. The Rewards function and local management have some involvement in the process, but are not leading the change effort in general. Employee involvement in the change is limited, with few companies reporting that the process is driven from the bottom up. Table 6 also indicates that there are no sharp differences in the change process used for different combinations of cutting edge practices.

Table 6

Description of the Change Process: Means

	Ongoing Feedback Only	Ongoing + Ratingless	Ongoing + Crowd-Sourced	All Three
Led by top executives for the organization	3.30	3.35	3.17	3.06
Led by Human Resources executives	3.81	3.99	3.90	3.77
Led by the Rewards function (Compensation, Compensation and Benefits, Total Rewards, etc.)	2.63	2.71	2.72	2.32
Led by managers in local business units	2.77	2.48	3.03	2.86
Guided by a clear strategy	3.48	3.44	3.17	3.20
Based on a bottom-up implementation approach	1.85	1.90	1.93	2.20
Based on clear business need or opportunity	3.15	3.05	3.11	3.33

N=236

* 1=Little or no extent; 2=Some extent; 3=Moderate extent; 4=Great extent; 5=Very great extent

It is interesting that cutting edge practices are being adopted boldly rather than cautiously. Sixty percent of organizations, particularly smaller ones, reported that all changes to performance

management practices in implementing ratingless appraisal, on-going feedback or crowd-sourced feedback were made for the entire organization at the same time. The remaining 40%, especially larger organizations, piloted or tested practices before rolling them out to all employees.

Organizations are providing training to both managers and employees to make cutting edge practices work effectively. Three-quarters of companies provided training to managers for skills in giving feedback, calibrating across employees, and documenting in the new systems. Managers received from 5.4 to 18.2 hours of training, depending on the specific practices implemented. While the likelihood of providing training to employees was similar across the three practices, companies implementing crowd-source feedback reported much more training – 13.4 hours on average – for employees working with the new system. Given that social media is a newer technology and has the potential for abuse, this investment is understandable.

Table 7

Implementation: Means

	Ongoing Feedback Only	Ongoing + Ratingless	Ongoing + Crowd-Sourced	All Three
Hours of training provided to:				
Employees	5.2	3.2	13.4	3.2
Managers	18.2	5.3	6.8	5.4
Topics covered (Percentage of users indicating 'Yes')				
Employee skill building	53%	59%	56%	66%
Manager skill building	71%	70%	74%	72%
How rewards are tied to performance in the new system	65%	73%	73%	67%
Performance calibration across employees	67%	37%	74%	47%
Performance documentation	91%	74%	81%	75%

