

Death to the Performance Review: How Adobe Reinvented Performance Management and Transformed Its Business



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In March 2012, Adobe was at a crossroads: It was on the cusp of transforming its business dramatically, from an 18- to 24-month product cycle company that sold its software through one-time customer purchases to a cloud-based software company releasing frequent innovations through an ongoing subscription model. Adobe's employee culture needed to change quickly to adapt to the new business direction.

Adobe's People Resources leaders decided that annual performance reviews were too time consuming, negative and slow to be the foundation for performance management moving forward. Through an unplanned conversation with an Indian journalist, events were set into motion rapidly and the company announced the end to annual performance reviews a few months later. The "Check-in" – a two-way, ongoing dialogue between managers and employees – became the new standard at Adobe, resulting in dramatic efficiency gains, more effective performance management and higher employee engagement and retention.

ORGANIZATIONAL CONTEXT

Adobe is one of the largest and most diversified software companies in the world. It is headquartered in San Jose, Calif., in the heart of Silicon Valley, and has about 13,500 employees globally. It sells to a broad range of customers, from multinational brands such as Nissan, CNN and American Express to individual consumers. Its go-to-market model includes an enterprise salesforce, partners and e-commerce via Adobe.com. Adobe's tools and services allow customers to create groundbreaking digital content, deploy it across media and devices, measure and optimize it over time and achieve greater business results.

Adobe's main product offerings are three cloud-based services: 1) Creative Cloud to create standout content that spans media and devices, which includes well-known software applications such as Adobe Photoshop, Illustrator and InDesign; 2) Adobe Document Cloud to create and collaborate on documents and streamline how work gets done, which includes Adobe Acrobat and the PDF document standard; and 3) Adobe Marketing Cloud to deliver experiences that are personalized and effective across every customer touchpoint, which includes eight solutions, with the core of the offering, Web Analytics, having come from the acquisition of Omniture in 2009.

At the time that Adobe began transforming its performance management process, the company was at a crossroads as a business, facing the move from its traditional desktop software business to a new cloud-based model. Its core software offerings were still sold as desktop applications, with customers not upgrading for several years or more. These version-skipping customers did not benefit from new product innovations, which were becoming increasingly critical as the landscape for content and devices changed rapidly. It also hurt Adobe's stock price, as investors viewed the company as a reliable product-cycle company without major growth potential.

Culturally, Adobe's employees had become accustomed to 18- to 24-month product development cycles as well. They worked with discipline against long development cycles, but were generally not agile in their approach. While Adobe had strong overall retention, some high performers would leave each year after annual bonuses were paid out, and the lure of other Silicon Valley-based startups was a continuing pressure relative to talent.

In spring 2012, the company marked a major transition point in its business when it launched Adobe Creative Cloud and began selling its creative software through ongoing subscription. The following year, Adobe announced that it would no longer develop creative tools for the previous desktop sales model. This move created major internal pressure to reinvent the company's culture because the employees would need to move away from the very structured way they had been accustomed to working into a fast-moving product development culture that releases frequent product updates and innovations.

As a People Resources organization (Adobe's term for human resources), we knew that we would could lead this cultural change by rethinking our own processes. The annual performance review was an obvious candidate for reinvention.

ORIGIN OF THE CHANGES

Adobe's previous performance management process was typical of other companies in the tech industry. Once a year, the company would roll out a process that went like this:

- People managers would solicit written feedback from stakeholders who had worked with their employees.
- Employees at all levels would respond to these requests for feedback via email, sometimes needing to respond to 10 or more individual requests.
- Leaders in each organization would participate in a rating and ranking exercise, usually several hours in length, where each employee was assigned a rating – high, strong, solid or low – and would be stack ranked relative to other employees across the organization.
- People managers would then write a performance summary on each employee, typically one or two pages, incorporating the feedback received, observations on performance and the performance rating.
- People managers would then deliver the performance review directly to the employee and discuss it. These were sometimes difficult conversations, with employees not understanding their rating or feeling surprised at critical feedback.
- Salary raises and equity grants were prescribed based on the employee's level, rating and ranking.
- The review was routed electronically, and employees had the opportunity to provide comments.
- The People Resources team would invest multiple cycles ensuring that each step of the process had taken place and handling escalations from unhappy employees and managers.

The list includes many administrative activities but does not include the time that managers may have spent in conversations with employees during the year about performance and development. These administrative actions equaled eight hours per employee. The average manager had five employees, so five employees times eight hours each equaled an average time investment of 40 hours per manager. Adobe had about 2,000 people managers, so in total that meant 80,000 working hours, or the equivalent of 40 full-time employees, invested in the process side of annual reviews outside of the actual end-of-year feedback session with the employee.

