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The Move to No Ratings

Driving an Ownership Culture With Performance Management at a Large Healthcare Company

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The Context for Performance Management Reform

In 2014, a large multinational healthcare company made the decision to undertake performance management (PM) reform, driven by two significant organizational initiatives with the parallel goals of process simplification and culture transformation.

For the first half of the decade starting in 2010, the company was facing a significant number of business challenges, which led to expected declines in revenues for an extended period of time. To counteract this trend, the company's leadership took a number of steps to ensure the company was as efficient and productive as it could be. One initiative aimed at efficiency focused on simplification of its processes and systems across the company. As in many organizations, the PM process was frequently cited as a process that could be simplified to focus on the most impactful aspects of the process and eliminate aspects that added to complexity and did not add value. In discussions with the company's leaders and employees on this topic, performance ratings were commonly mentioned as a significant hot button issue. Leaders and employees expressed that ratings took significant time to generate and assign (through a complex calibration process) and often led to dissatisfaction and disengagement among employees. In addition, performance conversations between manager and employee tended to focus on the performance rating itself rather than on an in-depth dialogue on the employee's accomplishments and development opportunities.

In parallel to these simplification efforts, the company had recently launched a significant culture initiative focused on individual accountability and "ownership." This major initiative was launched by the company's

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chief executive officer (CEO) in 2012 and ultimately became a significant and lasting organizational initiative. After a series of mergers and acquisitions, the CEO and senior leadership team wanted to build a stronger, more cohesive organizational culture that would enable the business to thrive and that would make the company an exciting and engaging place to work.

The resulting cultural vision was focused on the message of accountability and trust and highlighted the aspirational behaviors that employees at all levels were expected to demonstrate. These behaviors include both the way the work is accomplished (e.g., with high-integrity accountability for results) and how employees interact with one another (e.g., with trust and respect). After first launching this cultural vision in 2012, the company began to integrate the message, philosophy, and principles into their global people processes, from the way they attract and acquire new talent to the way they onboard, develop, and engage employees. There was a specific day each year devoted to celebrating the company's culture. On this Culture Day each year, the company would focus on a specific aspect of the culture to reinforce, from concepts such as individual accountability, to specific leadership behaviors, to managing one's energy to maximize performance. As part of the journey of embedding the culture framework into processes and tools, the company sought to align the way it conducts PM with the messages of ownership and accountability.

Making the Case for Change

Around the time the culture vision was enacted, there was a widespread belief that had been building for several years across the organization that performance ratings—including the process used to arrive at them and link to compensation—were taking up more time and energy than was worthwhile, and they were having a negative impact on employee engagement overall.

The individuals in the human resources (HR) leadership team, including the company's chief human resource officer (CHRO) at the time, were supporters of making changes to the PM process given the global push toward simplification and individual accountability. This team determined that removing ratings, along with moving to more frequent, informal performance coaching conversations, would help the organization to reinforce these important cultural messages. Therefore, HR leadership buy-in was not a primary challenge. The larger task was convincing the HR community and managers across the company that this was the right thing to do. Among the HR community, the primary concern was that managers would not be comfortable having year-end performance conversations without the rating that had provided the "anchor" for that conversation. HR employees felt that there was a need to train managers so that they were clear on the expectations of them and to clarify how the process would work. At the time, there was a high priority at the company on manager effectiveness, and there were discussions among HR and business leaders about how they could ensure managers had the necessary skills to drive performance on their teams.

Among managers, some expressed concern that they would not be able to justify their compensation recommendations without a performance rating. For years, managers had relied on the performance rating to summarize the performance review and explain to employees why they were awarded a given compensation outcome (e.g., base pay increase and annual bonus). In the new process, they would be asked to have a deeper discussion about an employee's performance and explain to the employee why they awarded them the compensation outcomes without the support of the performance rating.

To meet these needs, a project team consisting of team members from compensation, talent and organization performance, change management, and HR business partner roles was put together to plan and scope the PM transformation. The team wanted to make sure that they were utilizing the opportunity to make changes that would have the greatest positive impact on the business. The team determined that, in addition to simplification of the process, there would be an emphasis on informal dialogue on performance throughout the year, with the focus on improvement and development, rather than just evaluation.

