

The Real Impact of Eliminating Performance Ratings

Insights from Employees and Managers

CEB Corporate Leadership Council™
CEB Total Rewards Leadership Council



HR Sees Need for Performance Management Change

Performance Management Systems Are Failing

Only 4% of HR leaders feel they are **effective** at accurately assessing employee performance.

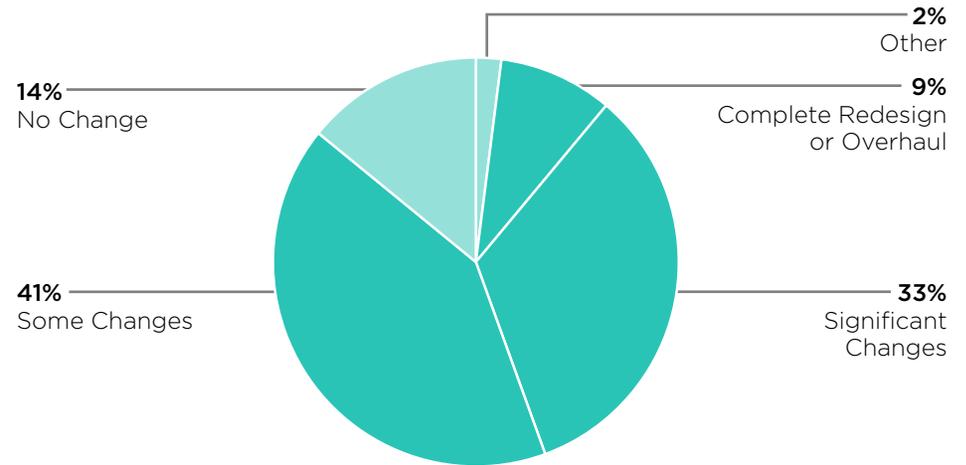
n = 379.
Source: CEB 2016 HR Agenda Poll.

Performance Management Underperforms Because...

- 1 ...it's annual.
- 2 ...it's backward looking.
- 3 ...it's complex.
- 4 ...it's time consuming.
- 5 ...it's inconsistent.

Significant Changes Needed for Performance Management

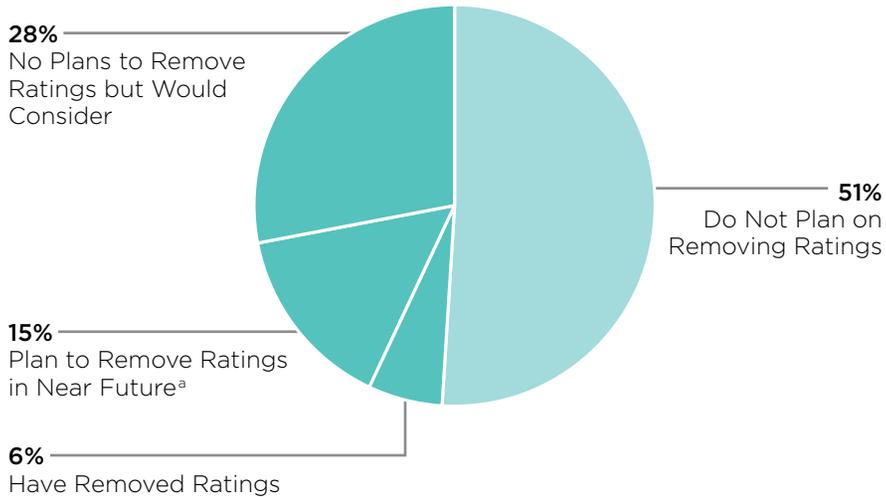
Percentage of Organizations Planning



n = 99.
Source: CEB 2015 HR Agenda Poll.
Note: "Other" represents organizations that were undecided or do not have a formal performance management process; Total does not equal 100% due to rounding.

Growing Momentum to Eliminate Ratings

HR Leaders Eliminating or Considering Eliminating 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.

Sample List of Organizations Who Have Publicly Announced Removing Ratings



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.

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**.

Source: CEB analysis

“**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?

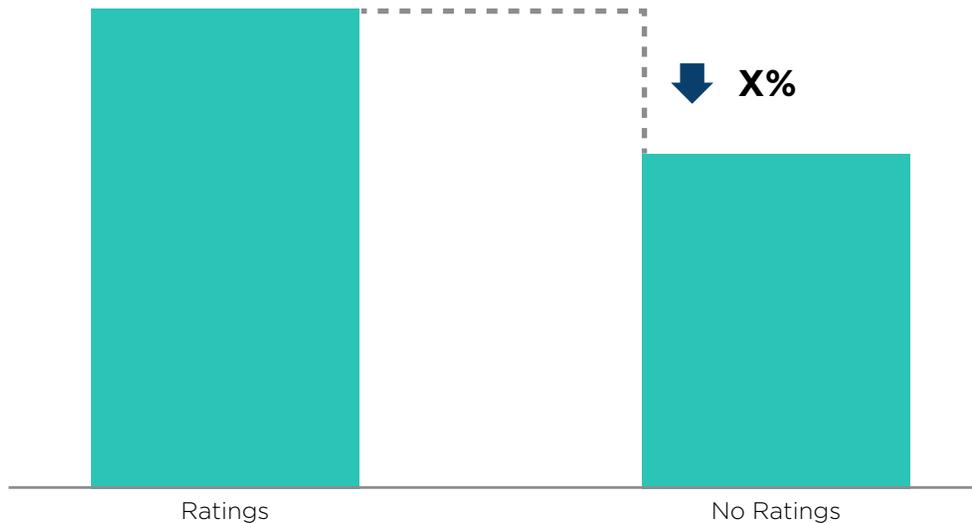
What We Did

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



How to Read Data

Comparisons are made between employees with and without ratings. Where relevant, we report **the mean difference in percentage between each group.**

$n = 9,868$.

