There's plenty of passion and noise behind the movement to eliminate performance ratings. Now might be a good time to examine what the science and practical realities say about the validity of this approach.

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We Love Ratings!

by Marc Effron, President, The Talent Strategy Group

While our article’s cover illustration may seem overly enthusiastic, it’s an appropriate counter-balance to the hysteria of the ”stop performance ratings” movement that’s recently gained traction. Articles like “Kill your Performance Ratings”[1] in *strategy+business* and “Reinventing Performance Management”[2] in *Harvard Business Review* have declared performance ratings to be an unnecessary evil and called for their elimination.

These articles tell us that being rated invokes a debilitating light-or-ight response and that ratings are so biased as to not be worth gathering at all. They suggest that a “ratingless” system is far more virtuous and effective.

Both in theory and in reality these arguments fail. On the theory side, the science that the authors say supports their case clearly does not. In some cases it’s not even related to their argument and in others it ignores entire bodies of research that contradict their indings.

As for reality, their “tail wagging the dog” approach tries to isolate ratings as the central problem with performance management, ignoring that ratings are part of a larger process. They ignore that businesses that have dropped ratings continue to rate through their compensation processes. They ignore that structured differentiation is necessary to avoid bias and to smartly invest in talent.

The cracks in the ratingless approach are starting to show, however, as businesses that have tried ratingless now slink back to ratings.

Our position is that ratings are neither good nor bad. Ratings are simply a tool that may be appropriate depending on your company’s business objectives. Given that this level of rationality is missing from the current

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1 David Rock, Josh Davis, and Beth Jones, “Kill Your Performance Ratings,” *strategy+business*, August 8, 2014, Autumn 2014, Issue 76.

2 Marcus Buckingham and Ashley Goodall, “Reinventing Performance Management,” *Harvard Business Review*, April 2015.

dialogue, we thought we'd provide a more objective view of the science and a counterpoint describing the strong business beneits of ratings.

Starting with the Science

Readers of *One Page Talent Management*[3] know that we start any discussion about HR practices by reviewing the relevant science. In this case, it's more helpful to see if the science cited by the opponents of ratings actually supports their claims.

Science Claim #1: **Rating someone invokes a light-or-ight response that creates negative emotions and reactions that reduce individual productivity and commitment**

This is the neuroscience argument cited to support the claims in "Kill Your Performance Ratings" and is based on neuroimaging experiments. Those experiments use magnetic resonance imaging (MRI) machines to see how the brain "lights up" when it processes information.

There are two fundamental laws with claiming that neuroscience indings justify eliminating ratings. First, it's correct that when we interact with other people our limbic brains generate either an "approach response" (more please!) or an "avoid response" (run away!). It's also correct that these subconscious processes can drive our behaviors without our being fully aware of this.

But, there's no science that says being rated automatically creates a negative response. Highly rated people or those rated consistent with their self-evaluation are likely to have either positive or neutral reactions. Even negative feedback is proven to be more acceptable when the source is credible, and the feedback high quality and delivered in a considerate way.[4] A bad performance conversation may trigger a negative reaction, but that's independent of whether you use a rating or not.

Second, the neuroscience claim also suggests that this subconscious "avoid" process will dominate our reactions to feedback. This ignores the fact there is a conscious process taking place as well during feedback, and that we have the power to control our reactions to it.[5] In short, we're able to intelligently evaluate the information that we hear even if our limbic brain is sending us an "avoid" message.

The Reality: We're still a long way from conclusively understanding what mental process is occurring when certain parts of the brain light up in an MRI. Claiming that we know this is called 'reverse inference' and leading Stanford University neuroscientist Russ Poldrack warns against drawing that type of conclusion from neuroimaging data.[6]

Scientists are still learning about the interrelatedness of mental processes and we should support continued

[3] Marc Effron and Miriam Ort, *One Page Talent Management: Eliminating Complexity, Adding Value*, Harvard Business Review Press, 2010.

[4] Steelman, Lisa A., and Kelly A. Rutkowski. "Moderators of Employee Reactions to Negative Feedback." *Journal of Managerial Psychology 19*, no. 1 (2004): 6-18.

[5] Kinicki, Angelo J., Gregory E. Prussia, Bin Joshua Wu, and Frances M. McKee-Ryan. "A Covariance Structure Analysis Of Employees' Response To Performance Feedback." *Journal of Applied Psychology 89*, no. 6 (2004): 1057

[6] Poldrack, Russell A. "Can Cognitive Processes Be Inferred From Neuroimaging Data?." *Trends in Cognitive Sciences 10*, no. 2 (2006): 59-63.

neuroscience research into this. For now, however, it's incorrect to extrapolate from a bright spot on a brain scan to a design element like performance ratings.

Science Claim #2: Ratings aren't accurate, so don't use them

In "Reinventing Performance Management", Marcus Buckingham and Deloitte's Ashley Goodall write about Deloitte's former performance management system which, based on their descriptions ("creating the ratings consumed close to 2 million hours a year"), sounds ridiculously complex and bureaucratic. It's understandable why they felt a redesign was necessary but the science they say inspired them to eliminate ratings offers no support for that choice.