To reinforce the case for change and address concerns from HR and managers, the change management team produced a series of webinars and presentations outlining why the process was changing, as well as videos of senior leaders promoting the benefits of the changes for the organization. The team also produced a toolkit for managers; the toolkit included examples of what "good" performance reviews look like, tips for having effective conversations with their direct reports, and guidance for making compensation allocations in the new PM process.

The New PM Process

The PM change implementation was done in-house, without external consulting support. The company's PM team was aware of a number of companies that had removed ratings (along with calibration and formal link between ratings and compensation outcomes) and moved to more informal, regular conversations about performance. The team spoke with peers from several other multinational companies that had removed ratings and moved to ongoing coaching and feedback on performance. The PM team also relied on an extensive external network of colleagues at peer companies to understand their PM practices and transformations they have done.

The company's previous process involved a traditional rating scale, including descriptions such as partially met, consistently met, exceeded, and significantly exceeded. This process had included SMART (specific, measurable, achievable, realistic, time-sensitive) goal setting, formal midyear and year-end reviews, and a calibration process in which managers would meet to discuss and align on the performance ratings of their direct reports. Those ratings would be utilized to generate compensation recommendations. Leaders managed to a "guided" distribution of ratings throughout the organization.

In the new process, starting in year-end 2014, the company held goal setting in a similar way, while removing formal midyear reviews, performance ratings, and the associated year-end calibration process. Instead, they emphasized ongoing dialogue between manager and direct report on performance and development throughout the year, and they introduced a new feedback tool to enable managers to gather open-ended feedback from their colleagues and stakeholders on their direct reports' development needs. The feedback tool could be initiated by managers at any time throughout the year.

In the new PM system, the year-end process consists of employee self-assessment (in which employees comment on their achievement of their annual goals); manager review (in which managers comment on the employee's performance, including what they did well and what they could do to be even more effective in the future); and final approval by the second-level manager.

In place of formal calibration of ratings, the company now has "team performance discussions" in which teams of managers meet with their direct manager to discuss their highest performers, as well as any employees who have deficient performance. The goal of the team performance conversation is for a team to align on what great performance looks like on the team in a given year and align on which employees should receive a higher compensation allocation, as well as which employees are "deficient" performers in that particular year. The main difference between the team performance discussion and the traditional calibration meeting is that the team does not need to agree on a final performance rating for each team member. It is still up to the individual managers to determine how they will allocate compensation funds within their teams.

Following the team performance discussion, each manager logs in to the online compensation portal and makes year-end compensation recommendations (merit increase, annual bonus, and long-term incentive, where relevant) for each of their direct reports. In the portal, managers are provided with guidelines on the range of merit increase and bonus funding for direct reports. A manager's allocations for bonus and merit increases for the team members must equal 100% of the total funding allocated for their team that year. So, if a manager wants to give an "above-target" bonus to a high-performing employee, he or she must give a "below-target" bonus to another employee on the team. The manager's direct manager then must assess the compensation recommendations for all the employees on his or her broader team and respond by either approving the manager's recommendations or modifying them. Once again, this higher level manager must ensure that the compensation for the broader team must not exceed 100% of the funding allocated to their part of the organization.

After this process of assigning compensation outcomes for employees has been completed, and once the compensation statement is ready, managers meet with employees to have their year-end performance conversations. In some cases, managers have two separate conversations: one for performance and one for compensation. In other cases, managers decide to have the conversations combined in one meeting (this is based on manager discretion). The performance part of the conversation consists of a review of what the employee achieved, what the employee did particularly well, and what he or she could do differently going forward. The compensation part of the conversation consists of the manager reviewing the employee's merit increase, annual bonus, and long-term incentive, as relevant.

The new compensation statement was carefully designed to provide employees with information on the relative standing of their performance in the company and their division. The compensation statement includes information on the bonus and merit increase payouts for the individual employee, as well as the funding level for the company and for the employee's division.

For instance, if the employee's bonus payout was at 120% of their target and the funding for their division was 110% of the target, the employee would know that he or she was being rewarded higher than the average performer in the division that year.

Shifting roles in the new PM process. The roles and accountabilities for managers and HR have also changed with the transition to the new process. In the previous process, managers provided a recommended rating to their manager and HR, and that rating was debated with their own direct manager and sometimes modified as a result of the discussion. The final rating was associated with a targeted range of compensation outcomes for the employees.