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.

Roadmap: 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.

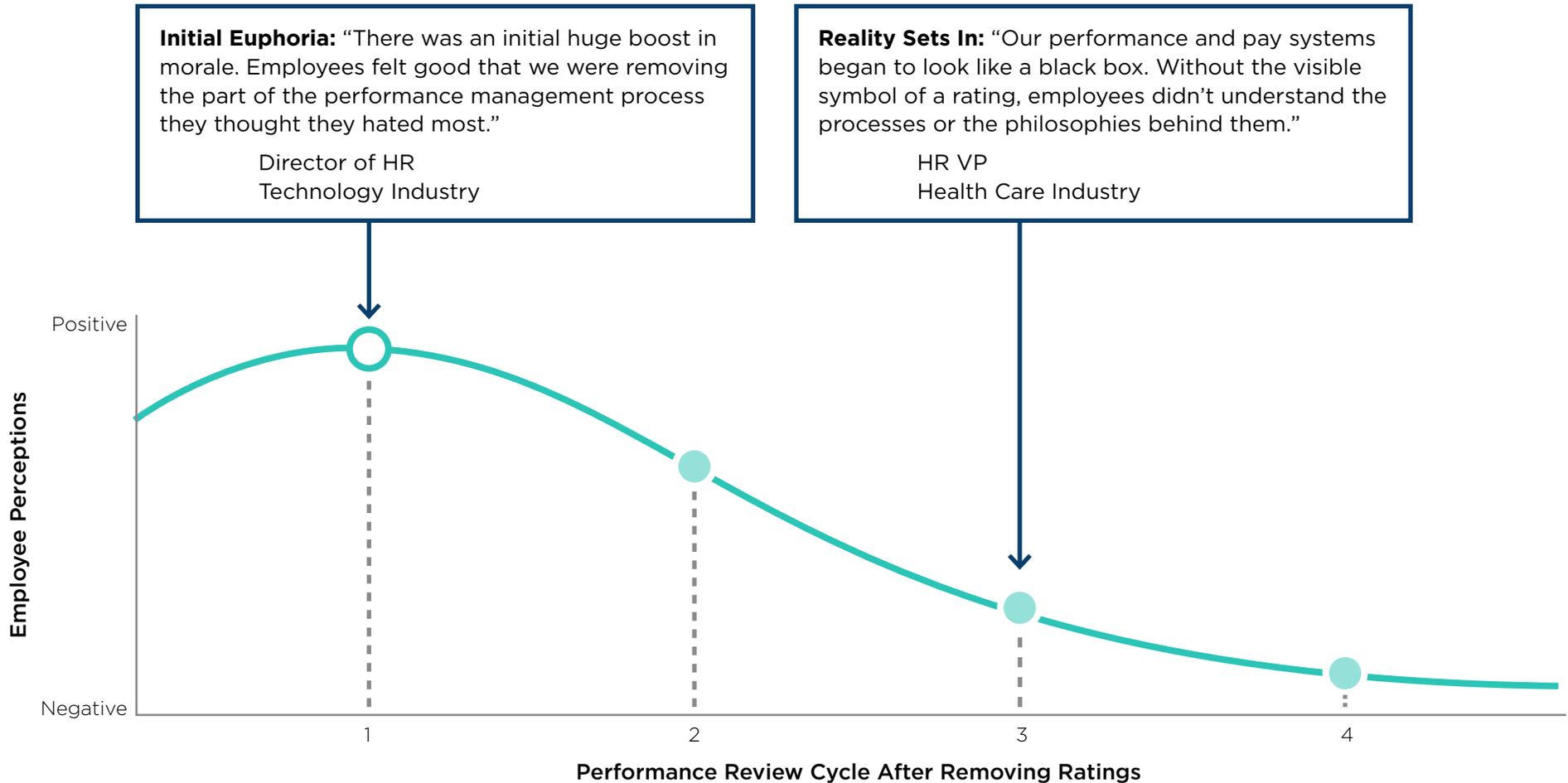
Focus on Other Changes Besides Removing Ratings

Rather than focusing on the ratings debate, organizations should improve their performance management and reward practices in three key ways.

