# Does getting rid of ratings fix performance management?
# Reflections on Bill Kutik's Firing Line interview with Josh Bersin

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My job involves helping customers use cloud technology to support strategic HCM processes including performance management (PM). This technology is very flexible when it comes to PM process design. It can support processes that require managers to make extensive ratings or not give any ratings at all, conduct annual reviews or frequent, ongoing employee-manager check-ins, set detailed goal plans or not use goals, and so forth. The conversations I have with companies focus on determining what PM process will be most effective in their particular organization. This will ensure the technology is appropriately configured to meet their unique needs.

Experience working with hundreds of companies has taught me that PM methods that work very well in one company may not work in another. The best approach depends on the business needs and culture of the company, the nature of the employees and the jobs they are performing, and the skills and incentives given to managers. Companies benefit from thoughtful guidance to figure out what PM methods to use. And sweeping generalizations about certain PM methods being universally good or bad are almost always wrong.

Given what I do for a living, I was excited to listen to a recent Firing Line webcast where Bill Kutik interviewed Josh Bersin about innovations in HCM practices. Whenever I listen to Bill and Josh, I almost always find myself nodding my head in agreement with their insights and opinions. So I was surprised by several statements in the interview that struck me as highly questionable. Statements suggesting that:

- PM is primarily for "feedback, coaching and developmental planning".
- PM ratings are not important because "managers and peers tend to know who the high performers are"
- Getting rid of PM ratings can lead to a "30% increase in retention"
- Eliminating PM ratings "always has a good result"

First, describing PM as mainly being a tool for "feedback, coaching and developmental planning" seems to ignore half the picture. The companies I work with use PM for two distinct but related activities:

> **Workforce Investment:** making decisions about where to invest scarce resources such as pay, promotions, job assignments or training courses to maximize overall workforce productivity.
>
> **Workforce Development:** providing coaching feedback and advice to increase individual employee performance.

Both activities require communicating performance expectations and assessing job performance. But how employees should be assessed is different depending on whether the focus is investment or development. Investment assessments involve comparing employees against one another to determine which employees should be given greater compensation, development resources, or promotion opportunities. In contrast, development assessments tend to stress qualitative descriptions of employee performance and often avoid comparing people against one another because such normative evaluations can hurt development. Creating a high performance workforce requires effective investment and development of the workforce ( Bloom & Van Reenen 2007). To be fully effective PM processes must improve both the effectiveness of pay and staffing decisions that affect employee careers and the quality of coaching conversations that affect employee growth.

It seems risky to dismiss the value of using PM to guide workforce investment because "managers and peers tend to know who the high performers are". Well-designed PM processes communicate clear performance expectations, accurately measure people based on those expectations, and allocate investments based on the contributions people make to the organization. Is it wise to replace these methods with gut level, unchallenged opinions of managers and employees? Abandoning the use of consistent performance measurement processes and identifying high performers based on un-defined, un-validated manager opinions strikes me as akin to getting rid of school grades and determining the best students based on who has the most friends in the cafeteria.

I find it hard to believe that removing PM ratings always has a good result, nor do I believe that just getting rid of ratings by itself can create outcomes like a 30% increase in retention. I have seen effective and ineffective PM processes with and without manager ratings. The ratings are not the issue. The issue is the process used to make the ratings. If a company chooses to remove ratings from its PM process, it probably had a lousy PM rating process to begin with. And if you change a lousy process of course people are going to be happy about it! Furthermore, call me a skeptical industrial-organizational psychologist, but I cannot believe getting rid of a rating that only happens once a year can by itself drive a 30% increase in retention. Or if it does, then I suspect the people retained may not have been on the top of the performance distribution. A company might see a 30% retention increase during the time period when they removed ratings, but "correlation is not causation". When companies overhaul their PM systems they usually make multiple changes related to compensation, company culture and manager training at the same time. One could argue that it is those other changes that affect retention, and not the simple act of removing a once-a-year rating.

In any case, companies can't actually get rid of performance ratings. They can only shift and hide the rating process. Every company categorizes employees based on their perceived value to the organization, which is what it means to rate employees. If you pay some people more than others then you are rating them. I've yet to meet a CEO who did not want to know who the high performers are in the company. So the question is not whether you will rate employees, but whether the rating process is accurate, transparent and perceived to be fair. To achieve this goal many companies are doing things like replacing numerical ratings with more meaningful performance categories, improving their use of goals and competencies to clearly define performance expectations, and shifting the rating process from something done by managers working in isolation to something done through group discussions where managers meet with their peers to identify and agree upon the most valuable players in the company. But these companies are not "getting rid of ratings". They are improving the rating process.

Many companies have terrible PM processes that deserve to be scrapped and totally rebuilt. I've yet to encounter a company that felt its PM methods are as effective as they should be. The good news is more companies are taking action to improve PM. This often means downplaying the role of annual ratings in PM and increasing focus on ongoing conversations. But it does not mean getting rid of ratings.

Improving PM is not so much about what you get rid of but what you create. These creations often include processes and training that encourage ongoing goal management and coaching so employees get meaningful feedback throughout the year. But they also include creating effective rating processes. Companies that want to truly fix PM are not ignoring the challenge of ratings. To the contrary, they are taking on this challenge by creating things such as clearly defined performance definitions and collaborative talent reviews that ensure investments in employees are based on the true value they provide to the organization and not simply on whether their manager likes them.

What do you think? How do you use ratings? What makes a rating process work? How does your company identify high performers? How does it ensure employees get effective feedback? Do you believe it is possible to get rid of ratings, and if so how do you make and explain decisions related to pay and staffing?