Beyond this enormous time commitment, the annual review was having a negative effect on employee engagement. During annual employee engagement surveys, employees frequently cited the annual review as one of the top processes that needed improvement. There were often negative surprises for employees relative

to feedback or rating because people managers had not effectively been giving feedback to these employees throughout the year. Some people managers were reluctant to give any constructive feedback, which meant that the written reviews did not fully reflect the employee's performance. Finally, when the feedback was received, often many months had been lost when employees could have adjusted their priorities or behaviors to be more effective.

Adobe's People Resources organization modified the process each year, trying to make it less time consuming and more effective. This included adding better automation for the written reviews, additional employee and manager training and resource documents. But the leadership team eventually came to the conclusion that the company may be best served in eliminating this process altogether, and thinking about performance management in a totally different way.

CHANGE IN ADOBE PERFORMANCE MANAGEMENT PRACTICES

In March 2012, after having just completed another onerous annual review cycle, I, as senior vice president for customer and employee experience, had decided that annual reviews had to be eliminated if we were going to be as productive and agile as a company as we needed to be. Adobe was evolving as a company and its practices had to reflect the changes: agility, ongoing innovation and team orientation. The People Resources leadership team would need to shape an alternative, then get buy-in from the CEO and executive team before rolling it out to employees over the course of the year.

Things took an unexpected turn when I flew to Bangalore, India, for business meetings. The local marketing team had scheduled a press interview with the *Economic Times of India*, one of the country's most widely read business newspapers. I was very jet-lagged, and the journalist interviewing me was quite aggressive, pushing me on whether the HR function really has any strategic impact in an organization. In an unfiltered moment, I shared my opinion that annual performance reviews were an outdated and unproductive process, and we intended to eliminate them at Adobe.

Later that day, the marketing team told me that the journalist planned to run a front-page story. It ran eight days later, "Adobe Set to Junk Annual Performance Appraisals." This was definitely not the way I would have chosen to launch my idea, especially when I had not yet shared it with the CEO!

I made maximum use of those eight days, giving our executive team a heads-up and then writing an internal blog for employees entitled, "It's Time to Radically Rethink the Annual Performance Review." In the blog, I raised the idea of eliminating the process and moving to a more ongoing approach rather than once-a-year event and invited feedback. There were hundreds of posted replies from Adobe employees, with the large majority expressing strong support and enthusiasm for change. Employees suggested their own alternative ideas, areas of concern and appreciation for being included in the dialogue before a decision was made. In just a few days, we felt confident that this was the right path forward.

Over the course of several months, I led a global team of more than 10 individuals ranging from the VP to senior manager level across business partnering, compensation, organizational development, talent development and employee communications to shape a new performance management process that we branded the “Check-in” and rolled out to all employees globally. In sharp contrast to the previous resource-intensive process, the new process was framed as a fluid two-way dialogue between a manager and employee. It includes:

- Setting written expectations at the start of the year, which are revisited regularly. The company suggests quarterly meetings at a minimum. A goal-setting form is provided for employees who would like to use it, but no set format is required.
- Providing ongoing feedback focused on performance throughout the year, and ideally as real time as possible so the right behaviors can be reinforced.
- Eliminating all mandates around timing, methods and written reviews.
- Providing a budget for salary raises and equity grants, which happen once annually in the Rewards Check-in, so people managers and senior leaders can adjust awards based on their best judgment. There are no ratings, rankings or prescribed awards required.

The role of the People Resources team in the process has shifted heavily toward manager and employee enablement to ensure that people are building their ability to give and receive feedback. The largest and most critical investment was in the first year of the program, but it continues to be a major focus for the team now more than three years later. Investments included a dedicated section of Adobe’s intranet highlighting templates for goalsetting and planning a feedback conversation; videos showing effective model Check-in conversations; and tips for both people managers and employees for how to make the Check-in more effective. The team also created a robust training program for both managers and nonmanagers to build stronger skills in providing constructive (not critical) feedback and utilizing feedback as a development tool. In 2015, there were more than 12,000 visits to this section of the intranet site, with the average site visitor returning three times.

In tandem with the introduction of the Check-in, People Resources rolled out a shared services model to better meet employees’ daily HR needs. Called the Employee Resources Center (ERC) it provides employees with a regional resource by phone and online to ask questions. The ERC is the first escalation point for people who need help with Check-in or have a concern. This very accessible resource has ensured that employees know where to go for advice and resources when the need arises.