Initial Euphoria Does Not Last

Typical Satisfaction with Performance Management and Pay Over Time When Removing Ratings

Illustrative Satisfaction with Performance Management Over Time



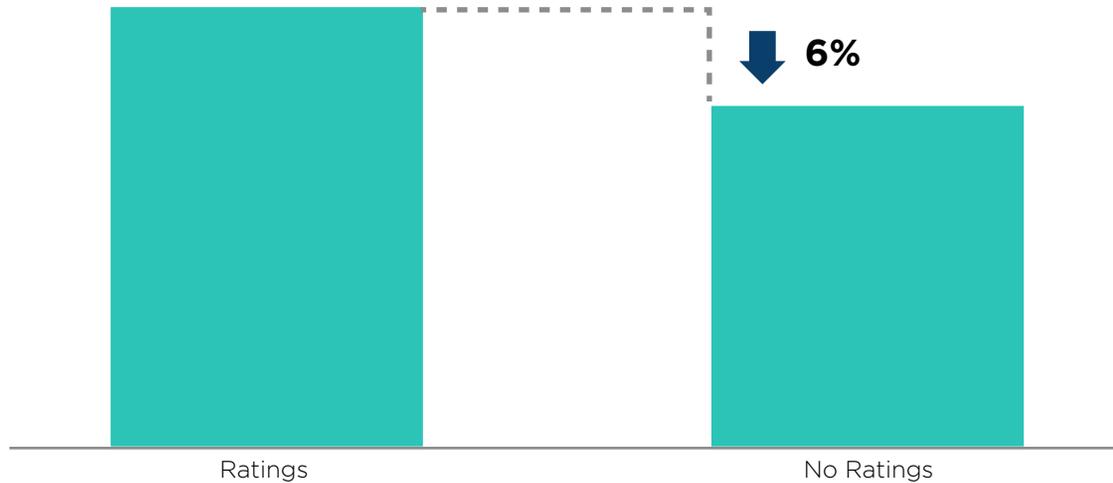
$n = 9,686$.

Source: CEB 2016 Pay for Performance Employee Survey.

Reality: Managers Struggle to Engage Employees

Lack of Ratings Impact on Employee Engagement^a

Average Employee Engagement Score



$n = 9,686$.

Source: CEB 2016 Pay for Performance Employee Survey.

^a Employee engagement scores comprise two batteries that represent employees' involvement in their work and intent to stay at their organization.

Note: The reduction in employee engagement is statistically significant $p < 0.001$.

Advice for Organizations Without Ratings

- Communicate new performance management philosophy and processes to employees so they understand what to expect and how it is intended to benefit them.
- Identify new and different ways to recognize high performance outside the traditional performance management process to improve employee engagement.

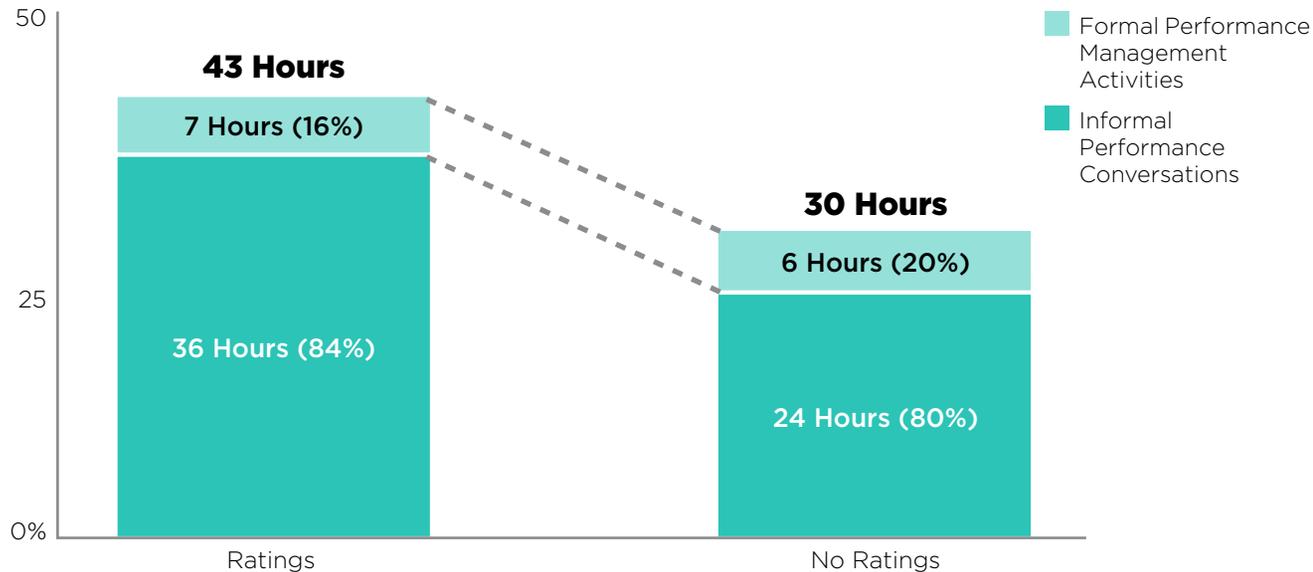
“Employees felt that having performance reviews without the rating was like **going out to a nice dinner but without steak**. You got the sides but not the main meal.”

HR Leader
Telecommunications

Reality: Managers Spend Less Time on Informal Conversations Without Ratings

Manager Time Spent on Performance Management Activities^a

Average Hours (and Proportional Time Spent) on Performance Management per Year, per Direct Report



n = 9,686.

Source: CEB 2016 Pay for Performance Employee Survey.

^a Formal performance management activities include goal setting, performance evaluation and calibration, documenting employee performance, and preparing for performance conversations. To calculate time spent on informal conversations per year, manager conversation sessions were estimated to last one hour.

Note: The reduction in time spent on performance management activities is statistically significant p < 0.001.

The Bottom Line

In the absence of ratings, managers spend less time on performance management activities. But they do not shift that extra time toward ongoing, informal performance conversations.