N=236

Effectiveness of Cutting Edge Practices

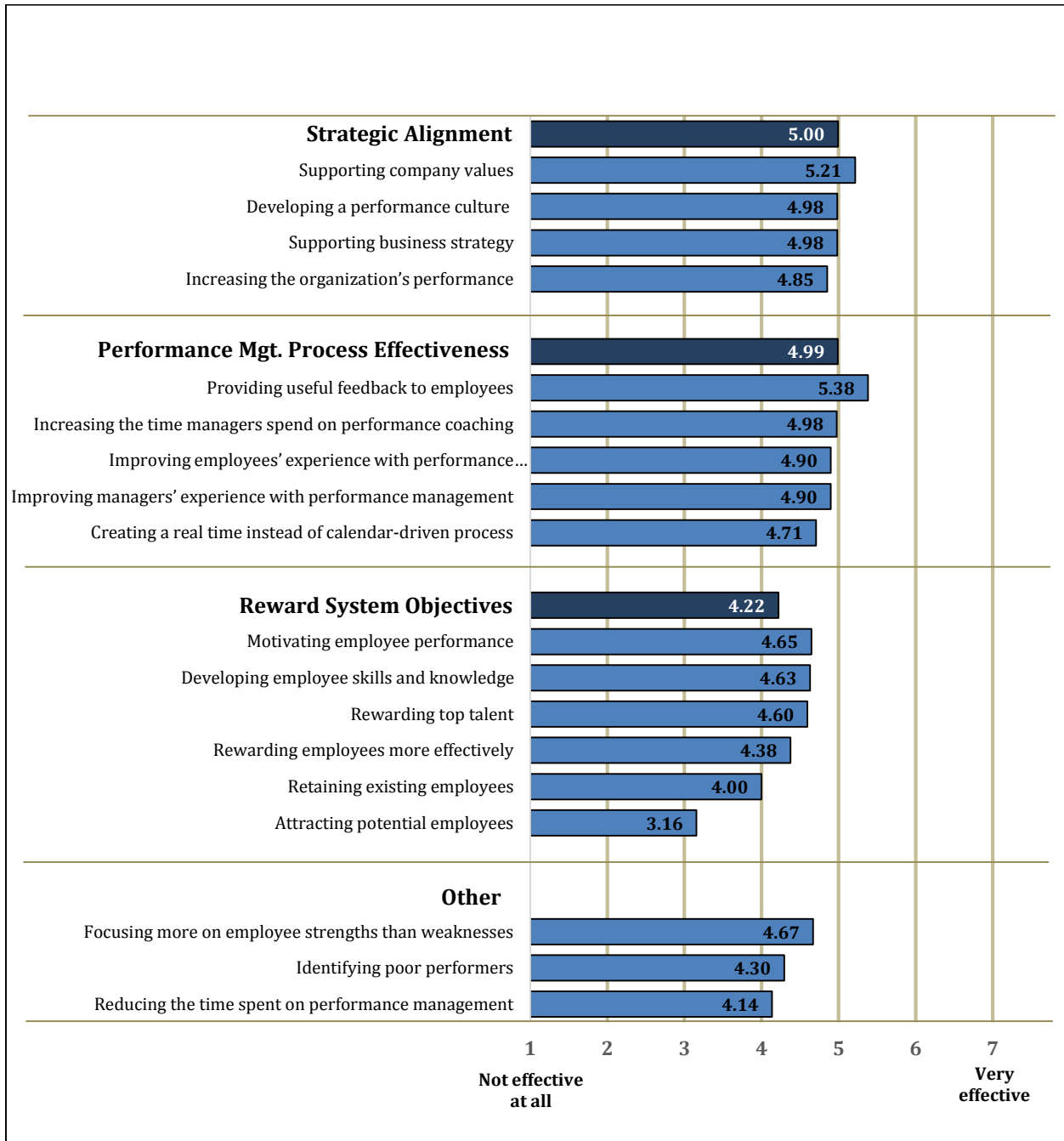
Any assessment of the effectiveness of cutting edge practices must be preliminary because these practices are so new. In our sample of cutting edge practices users, 59% of ongoing feedback, 66% of ratingless reviews, and 72% of crowd-sourced feedback adoptions have taken place within the past two years. It will be important to consider whether the conclusions reached in this section change as companies gain more experience with these practices. In addition, all data in this study are perceptual. “Hard” measures of effectiveness are very difficult to collect in a large-scale study.

Figure 3 indicates that cutting edge practices as a set are considered to be somewhat effective by our sample. We asked about the same items on effectiveness that we used in the examining reasons for adoption. The results indicate that in general, companies are seeing their greatest positive effects where intended (strategic alignment and process effectiveness), with somewhat less impact on reward system objectives.

The effects are positive, with means of around 5.0 on a seven-point response scale, for strategic alignment and process effectiveness outcomes. Inspection of specific outcomes indicates that cutting edge practices have the most positive impact on providing useful feedback to employees, supporting company values, developing a performance culture, supporting the business strategy, and increasing the time managers spend on coaching. There was only one negative outcome: attracting potential employees. This suggests that it may be important to explain cutting edge practices to new hires and prospects to turn this negative into a positive. Cutting edge practices do not appear to be especially effective in reducing the time spent on performance management. Time saved by freeing managers from doing ratings perhaps is being spent in additional coaching and feedback for employees.

Figure 3

Effectiveness of Cutting Edge Practices: Mean Responses



N = 244

Table 8 examines patterns of cutting edge practices versus effectiveness outcomes. The combination of all three practices tends to show the highest effectiveness on outcomes in general.

There are no sharp differences in effectiveness for other patterns of practice on process effectiveness outcomes. However, ongoing feedback plus ratingless reviews tends to be associated with the lowest level of effectiveness on strategic alignment outcomes (especially developing a performance culture, supporting business strategy, and increasing organizational performance) and reward system objectives (especially rewarding employees more effectively and rewarding top talent), as well as identifying poor performers. The areas of lowest effectiveness for ratingless appraisal map to the greatest concerns typically expressed about this practice, including time spent on performance management, rewarding employees effectively, retaining talent, and rewarding top talent. On the other hand, use of ratingless appraisal in any combination appears to be more effective at focusing on employee strengths rather than weaknesses.