As noted earlier, Check-in conversations are suggested quarterly but teams are given the flexibility to build a cadence that works for them – for example, in engineering, it may be at the end of each major “sprint,” which typically occurs every six weeks. Many teams meet face-to-face, but some managers with remote employees conduct Check-ins via phone or video conference. (Face-to-face is

ideal, but with a distributed workforce in more than 40 countries, it is not always feasible.) Some teams and managers have elected to document performance and formally solicit feedback as part of the Check-in, but the majority have chosen to keep most of the feedback more informal and verbal. Each manager decides whether to ask for feedback from other team members or partners. In the most recent global employee engagement survey in 2014, 72% of employees said they are regularly receiving Check-ins from their manager.

Growth and development is intended to be a core part of the Check-in conversation, where managers and employees can discuss the employee's long-term goals, development needs and progress. Suggestions for further training, stretch assignments, rotations and other development opportunities should arise as part of these dialogues. It is emphasized to employees that they are their own career managers, and they should come to Check-in conversations with their own ideas for growth rather than expecting the manager to chart a course for them.

The rewards Check-in is held in the December-January timeframe, tied to Adobe's annual equity grant calendar. Budgets are determined by the executive leadership and put into an online tool called the Rewards Tool. Within the allocated budget, people managers are given the freedom to adjust each employee's raise based on performance against goals and potential in the organization. Senior leaders review and adjust those recommendations, as well as allocating annual stock grants to their organizations' highest performers. Entering the recommendations into the online tool typically takes managers 30 to 60 minutes.

Escalations and issues have been rare in the Check-in process, but when they occur, the People Resources team will engage with the employee and manager to assist in clear two-way communication. People Resources has utilized annual employee surveys to spot organizations where Check-in may not be happening effectively, and then has done hands-on training as needed. In rare cases, managers who are not comfortable with providing active feedback have been moved into individual contributor roles where they can continue to progress their career without having to manage a team.

Promotions are conducted throughout the year when merited as well as during the Rewards Check-in process. When there is a low-performing employee, he/she is put on a performance management plan with heavy use of documentation and short-term expectation setting. Because of the ongoing feedback inherent in Check-in, these situations are usually addressed quickly at all points of the year and are not tied to the Rewards Check-in timing, unlike the former annual review model.

IMPLEMENTATION OF CHANGES

The shift from the annual performance review to the Check-in took place over nine months in 2012. It began with the internal blog in March 2102, raising the idea of eliminating annual performance reviews, and went into execution in December

2012 when the company provided the tools and training to replace the usual annual process.

One significant challenge was navigating the global requirements since some countries have work councils (Germany and France) or other legal regulations that require specific performance processes (China). But an even larger challenge was the intense change management required for the People Resources organization. Some roles became more critical dependencies — the business partner, ERC and talent development teams — while the former team that executed annual performance reviews was disbanded. People Resources needed to focus a much larger share of its investment on building manager capability, ensuring it was equipped to set expectations and have ongoing performance discussions. In addition, managers needed education on how to recognize and reward performance through compensation. While the overall distribution of salary increases remained unchanged, managers tended to show more differentiation at the high and low ends of performance than in the past. They also took more ownership of the rewards decisions. Unlike the prior approach, managers could no longer default to “the human-resources matrix determined your base pay adjustment.”

The overall reaction of the employee base was one of enthusiasm and relief. However, some employees did raise concerns about what would happen if their managers did not effectively adopt the Check-in methodology. Through many training sessions and one-to-one People Resources discussions, the first year without an annual review went very smoothly.

Since 2012, People Resources has worked on identifying areas where Check-in is not working as effectively as it could, primarily at the individual manager level, and providing coaching. The team identifies these gaps through a combination of annual employee surveys and direct employee feedback to the ERC. The company has also focused on building the feedback skills of the organization so that people are more comfortable providing feedback and asking for feedback as part of their daily work. This is a “soft skill” that has been challenging for some members of the workforce, especially those with highly technical roles who have historically been promoted and rewarded for technical competence rather than people skills.

From a systems perspective, Adobe utilizes Adobe Connect, a web-conferencing solution, for training sessions and has posted tools and videos to the intranet. But overall, the Check-in process has meant very little required process or systems work, a dramatic change from the prior process, which relied heavily on form routing and automation. It is ironic that a technology company has moved away from technology as a solution for performance management. But in the People Resources team’s experience, it is the one-to-one human interaction that matters.