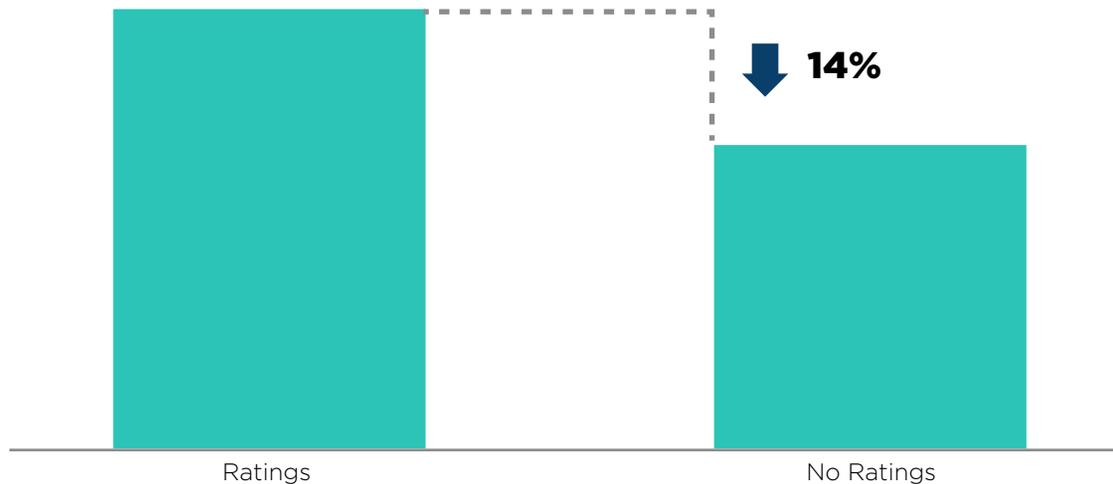
Advice for Organizations Without Ratings

- Set expectations for the timing and frequency of performance conversations to encourage managers and employees to have regular discussions.
- Allow employees to own performance conversations so that they can customize discussions and share accountability with managers.

Reality: Manager Conversation Quality Decreases Without Ratings

Lack of Ratings Reduces Employee Perceptions of Manager Conversation Quality^a

Average Quality of Manager Conversation Score



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.

^a 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 $p < 0.001$.

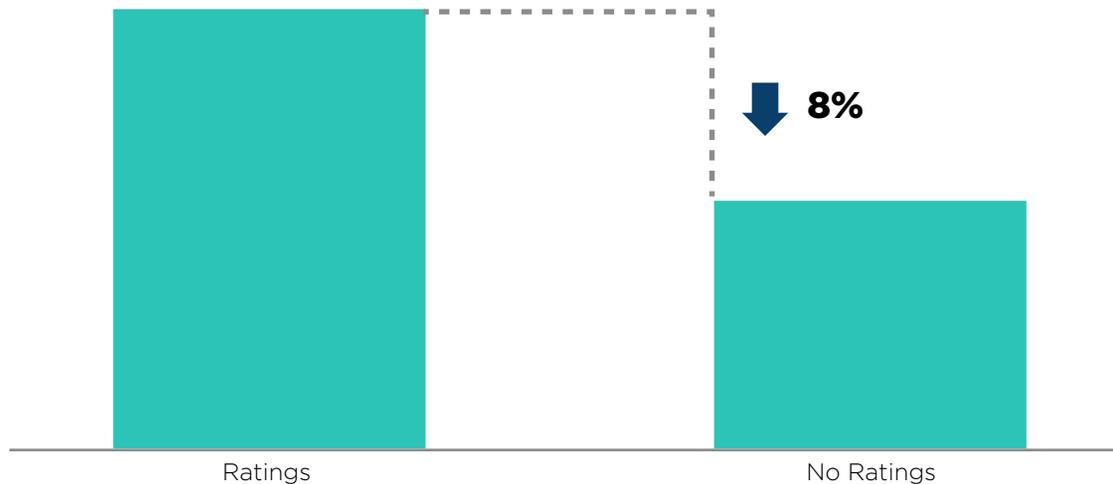
Advice for Organizations Without Ratings

- 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.

Reality: Employee Perceptions of Pay Differentiation Decrease Without Ratings

Perceptions of Pay Differentiation Decrease Without Ratings

Average Perceptions of Pay Differentiation^a



n = 9,686.

Source: CEB 2016 Pay for Performance Employee Survey.

^a Perceptions of pay differentiation represents a drop in the number of employees who believe their organization differentiates pay.

Note: The reduction in pay perceptions is statistically significant $p < 0.001$.

The Bottom Line

While many organizations report that pay differentiation increased when they removed ratings, employees believe there is less differentiation because managers struggle to explain how pay decisions are made and linked to individual contributions.

Advice for Organizations Without Ratings

- Guide managers to make pay decisions by using simple criteria such as performance against role, goal achievement, and role criticality to identify employees who should receive the highest awards.
- [Connect a summary of the employee's contributions to their pay decision](#), and provide organizational context to show employees how pay decisions were made fairly.

“When we removed ratings, employees seemed to **stop believing we were differentiating pay at all**. The rating seemed to symbolize to employees that ‘pay for performance’ was occurring in practice.”