Table 8
Patterns of Use Versus Effectiveness - Means

	Ongoing Feedback Only	Ongoing + Ratingless	Ongoing + Crowd-Sourced	All Three
Strategic alignment	5.03	4.87	5.02	5.35
Developing a performance culture	5.16	4.76	5.04	5.15
Supporting business strategy	4.99	4.85	5.04	5.44
Supporting company values	5.21	5.13	5.08	5.71
Increasing the organization's performance	4.90	4.71	5.31	5.18
Process effectiveness	4.84	5.08	5.00	5.34
Increasing the time managers spend on performance coaching	4.91	5.08	4.96	5.34
Creating a real time instead of calendar-driven (such as annual) process	4.59	4.68	4.88	5.24
Improving employees' experience with performance management	4.58	5.08	5.00	5.29
Improving managers' experience with performance management	4.66	5.07	4.85	5.21
Providing useful feedback to employees	5.32	5.40	5.31	5.74
Reward System Objectives	4.21	4.13	4.31	4.56

Rewarding employees more effectively	4.48	4.36	4.54	4.31
Attracting potential employees	2.97	3.08	3.50	3.58
Retaining existing employees	3.95	3.89	4.12	4.39
Motivating employee performance	4.71	4.51	4.54	5.03
Developing employee skills and knowledge	4.52	4.67	4.42	5.06
Rewarding top talent	4.64	4.46	4.73	4.91
Unscaled items				
Reducing time spent on performance management	3.90	4.23	4.31	4.50
Focusing more on employee strengths than weaknesses	4.47	4.88	4.31	4.97
Identifying poor performers	4.66	3.96	4.46	4.32

N =236

1 = Not at all effective; 7 = Extremely effective

We used a number of items on effectiveness of the performance management process in both this study and the 2012 study. It is very interesting that for every outcome but one, respondents to the 2015 survey (who used cutting edge practices) reported higher effectiveness of their process than did respondents to the 2012 survey (who used more traditional practices). Respondents to the 2015 survey reported more effectiveness at motivating employee performance, developing employee skills and knowledge, providing useful feedback to employees, and supporting the company’s values. The only area in which the 2012 respondents rated their effectiveness more favorably was in identifying poor performers – which is not a goal of cutting edge practices. These differences suggest that the transition to a new style of performance management is only beginning.

Conclusion

Performance management practice is clearly undergoing a period of rapid change in the U.S. When we conducted the last CEO survey of performance management practices in 2012 there were only a handful of companies reporting anything other than a traditional annual rating process

based on goals and employee behaviors. Only three years later we identified some 244 companies who have adopted cutting edge practices. The results of our study suggest that there will be far more adoptions of cutting edge practices in the future. The reasons that companies are adopting them apply to most organizations today, and companies that are using these practices report that they are effective in general.

Our study has provided the first data from a large sample of users of cutting edge practices.

The key findings from the study are:

1. Almost every company in the study (97%) uses ongoing feedback; 51% use ratingless reviews and 27% use crowd-sourced feedback.
2. Companies are not adopting either ratingless reviews or crowd-sourced feedback without also adopting ongoing feedback.
3. All three cutting edge practices are being used in addition to, rather than in place of, many older performance management practices.
4. Companies adopt cutting edge practices for many different reasons that fall into one of three categories: alignment with company needs, the performance management process, or meeting reward system objectives.
5. Reward system goals are less important for companies adopting ratingless reviews, and are more important for companies adopting crowd-sourced feedback.
6. Cutting edge practices are somewhat effective in general; it is possible that effectiveness is not higher in part because these practices are still new in most organizations that use them.
7. The combination of all three practices appears to be the most effective pattern of practice.
8. The combination of ongoing feedback and crowd-sourced feedback is more effective on many outcomes than either ongoing feedback alone or ongoing feedback plus ratingless reviews.
9. Ongoing feedback plus ratingless reviews is less effective for strategic alignment and reward system objectives than other patterns of practice.

10. A comparison of responses to the survey of cutting edge practices to the responses from earlier surveys suggests that cutting edge practices are more effective than traditional practices.

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