

Performance Ratings – Finding a Better Way

Ask most HR people why their company uses a performance rating scale and you will likely get a response such as, “Without ratings, how will people know where they stand?” or “How will we justify increases if there are no ratings?” or even, “It’s just the way it has always been done here.” Labeling employees with a rating is a practice that has been in place for a long time at most companies and more times than not, performance ratings are linked to other processes such as salary increases, bonuses and promotions, so the idea of removing them altogether can certainly conjure fear in those who are responsible for such decisions. Why then would a company even think about doing away with performance ratings?

In my last blog, “Performance Ratings – The Great Demotivator”, I shared the example of my friend who started to search for a new job after receiving a performance rating of “meets expectations.” I’ll quickly recap the possible reasons for such a strong response to a performance rating. First, research shows that there is an actual neurologic response to being categorized which create a fight or flight response. Next, there is the discrepancy in how individuals interpret the value of ratings; one person may see “meets expectation” as meaning a “job well done”, whereas another may see it as being the equivalent of being told they are a “C” student. And finally, research and surveys consistently reveal that employees and managers alike are demotivated by the performance review process even if they have been given favorable ratings.

To illustrate this last reason, I’ll give you an example of another friend who had an unfortunate outcome in delivering what he thought was going to be an “easy” performance review to a high achieving, high performing employee. His company follows a fairly standard performance review process with mandated quarterly checking-ins and a final annual review complete with an overall rating on a 5 point scale. The system his company has in place shows the numeric rating with the decimal pointing addition to the overall rating title. The overall rating of the

individual was an “exceeds expectations” with a numeric value of 4.4 out of a possible 5. Pretty darn good overall rating that should have been very motivating, right? Wrong! Despite all of the examples the manager gave of good skills and behaviors demonstrated throughout the year by the employee, she could not get past the fact that her final rating was not over 4.5. And, instead of focusing on what actions she had taken to achieve her great results, she focused on what the overall numeric rating meant to her. Needless to say, it was a frustrating and deflating performance review interaction for the manager and the employee.

Its examples such as these that are causing more and more companies to take a look at their process and to seriously reconsider how or why they rate or rank employees and how those ratings or rankings then tie to rewards. The more “agile” approach to performance management suggests that performance ratings be decoupled from the rewards process. With this approach however, the question remains, “How will we justify increases if there are no ratings?”

Although labeling people may seem like an easier approach to equating rewards, it really can cause an even greater inconsistency. For example, going back to basic “Exceeds, Meets, Does Not Meets” rating scale, are all “Meets” really created equally and should therefore all receive the same merit increase? A better approach over categorizing people may be to look at the contributions, accomplishments, and the impact an individual had in the year, and evaluate the reward based on not only the results that were achieved but variables that either helped or hindered this individual in achieving the results. On the surface, this approach may seem more time consuming and too subjective. However, if employees know that they are rewarded based on achievements versus a label or rating, and managers know that they will need to support the reward with solid examples, it really puts both parties in a position to want to ensure consistent ongoing communication throughout the year. Isn't this really the goal of performance management, to have managers and employees engage in meaningfully discussion regularly about what's working, what's not working and achieving results together?

The question of whether or not to rate employees is certainly a tricky one in the grand scheme of the performance management process. The important thing is that you ask the question of whether or not what you have in place is effective and if it serves a purpose. Even if your company is not ready to be rid of ratings altogether, can your rating system be better defined, modified or streamlined to make it more meaningful? Look at both of the examples I shared; if my “meets expectations” friend had a better understanding of how ratings were defined by her manager or had more conversations about the impact of her daily work, would she have been quite so devastated by her overall rating? Or, in the case of my manager friend whose company has a five point scale in place complete with decimal points (which actually made it into a 50 point scale!); could taking the numbers away at least have helped that employee focus on the actions and skills that were being reinforced instead fixating on a decimal point? When it comes to performance ratings there is no one-size-fits-all answer, so it is up to each organization to take a good long look at what is in place and ask, “Can we find a better way?”