The Real Impact of Eliminating Performance Ratings

Insights from Employees and Managers
Growing Momentum to Eliminate Ratings

HR Leaders Eliminating or Considering Eliminating Ratings

- **28%** No Plans to Remove Ratings but Would Consider
- **15%** Plan to Remove Ratings in Near Future
- **6%** Have Removed Ratings

Source: CEB 2016 HR Agenda Poll.

Organizations Are Facing Three Situations

1. **Organizations That Do Not Plan to Remove Ratings**
   
   This Brief Will Help You: Communicate the impact of removing ratings to senior stakeholders and focus attention on what is needed to make performance management a success.

2. **Organizations Considering Removing Ratings**
   
   This Brief Will Help You: Make an informed decision about removing ratings considering both your organization’s situation and how removing ratings will affect managers and employees.

3. **Organizations That Have Eliminated Ratings**
   
   This Brief Will Help You: Focus attention on three strategy shifts that will make your performance management system a success.

Sample List of Organizations Who Have Publicly Announced Removing Ratings

- Accenture
- Advent
- Cargill
- ConAgra Foods
- Expedia
- Deloitte
- FedEx
- Kelly Services
- Microsoft
- Netflix
- New York Life
- REI
- Zappos

Source: CEB analysis
Organizations Expect Removing Ratings Will Drive Employee Performance

Organizations Expect Performance to Rise Without Ratings Because...

1. ...employees will become more engaged.

2. ...managers will have more time to spend on informal conversations.

3. ...the quality of manager conversations will improve.

4. ...managers can better differentiate pay.

“Employees didn’t like ratings, especially those who get an average rating. The rating came as a surprise for these employees and left them less engaged and more disappointed.”

HR Leader
Technology Company

“We eliminated ratings so that managers could improve performance conversations and spend more time on how employees performed and what they can do to develop, instead of on defending the ratings.”

HR Leader
Technology Company

Key Question
What’s the real impact of eliminating ratings?
### What We Did

#### Our Data Strategy

To better understand the impact that ratings have, we surveyed **nearly 10,000 employees** in our 2016 Pay for Performance Employee Survey. These employees were from across the globe, spanning **18 countries**, and from a representative sample of industries and organizational sizes (see the Appendix for further demographic breakdowns). We compared the outcomes and perceptions of those employees in organizations that use performance ratings to those in organizations without ratings.

### Comparison Between Employees With and Without Ratings

**Illustrative Outcome**

<table>
<thead>
<tr>
<th>Illustrative Outcome</th>
<th>How to Read Data</th>
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<tbody>
<tr>
<td></td>
<td>Comparisons are made between employees with and without ratings. Where relevant, we report the <strong>mean difference in percentage between each group.</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Ratings</th>
<th>No Ratings</th>
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<tbody>
<tr>
<td>X%</td>
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\( n = 9,868. \)

Source: CEB 2016 Pay for Performance Employee Survey.

Note: All results were consistent with findings in this brief when replicated for US-based employees and for employees who work at larger (5,000 FTE+), more progressive organizations.
Our Perspectives on the Ratings Debate

Business Case Fails to Hold for Most
Many organizations have received positive feedback after eliminating performance ratings. However, the initial positive reaction tends to fade and the key performance outcomes that organizations expected to increase actually suffer.

Success Without Ratings Requires Significant Investment
Although a handful of managers are more effective without ratings, most organizations will find it too difficult to get their managers to the level needed to make the change worth the significant investment.

Focus on Other Changes Besides Removing Ratings
Rather than focusing on the ratings debate, organizations should improve their performance management and reward practices in three key ways.
Reality: Manager Conversation Quality Decreases Without Ratings

Lack of Ratings Reduces Employee Perceptions of Manager Conversation Quality

Average Quality of Manager Conversation Score

<table>
<thead>
<tr>
<th>Ratings</th>
<th>No Ratings</th>
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<tbody>
<tr>
<td><img src="image" alt="Graph showing the decrease in conversations without ratings" /></td>
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14% decrease

How They Performed in the Past
Performance on assignments, contributions to organizational success, impact on customers or partners

How to Improve Future Performance
Developmental action steps, future performance objectives, work priorities, clarity of expectations

Advice for Organizations Without Ratings

- Measure the quality, not just occurrence, of manager conversations through existing employee surveys or other feedback mechanisms to focus managers on conversation quality.
- Train managers to send clear messages about performance and development without ratings by providing concrete evidence of how the employee is performing and progressing.

Quality of Manager Conversation Score Defined

1. **How They Performed in the Past**
   Performance on assignments, contributions to organizational success, impact on customers or partners

2. **How to Improve Future Performance**
   Developmental action steps, future performance objectives, work priorities, clarity of expectations

\[ n = 10,531. \]

Source: CEB 2014 Enterprise Contribution Workforce Survey.

* This calculation was completed using the Quality of Manager Conversation Score, which represents how effective managers are at helping employees understand their performance in the past and how they can improve performance and development in the future.

Note: The reduction in manager conversation quality is statistically significant \( p < 0.001 \).
Successful Organizations Focus on Three Performance Management Strategies

**Performance Management Strategies**

**Provide Ongoing, Not Episodic, Performance Feedback**
Increasing the frequency of informal performance conversations allows managers to provide more timely feedback to employees and to adjust expectations with employees based on organizational changes or past performance. 12%

**Make Performance Reviews Forward Looking, Not Backward Looking**
Assessing and discussing future performance provides managers and employees with a more accurate understanding of their abilities to meet future business needs and how to improve those abilities. 13%

**Include Peer, Not Just Manager, Feedback in Evaluating Performance**
Collecting feedback from peers who understand employees’ work helps managers more effectively assess and discuss employee performance in an environment where employees must increasingly work with peers to be effective. 14%

\( n = 23,339 \) (2012); 10,531 (2014).
Source: CEB 2012 High Performance Survey; CEB 2014 Enterprise Contribution Workforce Survey.
CEB Resources for Organizations with Any Ratings Status

1. Organizations That Do Not Plan to Remove Ratings

Guidance for Driving Breakthrough Performance
This study focuses on the competencies of today's top performers and on the strategies for driving performance.

Everyday Performance Management
This implementation guide based on Cargill's best practice enables you to implement ongoing, two-way performance dialogues between managers and employees.

Crowdsourced Associate Evaluations
This guidance from W.L. Gore will help you quantify and reward network performance through peer feedback to encourage the right behaviors.

Pay and Pay Communication Training for Managers
Build and deliver pay training to educate your managers on pay basics, improve their ability to differentiate pay, and boost their confidence and skills in delivering pay.

2. Organizations Considering Removing Ratings

The Ratings Decision
This webinar replay shares perspectives from the Hanover Insurance Group, Dell, CA Technologies, and Pfizer on how they decided to eliminate performance ratings.

Forget the Ratings Debate: How to Really Drive High Performance
This webinar replay draws from experiences with several leading organizations who have implemented practical and sustainable changes to improve their performance management processes.

Quick Poll Results: Eliminating Performance Ratings and Considerations for Total Rewards
This report provides data on the top concerns and considerations for compensation functions related to eliminating ratings.

3. Organizations That Have Eliminated Ratings

Managing Pay After Eliminating Performance Ratings
This webinar replay shows how Cisco and Medtronic manage pay processes after eliminating ratings.

Five Lessons for Eliminating Performance Ratings
This research report reviews five lessons from organizations about how to manage performance without ratings.

Five Lessons for Managing Pay Without Performance Ratings
This research report teaches key lessons from organizations such as Medtronic and Cisco on how to maintain and improve pay processes after eliminating performance ratings.