



PEOPLE, CULTURE & EMPLOYMENT GOVERNANCE

Performance Management: Why the Annual Review Falls Short, and What Works Instead

Up to 62% of rating variance reflects the manager, not the employee. The fix isn't scrapping reviews, it's frequency

The standard annual performance review is falling short for many organisations that rely on it, and the evidence points to why. In Deloitte's 2014 Global Human Capital Trends research, a global corporate sample, 58% of companies said performance management was not an effective use of time and only 8% said it drove high value.

Which rules apply to your association?

The law depends on how your association is set up. A **company limited by guarantee** follows the Corporations Act 2001 (Cth) and its constitution. An **incorporated association** follows its state or territory associations Act and its rules. A **registered charity** also follows the ACNC Act and the ACNC Governance Standards, and some Corporations Act rules are replaced for charities that are companies. Check your own governing documents, and get advice before decisions with legal consequences.

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Two Specific, Well-Documented Reasons The Annual Model Fails

The first mechanism is a cognitive bias worth naming precisely: human recall is uneven, and events from the past several weeks remain vivid while events from ten months earlier compress or disappear entirely. A rating meant to summarise a full year's performance ends up weighted heavily toward whatever happened most recently, meaning a strong performer having a difficult final quarter can receive a mediocre annual rating that misrepresents an otherwise excellent year. The second is even more striking: one well-known study (Scullen, Mount and Goff, Journal of Applied Psychology, 2000) found that up to 62% of the variance in performance ratings reflected the individual rating tendencies of the manager doing the assessing, rather than the actual performance of the person being assessed. A performance rating, in other words, often measures the rater at least as much as it measures the person rated. A performance rating that reflects the manager's own rating habits nearly as much as the employee's actual work is not a minor measurement flaw. It is a reliability problem sitting at the centre of a process many organisations treat as objective.

The Honest Nuance: The Fix Is Not Simply Eliminating Reviews

It would be tempting to conclude the annual review should simply be abolished, and some organisations have tried exactly that. That is not a complete answer either. Some organisations that removed formal reviews and ratings later reported problems, such as less consistent feedback and harder pay decisions. A more defensible approach is shorter, more frequent feedback cycles operating alongside, not instead of, a structured periodic review. Corrective feedback delivered close to the actual event allows timely behaviour adjustment. The same feedback delivered months later in an annual review has largely lost its practical value by the time it arrives.

- Build regular, frequent check-ins between managers and staff as the primary performance feedback mechanism, rather than relying on an annual conversation to carry the full weight of a year's

feedback.

- Retain a structured periodic review specifically for goal-setting, formal documentation, and career development conversations, connecting directly to the SMART framework discussed earlier in this quarter, rather than eliminating structured review entirely.
- Train managers specifically to recognise their own rating tendencies, given the documented scale of individual rater bias, rather than assuming a rating reflects the employee's performance alone.
- Address recency bias directly by encouraging managers to keep brief, ongoing notes throughout the year rather than reconstructing a full year's performance from memory at review time.
- Treat growth and development opportunities as a tracked component of the performance framework, not an afterthought.
- Keep the board's role clear: it conducts the CEO's performance review and seeks assurance that management runs a fair, documented process for staff, including recording concerns, giving the employee a chance to respond, and taking advice before any dismissal.

A performance management framework is not simply a compliance ritual completed once a year to satisfy an HR requirement. Done well, grounded in the evidence about why the traditional model fails and what actually works instead, it becomes one of the most direct tools an association has for developing its people and catching performance concerns while they are still addressable. This is one of the practical governance topics built into our Board Director course, alongside the papers, tools and frameworks that turn the principle into your board's actual practice. [Explore the course](#)

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BOARDROOM ACTION WORKSHEET

Performance Management: Why the Annual Review Falls Short, and What Works Instead

Turn the resource into evidence, a decision and an accountable next step. Keep the completed record in your association's approved board records system.

1 What is the issue or decision?

State the governance question in one clear sentence.

2 What evidence do we already have?

Record the facts, source documents and stakeholder evidence available now.

3 What evidence is still needed?

Identify the legal, regulatory, financial, member or operational information still required.

4 What is the agreed next action?

Capture the owner, timeframe and how the matter will return to the board.

Action owner	Review date	Board decision or resolution

General education, not legal, financial, tax, clinical or governance advice. Confirm specifics at the relevant primary source or with your own qualified adviser. Nexus Leadership is operated by Lipstick Consulting Pty Ltd · ABN 15 619 120 482.

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