OUTCOMES OF THE CHANGE

The positive effects of moving to Check-in have been dramatic for Adobe, from both a talent and business perspective. In its recruiting efforts, the company

highlights Check-in to pursue candidates who work for companies that still have formal performance review systems, utilizing this unstructured approach as a key differentiator. Eight out of 10 new hires have discussed the Check-in process as a key tenet of the Adobe culture before the first day on the job.

With strong expectations established at the onset, employees and managers continue building their capability to enable robust discussions regarding expectations, feedback and development, with nearly 50% of all virtual and live training focused on different dimensions of the Check-in process. Based on employee survey results, from 70% to 80% of employees are aligned on expectations, receive regular feedback regarding their development and feel that their managers are open to feedback as well. As managers continue to raise the bar, they are holding more frequent performance feedback conversations and are quicker to address those who are falling short of expectations.

From a performance management perspective, since the implementation of the Check-in process, turnover attributed as non-regrettable and involuntary attrition has increased by about 2%–3%, which the company considers a positive outcome. Under the previous annual review model, managers typically addressed poor performance at the end of the year, when the process forced them to do so. With Check-in, managers are more actively managing performance on an ongoing basis, leading to active performance management (terminations) when needed and many underperforming employees choosing to leave after open discussions with their managers. In addition, Adobe's employer brand has also become stronger, with a higher percentage of former employees stating that they would recommend Adobe to a friend. Adobe's current exit survey, given to employees leaving the company, shows 75% as stating "I would recommend Adobe as a great place to work."

At the same time that the Check-in became core to Adobe's talent management, the company's move to transition its core software offerings to a cloud and subscription-based model has been a recognized industry success. Since March 2012, Adobe's stock has risen from about \$33 to \$90 per share, and Adobe has risen 10 spots on the Interbrand Top Global Brands ranking to 68, ahead of brands such as Lego, FedEx and MasterCard. Adobe is viewed as an industry success story, having moved to the subscription model faster than any other major software company in history.

While I cannot claim that the elimination of the annual performance review is responsible for company's business transformation, I believe it played a key role. It was vital to redeploy 80,000 manager hours from administrative tasks required by the old performance management process to more important business priorities. Note that the time savings scale has grown because it is directly proportional to the number of managers and employees. Adobe's 30% headcount growth since adoption of Check-in in 2012 means that the total savings is now more than 100,000 manager hours per year.

The move to ongoing feedback ensured that employees understood what was expected from them in a very dynamic and fluid time when business needs were rapidly changing. Not only were these conversations more effective than the older process, they required about the same amount of time as the performance and development discussions held previously. And the more positive and constructive tone set with the Check-in resulted in more motivated employees who were able to embrace the challenges Adobe faced as a business. Finally, the quicker move to performance actions when employees were not meeting expectations helped ensure that employees were all working effectively together to transform the company.

WHAT WILL HAPPEN TO PERFORMANCE MANAGEMENT IN THE FUTURE?

Based on the three and a half years without annual performance reviews, Adobe leadership believes the Check-in is the right model for the company moving forward. However, we continue to closely evaluate its success. The People Resources leadership team holds a “Check-in on the Check-in” work session quarterly, where it looks at metrics such as employee attrition, ERC escalations and leadership performance to discuss whether there is any aspect that is not working effectively.

The biggest overall focus and concern continues to be on equipping people managers to provide useful feedback. People Resources is especially focused on senior leaders, because they provide a role model of this skill to the rest of the organization. Each time the company makes a senior hire, there is new investment required to ensure this skill and the philosophy of Check-in are effectively built into that person’s onboarding and coaching.

If and when it ever makes business sense to change our model again, we will.

CONCLUSION

For companies considering eliminating the annual performance review, here are five top lessons Adobe learned:

1 | Executive sponsorship is critical. Check-in needs to be role-modeled from the top.

2 | Manager capabilities and development will make or break your success. We held numerous training sessions and staff meeting discussions to ensure understanding and adoption.

3 | Communicate early and often. We engaged our employees in a dialogue before we made the move and regularly communicated progress.

4 | Build a shared services model. Our introduction of an Employee Resource Center allowed the Check-in process to scale effectively by providing adequate help and resources.

5 | Keep your global lens. Internationally, there can be legal entities such as work councils or cultural differences. Vet those concerns early.

Radically changing a long-held process such as performance reviews carries risk, and it is likely not the best choice for every company. But it has had a tremendous impact at Adobe and encouraged us to look at other processes through the same critical light, looking for opportunities to disrupt the status quo. ■

AUTHOR

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