In the new process, managers are held accountable for determining compensation recommendations for their employees (with approval from their manager), which they were not directly responsible for before. This is a significant increase in manager accountability as managers are no longer able to claim to the employee that, "HR made me do it"; that is, a lower compensation outcome had been due to the intervention of their next-level manager or an HR professional. The manager must make a conscious and deliberate decision regarding which employees would receive a larger share of the funding pool and which employees would receive a smaller share.

This increased level of manager discretion is balanced by oversight by the next-level manager, who—typically with the support of an HR partner—ensures that all managers within their organization stay within their budget and are appropriately differentiating the rewards of employees in their teams.

In the previous process, HR professionals were responsible for tracking the progress of their internal client group, including running progress reports and following up with individual managers and employees. Particularly in supporting senior leaders, HR business partners played an active role in ensuring the process flowed effectively and the proper process was followed for debating and arriving at appropriate final ratings. In the new process, a conscious decision was made by HR and business leaders that HR would no longer play an administrative role in the process. HR no longer tracks the progress of groups and follows up with those who have fallen behind in the process. Instead, HR spends more time coaching leaders and providing guidance to ensure that managers have the tools needed to complete high-quality manager reviews and conduct meaningful performance and development conversations.

Sources of debate. The greatest debate in the new process related to the "deficient performance" designation and what that should mean from a compensation standpoint. Deficient performance is designated only to employees who fall significantly short of achieving their performance goals for the year. This occurs in a very small percentage of employees and often indicates performance issues requiring a performance improvement plan. There was significant discussion about the appropriate compensation outcomes for employees receiving this designation, with some feeling that the annual bonus and merit increases should be at the discretion of the manager. However, given the significant underperformance signified by the deficient performance designation, it was ultimately decided that employees who are determined to have deficient performance should not receive an annual bonus or merit increase for that particular year.

PM Change Implementation

Unlike many other organizations instituting significant PM changes, the company did not pilot the new process on a portion of the population prior to launching with the full employee population. It was thought that it would cause greater confusion if some organizational groups moved to a new process while others maintained the previous process. The decision was made to initiate the change for all groups at the same time (except for several small organizational groups, which delayed implementation for 1 year due to local regulations).

Figure 10.1 illustrates the company's new PM process. The process starts off at the beginning of the calendar year, with employees drafting their goals, aligned with the business objectives and plan for the year. Next, employees discuss their goals with their managers, who provide guidance and input on the drafted goals. Throughout the year, managers and employees engage in frequent, informal feedback conversations to ensure employees are progressing toward their objectives and make any adjustments or updates to the goals that were set at the beginning of the year. During November, employees write their self-assessments, in which they provide comments summarizing their progress on achieving their objectives for the year. During December and early January, managers review employees' self-assessments and provide a written performance review, describing their assessment of what the employee did particularly well and what he or she could do better to improve in the future. The manager makes decisions for each employee's merit increase and bonus allocation and indicates these distributions

Figure 10.1 The new performance management process.

through the online compensation tool. After these compensation allocations have been approved by the manager's manager, the performance process comes to an end with the performance conversation between the manager and employee.

Process rollout. The new PM system was launched through a series of communications from senior leaders, including videos, email messages to employees, and commentary at company town hall meetings. The communications from leaders focused on the connection between the new PM process, the company's culture vision, and the focus on simplification of processes. The implementation team also created presentations for managers at all levels to use in their team meetings to explain the new process, what was changing, and the rationale for the changes.

The key messages in the communication for the new "ratingless" PM process were that the company was removing ratings and moving to more ongoing dialogue on performance, and that the company was doing this because ratings did not help to maximize performance or help people grow and develop. Ratings were taking an inordinate amount of time and energy and sometimes causing anxiety and disappointment. They were not helping the company engage employees and drive a more effective and efficient process. Removing ratings also freed more time for managers and employees to have meaningful conversations about performance and development.

The communication also highlighted the linkage to the company's culture, with a focus on the importance of manager and employee accountability for setting challenging yet achievable goals, having continuous conversations throughout the year, and having a quality dialogue on performance and dialogue at the end of the year. The company's culture messaging also highlights the importance of trusting fellow employees and delivering on commitments, which are both critical for the new PM process to work effectively.

In terms of training, the cross-functional implementation team conducted online webinars for HR and managers outlining the new process (the *what* and the *why*), as well as creating a series of tools and tip sheets that managers could use as needed throughout the process.