VP of TR
Health Care Industry

Greater Negative Impact for High Performers Without Ratings

The Negative Impact of a Lack of Ratings Is More Pronounced for High Performers^a

1 Manager Time Spend: High performers are less satisfied with manager time spent on performance management.

2 Manager Conversation Quality: High performers are less satisfied with manager conversations.

3 Reward Differentiation: High performers are less likely to feel that they are rewarded appropriately for their contributions.

n = 9,686; 10,531.

Source: CEB 2016 Pay for Performance Employee Survey; CEB 2014 Enterprise Contribution Workforce Survey.

^a High-performing employees were in the top quartile on an index that measured performance against individual tasks and collective contributions.

Impact of Lack of Ratings on Employee Satisfaction with Manager Conversations by Performance Level

Average Quality of Manager Conversation Score^b



n = 5,004.

Source: CEB 2016 Pay for Performance Employee Survey.

^b 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.

“High performers are the ones who like ratings the most. The rating is a **form of recognition for the work they are doing**, and we are afraid that whatever we replace that label with won’t have the same effect.”

Senior HR Director
Pharmaceuticals Industry

Summary of the Impact of Removing Ratings

The Expectation	The Reality for Most	Advice for Organizations Without Ratings or Eliminating Ratings
<p>1 Managers Can Better Engage Employees</p>	<p>Employees Are Less Engaged</p>	<ul style="list-style-type: none"> ▪ Communicate new performance management philosophy and processes to employees so they understand what to expect and how it is intended to benefit them. ▪ Identify new and different ways to recognize high performance outside the traditional performance management process to improve employee engagement.
<p>2 Time Spent on Informal Conversations Will Increase</p>	<p>Managers Have More Time, but Time Spent on Informal Conversations Decreases</p>	<ul style="list-style-type: none"> ▪ Set expectations for the timing and frequency of performance conversations to encourage managers and employees to have regular discussions. ▪ Allow employees to own performance conversations so that they can customize discussions and share accountability with managers.
<p>3 Quality of Manager Conversations Will Improve</p>	<p>Manager Conversation Quality Declines</p>	<ul style="list-style-type: none"> ▪ 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.
<p>4 Managers Will Be Able to Better Differentiate Pay</p>	<p>Perceptions of Pay Differentiation Decrease</p>	<ul style="list-style-type: none"> ▪ Guide managers to make pay decisions by using simple criteria such as performance against role, goal achievement, and role criticality to identify employees who should receive the highest awards. ▪ Connect a summary of the employee's contributions to their pay decision, and provide organizational context to show employees how pay decisions were made fairly.

Source: CEB analysis.

Roadmap: Our Perspectives on the Ratings Debate

Business Case Fails to Hold for Most

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Success Without Ratings Requires Significant Investment

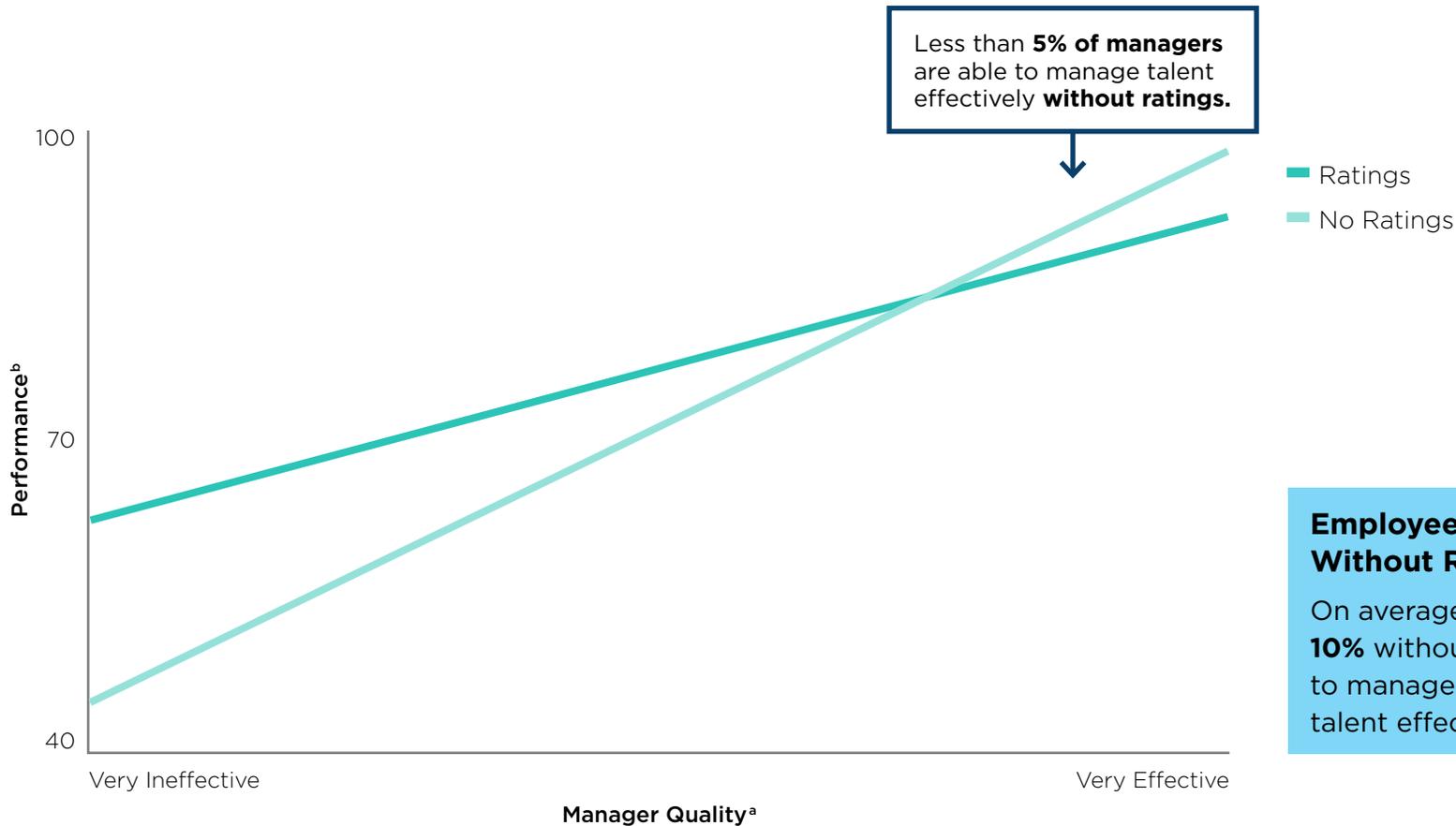
Although a handful of managers are more effective without ratings, most organizations will find it too difficult to get their managers to the level needed to make the change worth the significant investment.

