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For Companies Doing Away with Performance Management System and Having No Ratings over the Recent Years: What Has Been Learned?

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Abstract

There is a recent trend in moving away from ratings systems in performance management. In a survey of 300 HR leaders, 21% have either already or are planning to remove ratings from their performance management. (See Appendix A) Companies have been shifting their systems in reaction to the changing environment of work, changing needs of employees and the need for increased collaboration in a dynamic working world. New systems promise improved talent development, reduced cost of performance management, and increased retention of millennial talent. However, this trend is still very recent and there is little research on the short-term or long-term effects of these shifts to new systems.

Keywords

HR, performance management, millennials, retention, feedback, transparency, ratings, collaboration, innovation

EXECUTIVE SUMMARY

RESEARCH QUESTION

For companies doing away with performance management system and having no ratings over the recent years: What has been learned? Are there early indications of results? | Any unintended consequences?

INTRODUCTION

There is a recent trend in moving away from ratings systems in performance management. In a survey of 300 HR leaders, 21% have either already or are planning to remove ratings from their performance management.[1] (See Appendix A) Companies have been shifting their systems in reaction to the changing environment of work, changing needs of employees and the need for increased collaboration in a dynamic working world. New systems promise improved talent development, reduced cost of performance management, and increased retention of millennial talent.[2] However, this trend is still very recent and there is little research on the short-term or long-term effects of these shifts to new systems.

CASE STUDIES

Several companies exploring these systems are highlighted below along with their early results:

I. Adobe

Background: In 2012, Adobe introduced a new performance management system called "Check-in" and abolished their ratings-based performance management system. The new system was designed to provide on-going, real-time feedback; grant managers more autonomy in deciding the goals of employees; and reduce the direct comparison of employees with their peers.[3]

Results:

- **Retention.** Improved transparency in performance appraisal has decreased voluntary turnover by 30 %.[4] Moreover, voluntary non-regrettable attrition has increased due to the improved ability for managers to have "difficult conversations".

- **Financial Performance.** As of 2015, Adobe has seen a boosts in stock prices from $30 to $80 which the company attributes to an increase in productivity from real-time feedback capability.[3]

- **Efficiency.** Managers have seen approximately 80,000 hours in saved time from simplified annual review process.[5]

- **Employee-Manager Communication.** Following the first year of the new program, 78% of employees reported that managers were open to feedback from them.[6]

II. General Electric

Background: In 2015, General Electric announced the elimination of their historic "rank and yank" approach to performance management, a ratings-based forced distribution system.[3] In seeking a way to provide more dynamic feedback to employees, GE pioneered the "PD@GE" application to facilitate better long-term and short-term goal setting for employees and more frequent touch points with managers.[7]

Results:

- **Transparency.** Based on a pilot study, the new performance management system facilitated greater trust between employees and managers because feedback was no longer anonymous.[8]

- **Productivity.** A shift towards more forward-looking, short-term feedback has led to a "five-fold" increase in productivity during the early stages of the new program.[8]

- **Meritocracy.** In a pilot of the system for over 30,000 employees, GE found that managers were still able to differentiate employees for pay-related decisions without ratings. This has been attributed to increased, continuous feedback and contact with employees.[9]

III. Microsoft

Background: In 2013, Microsoft decided to eliminate ratings, forced rankings, and grading on a bell curve. This decision reflected a desire to shift towards a performance management system that could provide more timely feedback based on the needs of individual business units.[3] The new "Connects" system was designed to optimize meaningful discussions to increase collaboration and drive results through "in the moment" learning.[10]

Results:

- **Collaboration.** The new system facilitates increased collaboration between top performers through ending the practice of directly ranking them against one another which was reported to foster unhealthy competition and disincentivizes employees from working cohesively on teams.[10]

- **Innovation.** Managers are better equipped to reward unique contributions due to increased flexibility with allocating rewards.[4] This provides managers with another tool to facilitate creativity and to motivate the generation of new ideas.

- **Leader Experience.** Under this new system, leaders are not forced to rank employees as low performers. In a pool of talent that has consistently reduced low performers for long periods of time, a bell curve system forces leaders to eliminate high performers leading to unnecessary frustration.

- **Reduced Legal Risk.** Microsoft had a history of lawsuits alleging that managers used forced rankings to disguise discriminatory behavior. Microsoft believes a new system could lead to greater transparency of any unconscious biases.[11]

KEY INSIGHTS

These findings can be summed in three key insights:

I. Despite initial positive reactions to the removal of ratings, many companies actually face performance decreases after the initial changes. In order to prevent fallout, new systems need to be readily implemented in order to fully leverage benefits of the change.[12]

II. There needs to be a significant investment in management capabilities to successfully shift away from ratings-based systems of performance management and adopt discussion focused real-time feedback systems.[1]

