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What is the Impact of Eliminating Performance Ratings?

Abstract

[Excerpt] Ratingless performance management became trendy in recent years when companies found that traditional performance ratings cost huge amounts of money and time without significant positive impact on performance. However, simply eliminating performance ratings cannot achieve desirable results. In this paper, we summarize the research surrounding ratingless performance management and present some alternatives to the traditional methods.

Keywords

Human Resources, HR, no ratings, performance ratings, performance management, engagement, elimination of performance management, ratingless performance management, ratingless review, ogling feedback

Comments

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Executive Summary

Question

What is the impact of eliminating performance ratings? Is there a correlation between increased engagement and elimination of performance ratings? What alternatives are companies using to replace performance ratings?

Introduction

Ratingless performance management became trendy in recent years when companies found that traditional performance ratings cost huge amounts of money and time without significant positive impact on performance. However, simply eliminating performance ratings cannot achieve desirable results. In this paper, we summarize the research surrounding ratingless performance management and present some alternatives to the traditional methods.

Practices of Ratingless Performance Management

Research shows that not only big high-tech (Adobe, Cisco, Microsoft)¹ and financial service (Deloitte, Accenture) companies are passionate about ratingless performance management, companies in other industries, such as manufacturing, retail trade, transportation, and even public-sectors and NGOs are attempting to evolve their traditional performance management. (See Appendix A)

Eliminating performance ratings doesn't mean getting rid of performance management, instead, companies are seeking better alternatives to replace the way of defining employees' annual performance by a simple number or letter. There are three major alternatives popular among companies that have eliminated performance ratings²:

- **Ratingless review:** Managers directly talk with employees about performance itself and associated rewards, but do not mention any numeric/letter performance rating result.
- **Ongoing feedback:** Managers have regular and more frequent conversations with employees to give feedback.
- **Crowd-sourced feedback:** Companies use social media platforms to permit peer feedback in a free-form manner.

The most common way is ongoing feedback. Nearly every company in the sample (97%) uses it. Ratingless reviews followed at 51%, while crowd-sourced feedback was used by 27%.

Meanwhile, many companies mixed multiple methods to have a more holistic performance management process. (See Appendix B).

In addition, companies are also keeping other fundamental practices of performance management and reward systems. So ratingless performance management is not replacing traditional practices completely, but is more like an improvement and supplement to the existing systems.

Benefits of Ratingless Performance Management

Neuroscience research proves that employees' rational brains quit functioning when they are given performance ratings, which they interpret as a threat.² Companies are using ratingless performance management to achieve three main goals:

- Strengthen the strategic alignment
- Improve performance management process effectiveness
- Better reward employees

Research shows that adopting ratingless performance management has moderate positive changes in these areas. Compared to traditional performance ratings, combining ratingless reviews, ongoing feedback and crowd-sourced feedback partially or all together is much more effective in providing feedback to employees, motivating performance and encouraging employees to develop skills. (See Appendix C)

Risks of Ratingless Performance Management

Ratingless performance management does not come without costs. Some of the risks associated with ratingless performance management systems include:

- **Reduced engagement because of unprepared/unwilling managers** - Especially since the focus on ongoing feedback is so high, it can go extremely wrong if the managers are not well-trained and/or willing to give effective feedback regularly. It has been found that managers giving little to no feedback result in 4 out of 10 workers being actively disengaged³.
- **Too much focus on quantity of feedback, instead of the quality** - A survey of 10,531 employees found out that employees in organizations with no formal ratings felt that manager feedback was 14% less valuable than that of their peers with formal appraisals⁴. This could happen when managers focus on giving *more* feedback, instead of *good, constructive* feedback.
- **No incentive to follow-up** - Lack of follow-up on the feedback has been found to be another common issue with ratingless performance management. Most managers do not follow up on the feedback they previously gave their subordinates⁵, which reduces employees' motivation to use it to improve their performance, rendering performance management practically useless.
- **Decreased employee engagement** - Research indicates that companies that eliminated performance ratings saw a **6% decrease in employee engagement scores**⁶. This was attributed to reduced time spent in informal conversations, as well as reduced perceptions of pay differentiations (employees did not have a basis to gauge pay differences upon and felt that pay decisions were less transparent without ratings).

Conclusions and Recommendations

While many companies have eliminated ratings from their performance management systems, not all of them are reaping the benefits of doing so. Some, like Deloitte, tried ratingless performance management, but ended up going back to having ratings as part of their performance management systems in one form or the other.

While research has shown several benefits of eliminating performance ratings like reduced costs and increased task-orientation, the practice has also been shown to affect employees negatively, under certain circumstances. While eliminating performance ratings, a company should consider if it fits into any of the three categories suggested as suitable for using ratingless reviews⁶: having a hyper-competitive culture, having a forced ranking system, or placing unnecessary emphasis on numbers. If it doesn't meet any of these conditions, it may not want to eliminate performance ratings because of the negative effects on employee morale and engagement associated with it. Instead, ratings could be matched with some other performance management alternatives highlighted above to develop an effective performance management system tailored to a company's specific needs.

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Additional Readings:

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2. Adler, S., Campion, M., Colquitt, A., Grubb, A., Murphy, K., Ollander-Krane, R., & Pulakos, E. D. (2016). Getting rid of performance ratings: Genius or folly? A debate. *Industrial and Organizational Psychology*, 9(2), 219-252.
3. Cardy, R. L., & Munjal, D. (2016). Beyond performance ratings: The long road to effective performance management. *Industrial and Organizational Psychology*, 9(2), 322-328.

Appendices

Appendix A

TABLE 5-1: 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, & Real Estate	25%	17%	14%	14%
Services: Hotels, Personal Services, Repairs, & Similar	2%	4%	0%	0%
Professional Services	13%	28%	28%	19%
Public Administration	2%	4%	3%	0%
Other	2%	2%	0%	8%

N=236

Appendix B

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

N=244

Appendix C

TABLE 7-2: Use of Older vs. Cutting-Edge Practices and Effectiveness – Mean Responses

Effectiveness Measure	Older Practices		Cutting-Edge
	2002	2012	2015
Providing useful feedback to employees	4.96	4.98	5.38
Motivating performance	4.42	4.28	4.65
Supporting company values	5.07	4.95	5.21
Supporting business strategy	5.02	4.80	4.98
Developing a performance culture	4.65	4.52	4.98
Developing employee skills and knowledge	4.24	4.00	4.63
Identifying poor performers	4.75	4.98	4.30

N: 2002 = 55 2012 = 102 2015 = 236