In their article they cite, under the heading "The Science of Ratings," research that they say shows that rater bias (anything in a rating not directly related to one's actual performance) accounts for most of the differences in performance ratings. They state that the research says that "actual performance" accounts for only 21% of a performance rating. They wanted to redesign their performance management process to avoid this type of error.

The Reality: The article they cite, "The Latent Structure of Ratings,"[7] in no way supports their argument. In fact, that research had nothing to do with actual performance ratings and didn't involve a real company's performance management process!

The research used *development* ratings from a Personnel Decisions International database to *model* what performance *might be* given various rating on a Proilor assessment tool.

Calling this study "The Science of Ratings" is, at best, highly misleading and ignores the signiicant body of academic research that directly addresses the topic of ratings.[8] Even the article's authors state, "because true performance levels are unknown, none of the validities can be determined with certainty."[9] Since nothing in that article relates to an actual performance review, it's challenging to see how this study in any way suggests not using performance ratings.

The Loudest, Least Logical Reason for a Ratingless Approach

In articles about performance ratings, HR leaders will generally describe their process as universally unliked. They'll say that those who perform well are forced into lower performance categories and that those who are not highly rated regard the process as unfair.

It's not surprising that in companies with a poorly designed and poorly run process that the focal point of that process – the review conversation with ratings – would feel the heat.

However, it seems a rather twisted journey from "we have a complex process, are horrible at setting goals and don't coach employees" to "ratings are the reason for our failure." It may be helpful to irst intelligently design the entire performance management process (see

7 Scullen, Steven E., Michael K. Mount, and Maynard Goff. "Understanding the latent structure of job performance ratings." *Journal of Applied Psychology 85*, no. 6 (2000): 956.

8 There's a lot. Look it up in Google Scholar.

9 Scullen, Steven E., Michael K. Mount, and Maynard Goff. "Understanding the latent structure of job performance ratings." *Journal of Applied Psychology 85*, no. 6 (2000): 956.

"The Hard Truth About Effective Performance Management" at www.talentstrategygroup.com) and then evaluate if ratings add or detract from it.

A Moderate Defense of Ratings

So with a more objective view of the science on the table, let's explore both the beneits and practical realities of having performance ratings.

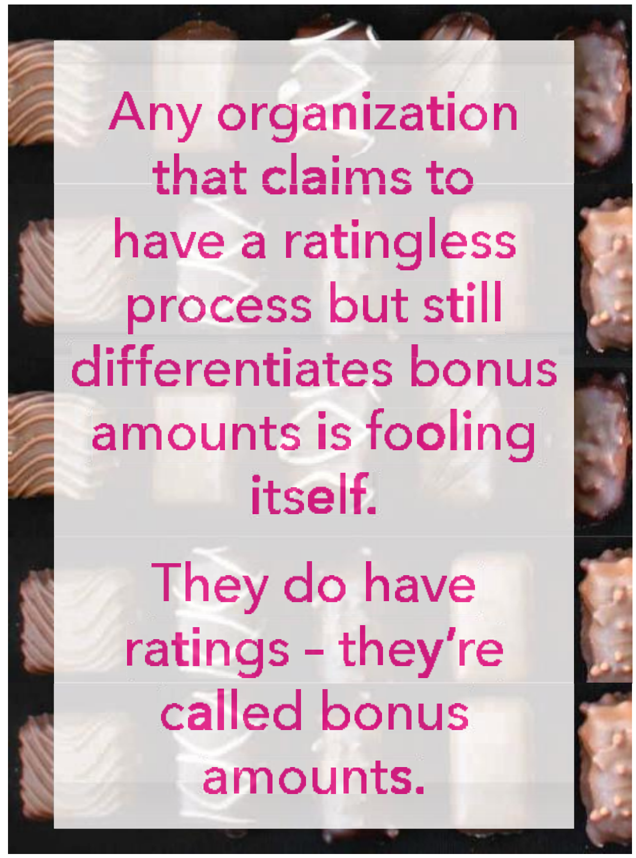
1. **You are constantly being rated**. You were accepted (or not accepted) into your preferred college because of your SAT ratings. You got (or didn't get) the house you wanted because of your FICO rating. You got (or didn't) the date you wanted because of your Tinder "rating."

   Those irst two ratings likely had an impact on your life that was far greater than your recent performance rating. Yet you didn't object to those ratings even though the stakes were higher, you didn't set the measurement standard, you were coldly evaluated against others and you had no choice about how the process worked.

   Each of those ratings allowed someone to make a smarter decision (admit/no admit, lend/reject, date/drop) because they had a reference point about you. A performance rating is no different. It relects a collective judgment about your performance relative to others. It allows a company to make a smarter – not objectively perfect – assessment to inform a choice they need to make (how to pay you, what feedback to provide, whether to promote).

