Case Studies Show the Value of TRADITIONAL PRACTICES

ABANDON PERFORMANCE

Performance management is a hot topic with organizations rethinking how they evaluate the work of their employees to improve performance and meet business goals.

During the past year, WorldatWork has covered this topic and gathered experts to share insights about leaving a traditional system and trying new and cutting-edge practices. Our second quarter issue of WorldatWork Journal features recent case studies about companies that are trying rating-less reviews, frequent check-ins and crowdsourced feedback to improve employee performance.

At the same time, in this issue of workspan, authors from two major HR consulting firms urge caution in this uncharted area of new and unconventional practices as organizations seek ways to redesign their performance management systems.

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RATINGS WITH CAUTION

Exercise caution before scrapping performance ratings.

By Brian Levine and Linda Chen, Mercer

Several high-profile organizations have recently moved to eliminate performance ratings — a trend that reflects the evolution of organizational thinking about how employees should be assessed and motivated. Indeed, there are good reasons to consider large-scale changes in performance management, but caution is needed.

For many organizations, review processes generate dissatisfaction from leaders and employees alike. Significant time and expense related to these

processes add to the general frustration. When it is unclear what ratings measure and they are not strongly associated with the organization's ability to attract, retain, develop and motivate talent, the value proposition should be questioned.

However, whether the move to abandon performance ratings is right for a given organization depends on the context. It's therefore helpful to share some insight about three organizations, derived from predictive analytics linking performance processes to desired outcomes. Such an examination should be part of the due diligence undertaken before making a large-scale change such as eliminating performance ratings. In two of the three cases, performance ratings are shown to drive significant value, though there is potential for improvement in processes. In the third, major changes should be considered.

CASE 1 — FinanceCo
Disciplined Performance Management Vs. Supervisory Bias

A financial-services company was concerned about the potential for systemic differences in performance ratings — across gender and racial lines — given the strong association between ratings and both compensation and future career opportunities. Statistical models that accounted for both employee experience (proxied in the data by age tenure and time in job) and the economic vitality of the geography served by the employee could not explain these differences.

Still, the objectivity of performance-rating processes seemed to limit bias. Consistently, those in the support functions where there was more subjectivity in evaluation criteria were more prone to see differences in ratings by race than those in the businesses where clear, objective measures of performance were available.

Simply put, those in units with more structured review processes showed less bias in performance ratings across groups. Furthermore, there was evidence that even where there were objective criteria, discretion in the process (i.e., how those criteria were used to drive the final rating) was seen to be associated with bias (e.g., rounding differences in the determination of final ratings across racial groups). For other organizations, we have noted a corollary: Where ratings related to objectives and related to values are separately gathered, the ratings related to more subjective criteria (e.g., values) show greater bias.

Perhaps most interesting, the provision of training intended to counter unconscious bias of supervisors was shown to be a statistically significant factor associated with lower levels of difference between racial groups. While language differences across groups in written performance reviews pointed to potential for bias, statistical models showed that the level of observed bias under a given supervisor was lower where the provision of training was provided in proximity to the performance-evaluation period. (See Figure 1.)

For FinanceCo, there are steps that can be taken to further limit bias — namely, efforts to make review processes more consistent and objective through increased and timely utilization of supervisor training programs. But it is also notable that those areas with more objective criteria and more limited discretion in performance processes see more limited bias. A move to less structure and less transparency in how work outcomes are determined — effectively releasing supervisors from the accountability inherent in written performance reviews — would appear to be fraught with risk.

CASE 2 — ProfessionalCo
Ratings and Associated Feedback Are Highly Valued by Employees

At ProfessionalCo, a global consultancy, statistical models show that employees highly value career

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opportunities and financial incentives, both of which are strongly related to performance ratings. On top of these strong alignments, the models show that employees distinctly value the performance ratings. In fact, performance ratings outrank the opportunities and rewards that they themselves relate to — pointing to the unique value of the ratings and related feedback.

It is worth further elaborating on how the statistical models establish the value of performance ratings. Essentially, the models allow comparison between employees who are equivalent in all ways except for one. Looking at two employees who are comparable except that one is rated "strong" and the other "exceptional," models show that the higher-rated employee would receive a higher bonus award, a larger salary increase and would be more likely to be promoted — all of which are retentive. In addition, simply receiving the higher rating is seen to be further retentive, suggesting that the rating itself is a meaningful signal to the employee, uniquely valued above and beyond associated rewards.

Details regarding these findings are displayed in Figure 2, depicting results from a statistical model where the dependent variable is retention.