What went well. Overall, most employee feedback from the process implementation was positive. Through a follow-up survey with a sample of managers and employees, it was learned that employees felt that change was consistent with the company's culture, they felt well informed on the changes, and they valued the executive leadership team's involvement in the launch of the process through videos and in-person forums. Employees also felt the supporting materials developed for the rollout were comprehensive, and they appreciated the new Feedback Facilitator tool.

Feedback from employees indicated that communications about why the company was making the change were effective, driven by the strong and visible sponsorship from the executive leadership team through videos and presentations at town hall meetings.

Employees also indicated that they understood the rationale for increasing compensation transparency, and the alignment with the company's culture vision was clear. Finally, and importantly, the large majority of employees felt that the holistic focus on the individual's performance—rather than a rating—during the year-end discussion was a positive step forward for the company.

Lessons learned. As with any major process implementation, there were numerous lessons learned. Employees suggested they would have appreciated greater involvement from local leadership during implementation, as the new process seemed very centrally driven rather than sponsored by local leaders and managers. In addition, employees felt that the supporting materials could have been simpler and more streamlined for ease of use. Some employees commented that the Feedback Facilitator tool could be a bit simpler, and this has since been replaced by a built-in feedback tool in the new HR information system (HRIS) platform.

A final lesson learned is that a strong sustainment plan is needed to facilitate continuous feedback and performance discussions. A PM process change such as this one is truly a multiyear effort that includes frequent communication and messaging to ensure that behavior and process changes are sustained beyond the initial implementation period.

Challenges experienced. The main challenge was convincing managers that they would still be able to facilitate a meaningful and productive dialogue on performance without ratings. Some managers reported feeling uncertain about how the conversation would flow without the "anchoring" point of the performance rating. To support these managers, the implementation team held a series of webinars with managers to discuss how to have a high-quality performance conversation without ratings. In addition, the team created a series of supporting materials for managers describing what a well-written performance review looks like and how they can structure their year-end performance conversations. The guidance to managers was to focus the conversation on the employee's accomplishments for the year, as well as what the employee could do differently to improve his or her performance in the future. Ultimately, despite some having reservations going into the process, many managers found that planning for the conversations was intuitive and did not require as much "hand holding" as the HR team had initially anticipated.

Changes made following implementation. Following the initial implementation in Year 1, the HR team assessed whether any significant changes would be necessary. The decision was made to maintain the key elements of the PM process: goal setting, ongoing performance conversations, and year-end review without ratings. The changes that were made in subsequent years were focused on communication and technology.

From a communication perspective, the organization increased the use of company-wide newsletter communication to reinforce the message to managers about the importance of having ongoing performance conversations with their direct reports and emphasize the informal nature of these meetings by referring to them as "check-in" conversations.

From a technology perspective, the organization embarked on a company-wide implementation of a new HRIS platform during 2016 and 2017. This had an impact on all HR processes, including talent acquisition, talent management, PM, and compensation. As the new tool for PM was being designed in 2016, the project team sought ways for the new technology system to enable the newly implemented PM process to be even more intuitive and efficient.

With the goal of simplification, the new technology tools were designed to include only the primary steps in the process (goal setting, employee self-input, manager review, second-level manager approval).

In addition, the new technology system offered a built-in feedback collection tool, which replaced the separate ad hoc feedback tools that had been used in the first 2 years of the new PM process. This feedback tool enabled managers to solicit open-ended feedback on their direct reports' performance and development needs at any time throughout the year, including as part of the year-end process. In the first year of the new HR system, a feedback step was integrated into the year-end process, so that managers could solicit feedback from their direct reports' colleagues as sources of input to the employees' year-end performance review. While it was initially seen as a positive step in the PM evolution to include feedback as part of the process, postimplementation input from managers and employees indicated that they wanted to see the year-end process be even simpler, with fewer steps to complete. Based on this feedback, the PM team is exploring approaches to continue to simplify the year-end process.

Outcomes

As of 2018, the new PM process has been in place for 4 years. To understand the feedback on the new process, the performance and compensation teams have looked at a range of metrics, such as employee survey feedback on questions related to manager coaching and feedback and pay for performance, the distribution of compensation outcomes before and after removing ratings, number of employee disputes of performance outcomes, and so on.