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.

Successful Organizations Have Extremely High Manager Quality

The Relationship Between Manager Quality and Performance



Employee Performance Suffers Without Ratings
On average, **performance drops 10%** without ratings, largely due to manager inability to manage talent effectively without ratings.

n = 9,686.

Source: CEB 2016 Pay for Performance Employee Survey.

^a Manager quality was calculated using the Manager Quality Score, which comprises a) manager fairness, b) manager feedback effectiveness, c) quality of performance management, and d) time spent on informal performance conversations. The average Manager Quality Score is 47.

^b Performance was calculated with an index that measured performance against individual tasks and collective contributions and then scaled to 100.

Organizations That Have Successfully Eliminated Performance Ratings Made Significant Investments

Investments Made by the Successful Few

Significant Ongoing Manager Training

- Development costs to design new training, guides, and tools for managers
- HR FTEs to deliver ongoing training
- Manager time to attend new and ongoing training

Additional Managerial Infrastructure to Ensure Ability and Accountability

- Investment in significantly improved onboarding of new managers
- HR FTEs to implement a system to increase manager accountability for conversations
- Investment in better assessment of managerial capability before manager selection

Robust, Multiyear Change Management Process

- HR FTEs to create and implement communication plan for different employees segments
- HR FTEs and development costs to create tools and resources to enable employee participation in performance management
- HR time spend to respond to questions or problems that arise

Large-Scale Adjustments to Related HR Processes

- HR and leader time spend and resources to monitor effects of eliminating ratings on other processes (e.g., talent management)
- Costs of implementing changes within processes such as talent reviews and recognition programs
- Investments in new technologies or systems to track HR effectiveness without ratings

The Bottom Line

Large investments in training and change management are required to enable the effective management of talent without ratings. Even with these investments, most organizations will struggle to reach the level of manager effectiveness required, as currently only the top 5% of managers are able to manage talent effectively without ratings.

Source: CEB analysis.

Exceptions to the Rule: Situations Where Removing Ratings Might Make Sense

Removing Ratings Only Makes Sense to Drive Needed Organizational Change

Removing performance ratings will not improve talent outcomes (e.g., employee performance), but organizations might choose to deprioritize these talent outcomes to drive another needed organizational change by removing ratings. In these cases, consider temporarily removing ratings until the shift has occurred.

Example 1

Organizations where **competitive cultures** prevent effective collaboration might remove ratings to encourage a change in employee and manager mind-sets from competition to collaboration.

Example 2

Organizations that currently use **forced rankings**, which have damaging effects on talent outcomes, might remove ratings to signal a change in their performance management strategy and facilitate the move away from this practice.

Example 3

Organizations where employees and managers put **more weight culturally on numbers than is appropriate** (e.g., many engineering cultures) may remove ratings to force a shift in focus during performance reviews.

Source: CEB analysis.

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Successful Organizations Focus on Three Performance Management Strategies

Performance Management Strategies

Impact on Employee Performance

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.

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.

Access the [Performance Ratings Debate](#) center for answers to top questions about if and how to eliminate performance ratings.

CEB Performance Impact Solutions

CEB Performance Impact Solutions enable you to craft and implement a performance management approach that is tailored to your unique needs, goals, and culture and grounded in insight, best practice, and benchmarking on world-class talent management. This solution is part of our suite of integrated talent management offerings and is separate from CEB Corporate Leadership Council and CEB Total Rewards Leadership Council memberships.

How We Can Help



Strategy Roadmap

Get hands-on support to develop a concrete strategy for transforming your performance management approach.



Implementation Support

Develop a culture of high performance and feedback with hands-on support to implement change.

Key Benefits

- Quickly design a new approach to performance management that improves line satisfaction and adds value.
- Generate consensus among your stakeholder landscape for a new performance management approach that is grounded in research and best practice.
- Quickly develop the tailored tools to help your managers and employees have effective ongoing performance conversations.
- Increase your likelihood of success by drawing from the lessons learned over many large-scale performance management transformations.