While performance ratings seem to function well at ProfessionalCo, there is still opportunity to improve their efficacy. It is fairly rare that employees receive "above average"

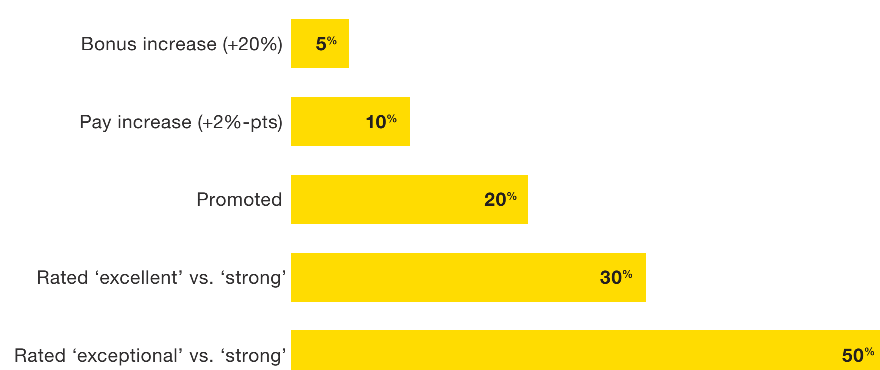
Figure 1 | **Impact of Supervisory Training on Performance Rating 'Bias' (Blinded Data)**

Supervisor training effects on likelihood of minority receiving a rating of "above average" vs. "average" in 2015

Function	A If manager was trained in 2013	B If manager was trained in 2014	C If manager was trained in 2014, Q4	D If manager was trained in 2015, Q1
Function 1	not significant	not significant	not significant	25%
2	not significant	not significant	not significant	15%
3	not significant	8%	10%	not significant
4	not significant	not significant	not significant	50%

Figure 2 | **Statistical Model Showing Independent Impact of Various Rewards and Performance Ratings on the Probability That an Employee Is Retained in the Following Year**

Employees who receive a "5"' (exceptional) are 50 percent more likely to stay than those who receive a "3" (strong), after accounting for other employee characteristics and experiences that might also drive retention. Those who receive a "4" (excellent) are 30 percent more likely to stay than those who receive a "3." In contrast, those employees who are promoted are 20 percent more likely to stay than those who are not promoted, within a given rating category and career level and, otherwise, under comparable conditions of employment.



Performance management, especially when evaluation criteria are not optimized or when processes are unclear, can be linked to concerning outcomes.

ratings in this organization. There is perhaps opportunity to create more value for employees, who appreciate the positive feedback, by better leveraging the full distribution.

Furthermore, there is insufficient consistency in what constitutes a high rating. Greater alignment of high ratings to business-critical accomplishments and more clarity about whether ratings serve to demark current period contributions or the development of critical competencies linked to career progression should serve the organization better in driving the greatest value from the program.

CASE 3

ResearchCo

Neither Performance Ratings nor Poorly Aligned Rewards Are Valued by Employees

At ResearchCo, an international think tank, statistical models showed that performance ratings were neither related to rewards (e.g., pay increases, advancement) nor retention. In this environment, supervisors seemed to be trading off performance ratings — thought to be valued by employees — against scarce financial rewards and career opportunities.

Mercer has observed gaming like this, too, which is common in environments with forced performance-rating distributions, and, where it occurs, significant change in the performance-management system would be recommended. (A good discussion of this can be found in "Abandoning Pay-for-Performance Myths in Favor of Evidence," which was published in the first quarter 2011 *WorldatWork Journal*.)

The performance measures, of course, are inherently flawed in such an environment; the feedback driven by the performance system is cast into doubt; and true high performers, receiving good financial outcomes in one period, are not necessarily more likely to stay on in future periods, when gaming by leaders intended to divide limited resources might work against them.

Caution and Change

Performance management, especially when evaluation criteria are not optimized or when processes are unclear, can be linked to concerning outcomes. When that occurs, large-scale change might be required. But caution should be exercised before abandoning ratings.

Performance ratings can drive important results when implemented effectively. They can limit supervisory bias, effectively driving discipline in the allocation of opportunities and rewards. And those ratings can be independently valued by employees over specific career opportunities and rewards. In these situations, eliminating performance ratings can be costly. Better solutions might entail realigning evaluation criteria and adjusting processes. Predictive analytics can help organizations determine the effectiveness of programs and set the scope for change.

In all three cases, the value of having a performance measure to assess the effectiveness of programs (e.g., in the areas of rewards and development) is clearly demonstrated. That value needs to be considered before moving forward with a plan to wholly eliminate ratings. ws

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