   Your manager, peers, direct reports, the on-campus Starbucks barista and everyone else you interact with are rating you every day at work. A performance rating simply summarizes a slice of that data.

2. **Ratings provide helpful differentiation**. If your company can't accurately differentiate its investments in people, it will by deinition mis-invest.



   Some team members will get more than they need and others will get less. Without a standardized way to differentiate you'll be stuck trying to allocate resources among 10,000 people described in your now qualitative process as "pretty darned good."

3. **But can't you differentiate without a rating?** Yes, just inaccurately. The science is clear that individuals and managers are delusional about their and others' performance. The classic article "Unskilled and Unaware of It"[11] describes what's become known as the Dunning-Kruger Effect. The authors' repeated experiments found that we're not just unaware of our own lack of competence, we don't recognize genuine ability in others and refuse to admit we were previously wrong when our performance is corrected.

   Managers overrating their team is an enduring, scientiically proven fact in companies. It's most

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[10] Effron, Marc, "The Hard Truth About Effective Performance Management," The Talent Strategy Group, accessed at http://www.talentstrategygroup.com/publications/performance-management

[11] Kruger, Justin, and David Dunning. "Unskilled And Unaware Of It: How Dificulties In Recognizing One's Own Incompetence Lead To Inlated Self-Assessments." *Journal Of Personality And Social Psychology* 77, no. 6 (1999): 1121.

pronounced where performance ratings are used to determine compensation,[12] where it's dificult to assess an employee's true competence,[13] and where the manager and employee have a strong relationship.[14] So, hoping that managers will naturally and accurately differentiate without a rating is, to put it kindly, highly unlikely.

Ratings provide a structure for assessing people against a consistent standard in a consistent way, but they don't eliminate upward rating inlation. What does? Forced rankings. There's only room in the top 10% for your top 10%.

4. **Ratings limit conscious/unconscious bias.** Goodbye ratings? Hello conscious and unconscious bias! Without at least the imperfect crutch of performance ratings, there's no way to analyze if personnel decisions are being made based on performance or managers' personal preferences.

5. **Ratingless systems reduce transparency**. The Achilles' heel of ratingless systems emerges at bonus time. Any organization that says they have a ratingless process but still differentiates bonus amounts is fooling itself. They do have ratings – they're called bonuses. They've simply removed the transparency between performance and pay.

   Somewhat inexplicably, Deloitte is choosing not to be transparent with their employees about how they are being assessed in their "radically redesigned" process. They say they're looking for a better answer but hiding information from employees feels like a gigantic step backward rather than the radical transformation that *Harvard Business Review* advertised this move to be.

[12] Jawahar, I. M., and Charles R. Williams. "Where All The Children Are Above Average: The Performance Appraisal Purpose Effect." *Personnel Psychology 50*, no. 4 (1997): 905-925.

[13] Bol, Jasmijn C. "The Determinants And Performance Effects Of Managers' Performance Evaluation Biases." The Accounting Review 86, no. 5 (2011): 1549-1575.

[14] Tziner, Aharon, Kevin R. Murphy, and Jeanette N. Cleveland. "Contextual And Rater Factors Affecting Rating Behavior." Group & Organization Management 30, no. 1 (2005): 89-98.

[15] Rachel Feintzeig, "The Trouble With Grading Employees," The Wall Street Journal, April 22, 2015, retrieved at http://www.wsj.com/articles/the-trouble-with-grading-employees-1429624897

6. **Ratings put the data in big data**. You lose the independent variable in most HR analytic exercises when you eliminate performance ratings. In an age where we want to better understand what drives or is driven by high-performance, eliminating the metric of performance seems incredibly short sighted and naïve.

Is This Just an HR Concern?

It was telling that the *Wall Street Journal* recently featured an article that discussed Intel's attempt to eliminate ratings. It reported that Intel's HR group tested a ratingless performance management process with their 1,700 HR employees and received positive reviews. When the HR group suggested to Intel's executives that ratingless performance management be rolled out across the company, they said no. They were conerned it would "suck healthy tension out of the workplace."[15]

It's fair to ask whether the noise about ratings is generated purely by some in HR, external consultants and lower performers. It's possible that everyone else just wants a simpler, easier to use, more value-adding process.

Do We Love Ratings?

Yes, but we're not *in* love with them. They serve a valuable purpose when used to help accurately differentiate levels of performance so we can more intelligently invest our organization's resources. They're a tool – nothing more, nothing less. They should be used if they add more value to decision-making than they add complexity or effort.

The recent hysteria around ratings would be humorous if organizations weren't making that choice driven by a combination of questionable science and the unwillingness to acknowledge the beneits (and occasional pain) of differentiation.

Driving high-performance means that we must take a broader and more accurate look at the science, apply far less dogma and understand how the pieces of performance management actually it together. If that means that not using ratings is the best choice for you – great. But please make that decision because you understand the facts, not because it's the latest fashion.