Contact us at



performance@cebglobal.com



cebglobal.com/talent-management/performance-management/our-solutions/pm-solutions.html

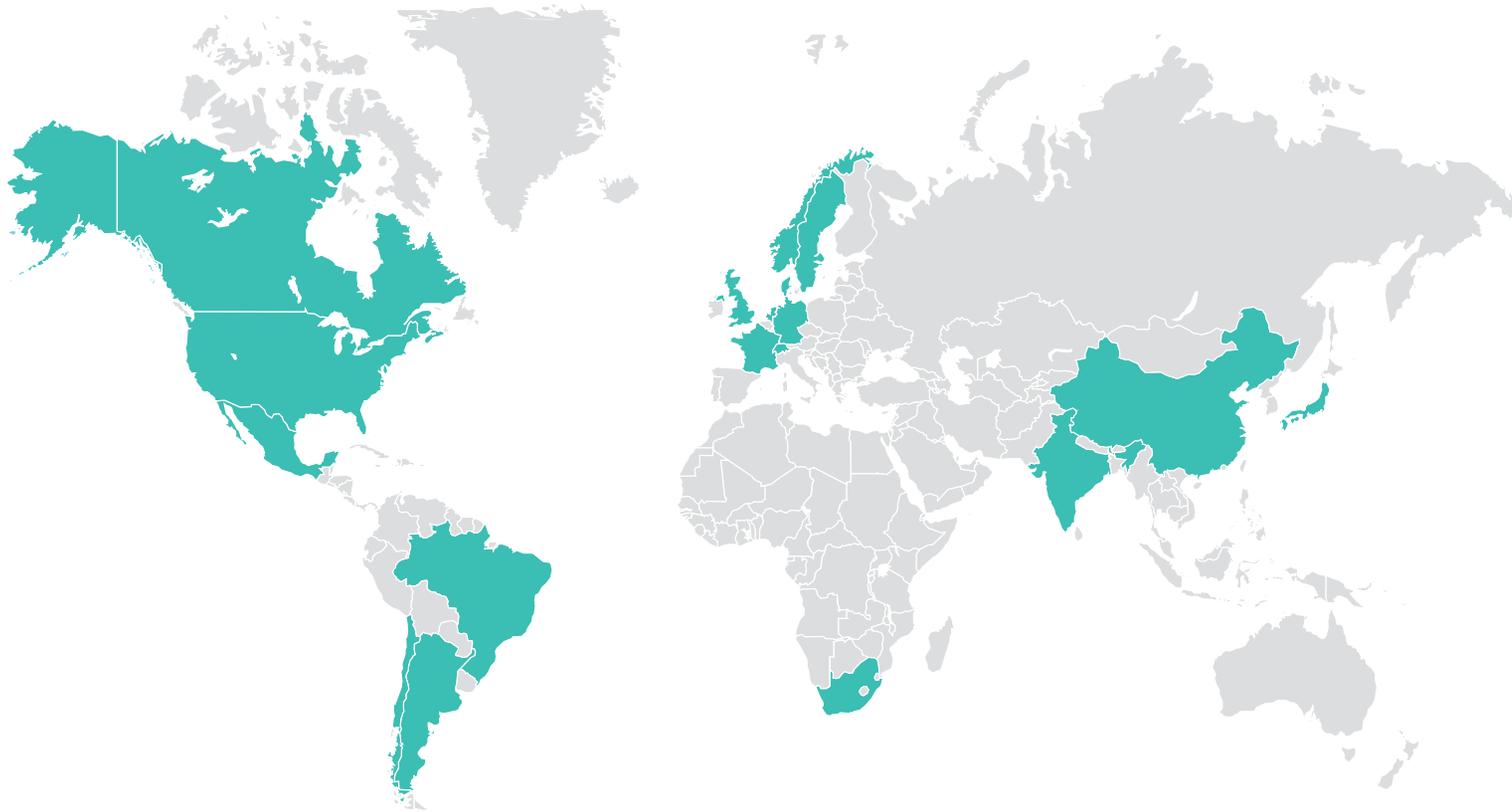
Appendix



Appendix A: Employee Survey Demographics

Survey Participation by Region

Percentage of Organizations



Africa | 3%

South Africa | 3.0%

Latin America | 10%

Argentina | 2.0%

Brazil | 3.1%

Chile | 2.4%

Mexico | 2.9%

North America | 48%

Canada | 3.4%

United States | 44.2%

Asia | 17%

China | 4.4%

India | 10.5%

Japan | 2.1%

Europe | 22%

Denmark | 2.0%

France | 3.4%

Germany | 2.6%

Netherlands | 2.7%

Norway | 0.9%

Sweden | 1.8%

Switzerland | 1.3%

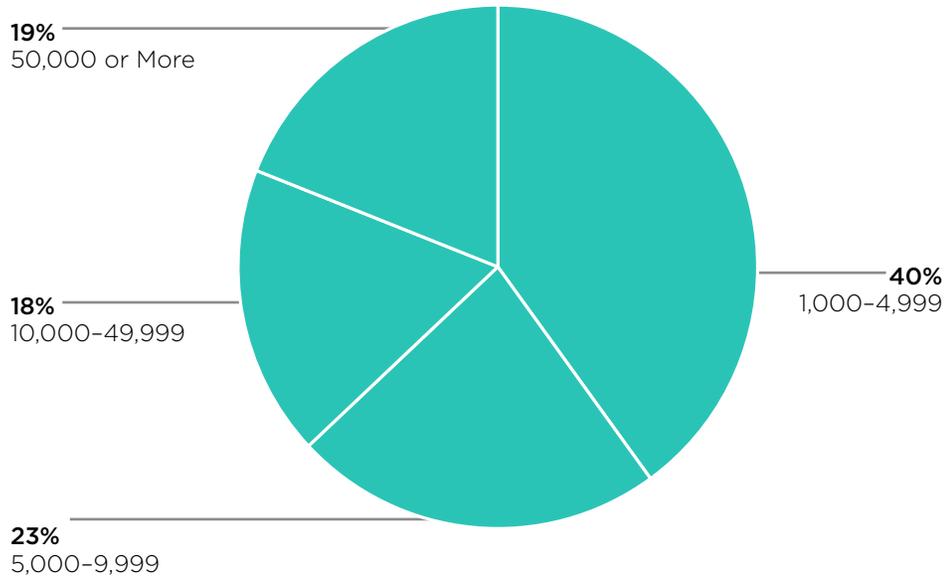
United Kingdom | 7.3%

Source: CEB 2016 Pay for Performance Employee Survey.

Appendix A: Employee Survey Demographics (Continued)

Survey Participation by Organizational Size

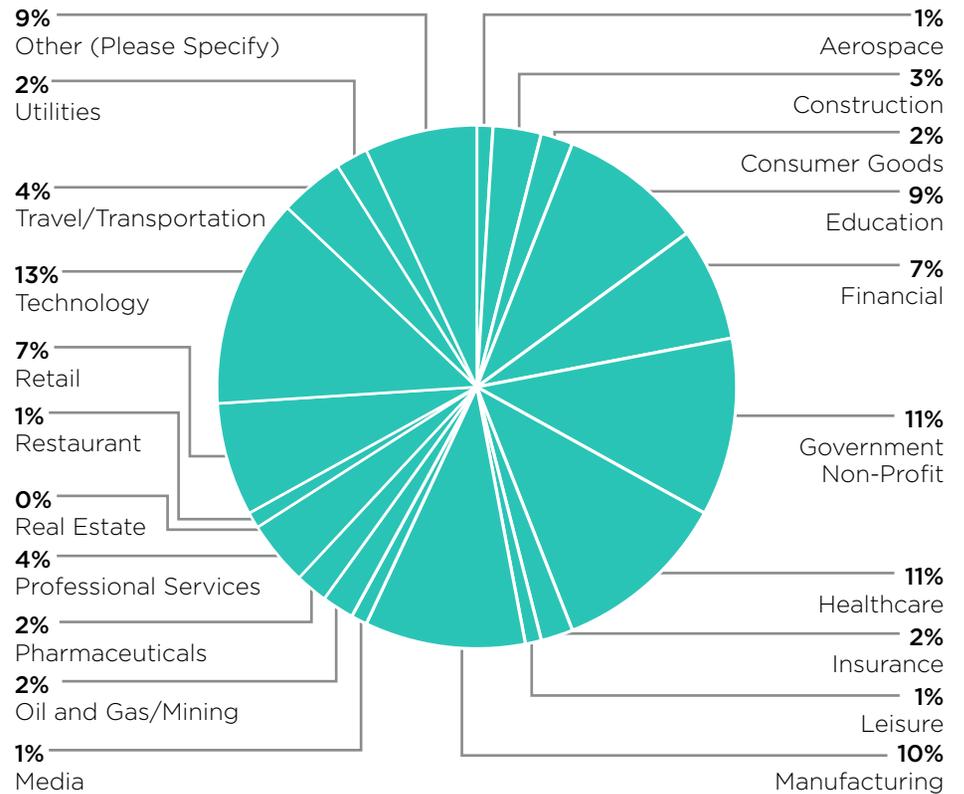
Percentage of Organizations



n = 9,686.
Source: CEB 2016 Pay for Performance Employee Survey.

Survey Participation by Industry

Percentage of Organizations



n = 9,686.
Source: CEB 2016 Pay for Performance Employee Survey.
Note: Total does not equal 100% due to rounding.

Appendix B: Additional CEB Resources to Improve the Impact of Performance Management



Step 1

Assess the Effectiveness of Your Current Performance Management Approach

Model of High Performance

Featured in the Performance Management Topic Center, this model redefines employee performance for the new work environment.

Executive Presentation Materials for HR

This customizable presentation helps build a common understanding of the high-performance model across the organization.

Guidance for Driving Breakthrough Performance

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

Step 2

Redesign Your Performance Management Approach

Guidance to Identify Competencies to Maximize Enterprise Contribution

This guide provides best practices for identifying high-performance competencies.

Goal Alignment Cascade

Follow these best practices from Seagate to refine your goal-setting and cascading process so that employees at all levels understand how to work together to support organizational priorities.

Employee-Owned Performance Conversations

This implementation guide is based on Mitchell's best practice to increase employee ownership of informal performance discussions.

Step 3

Equip Line Managers and Employees to Drive High Performance

Guidance for Managing for Enterprise Contribution

This guidance includes tactics that line managers should employ and the pitfalls that they should avoid when driving breakthrough performance in the new work environment.

Manager Resource Portal on Performance Management

Use these line manager resources to improve foundational performance management skills and advanced skills, such as managing for enterprise contribution.