III. Many desired improvements in performance management are not mutually exclusive of ratings. For example, key improvements tend to stem from distancing the relationship between performance and compensation; ongoing, forward looking feedback; and inclusion of peer feedback in performance review. These concepts can coexist within a ratings-based system and still drive the key desired that motivate change in performance management .[1] (See Appendix B)
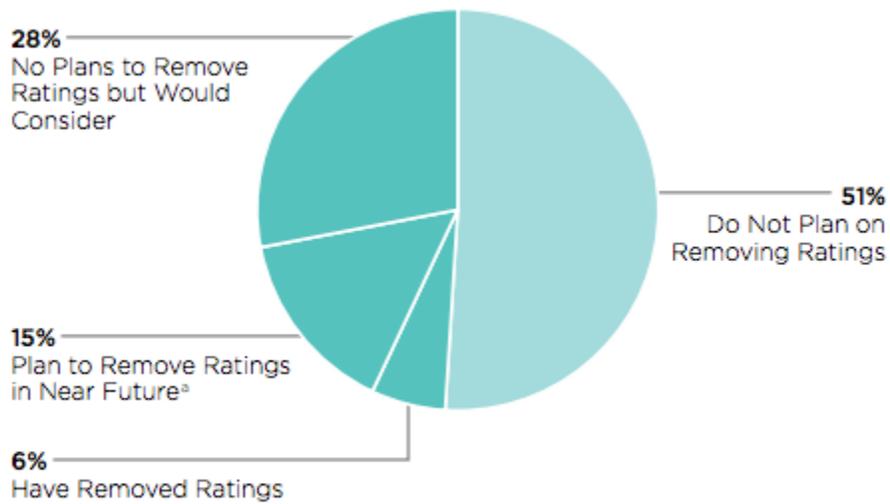

CONCLUSION

Since the removal of ratings is a recent phenomenon, there is not a lot of literature on the long-term effects of a shift away from ratings-based models. Furthermore, many companies are still very early in their transition towards new systems, meaning that few concrete metrics are available to quantify the effects of having no ratings. From early observations, unintended consequences include increased costs and time needed to build manager capabilities, costs of developing and implementing technology platforms to supplement new systems of performance review, and possibly legal risks that companies may face without having quantifiable performance management data. Despite the fact that many new systems are still very early in their lifecycle, common trends are emerging that companies can use to guide their discussion on performance management systems and ratings.

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HR Leaders Eliminating or Considering Eliminating Ratings

28%
No Plans to Remove
Ratings but Would
Consider

51%
Do Not Plan on
Removing Ratings

15%
Plan to Remove Ratings
in Near Future[a]
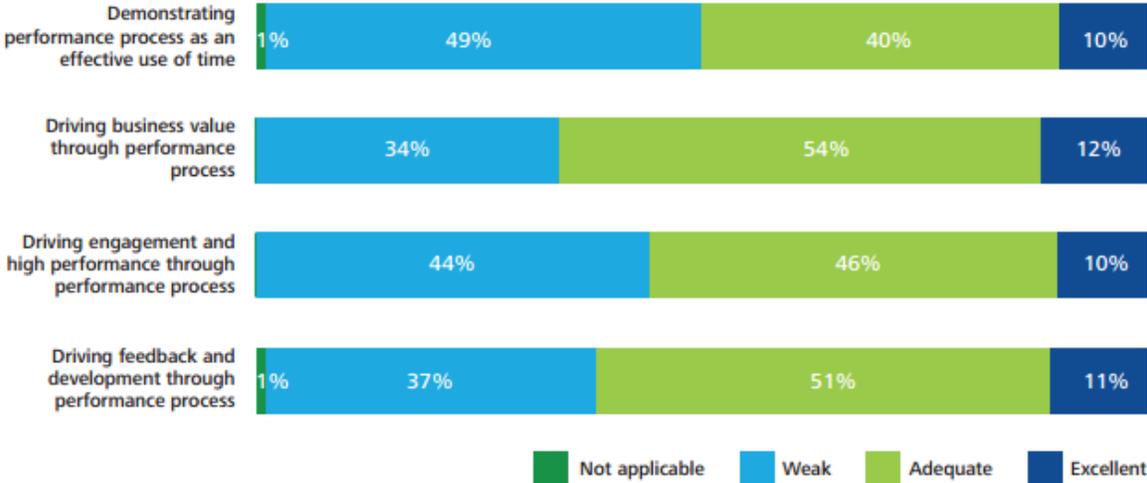
6%
Have Removed Ratings

n = 296.

Source: CEB 2016 HR Agenda Poll.

[a] Organizations who plan to remove ratings in the near future include several that have piloted the approach and collected related results and/or feedback.

The Real Impact of Eliminating Performance Ratings: Insights from Employees and Managers (Rep.). (2016). Retrieved https://www.cebglobal.com/content/dam/cebglobal/us/EN/best-practices-decision-support/human-resources/pdfs/eliminate-performance-ratings.pdf

Demonstrating performance process as an effective use of time	1% / 49%	40%	10%
Driving business value through performance process	34%	54%	12%
Driving engagement and high performance through performance process	44%	46%	10%
Driving feedback and development through performance process	1% / 37%	51%	11%

Not applicable   Weak   Adequate   Excellent

Graphic: Deloitte University Press | DUPress.com

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