The HR team monitors employee survey feedback on relevant questions on an ongoing basis. The company conducts an annual employee survey that covers a range of topics related to experiences of employees at work, including work environment, manager effectiveness, company strategy, career development, and employee engagement. The survey items related to PM focus on whether people managers (1) are sufficiently focused on employees' growth and development and (2) provide feedback that helps employees improve their performance. The scores of these two survey items have consistently been above 80% favorable over the past 4 years. In terms of year-over-year trends, scores on these items slightly increased in the year following implementation, with scores leveling off in subsequent years. While employee opinions and sentiment can be influenced by a variety of factors—some of which are unrelated to the PM process implementation—the consistently favorable survey scores support the notion that the employee population has seen the PM changes to be positive.

A number of additional metrics suggest positive trends related to the PM process following the ratingless PM process implementation. The company's ombudsman's office reported a 33% decrease in PM issues in the period after the new PM process was implemented. In addition, there was a significant decrease in performance appraisal rebuttals in the years that the new PM process was introduced.

There was also a significant decrease in managers soliciting advice from the company's HR Service Center on performance discussions for year-end process, suggesting that they had all the information that they needed to have their performance conversations. In parallel, there was an increase in managers seeking advice from the HR Service Center on how to provide coaching to their direct reports, suggesting that the messaging related to coaching and feedback have resonated with managers.

Finally, the compensation team compared bonus distributions made to employees in the year before the new process was implemented and those made in the year after the implementation. They found that there were no material year-over-year differences in bonus distributions across the full population or within the subgroup of employees with the same manager. This suggests that even without the "guided distribution" of the company's previous PM process, people managers were appropriately differentiating between higher and lower performers through the bonus allocation process.

Factors enabling success. Both quantitative and qualitative measures, as well as anecdotal cases, suggest that removing ratings has been a positive change at the company. As indicated, feedback from managers, employees, and HR has been consistently positive. Given that some companies that remove ratings do not report the same level of employee, manager, and HR satisfaction as reported here, it is worth discussing why this company may have been more successful in demonstrating these impacts. A number of factors may have worked in this company's favor.

First, this organization is a mature company with well-established HR processes that have been implemented for decades. As such, managers at this company are accustomed to a traditional PM process in which a "pay-for-performance" philosophy is well embedded. Therefore, even without performance ratings, managers and employees generally understand the rationale for setting clear goals, discussing progress, and having rewards differentiated based on performance, and the transition to a ratingless PM process was not as disruptive as it might be at a company that has less mature HR processes.

A second factor that may have buffered against some of the challenges with employee satisfaction is that employees are still given a sense of how they "stack up" against others at the company. The company's leadership made the decision to provide a relatively transparent compensation statement that gives employees a sense of how their performance and rewards compare with others in their division and the broader organization. This may satisfy the desire, particularly among higher performers, to understand how they are being rewarded relative to their peers.

Finally, the PM changes at the company were communicated with a compelling rationale and were clearly aligned with broader messaging on the company's aspirational culture and business imperatives. Removing ratings and transitioning to more informal coaching and feedback was not done in isolation; it was communicated and implemented alongside an enterprise-wide initiative to build a stronger culture through attributes such as individual accountability, trust in one another, and delivering on commitments. All of these cultural behaviors fit seamlessly with the PM changes that were being made, so the message was well connected to other culture initiatives. As a result, HR and business leaders may have had an easier time communicating and getting employees to "buy in" to the changes and understand the rationale for them than they would have otherwise had.

Greatest challenges. The concept of ongoing performance conversations, with feedback and coaching throughout the year, may be a very appealing one to many companies. However, this is the part of the company's new process that involves the most significant behavioral change and thus presents the greatest challenge from a sustainment perspective. While some managers were already holding informal conversations with their direct reports on a regular basis to discuss performance progress and provide coaching, other managers relied on the formality of the structured midyear and year-end processes. While most employees report in the company's engagement survey that their managers provide feedback and coaching to help them improve their performance, managers are not asked to formally document their conversations, so it is not known exactly how frequently managers are having discussions with their team members about performance.

Therefore, the company's HR leadership team considers the sustained implementation of "ongoing performance conversations" a work in progress. The company's primary ways of continuing to build this capability are through periodic communication and learning and development programs. The communication campaign starts at the beginning of the calendar year and involves newsletter messages and e-cards to employees that focus on varying topics based on what is relevant at that time of year (e.g., goal setting, year-end review). In an effort to keep coaching and feedback top-of-mind for managers and employees throughout the year, in these communications the HR team includes reinforcing content related to the importance of these ongoing performance conversations.

In addition to building coaching capability in managers, the company's learning and development team has incorporated significant learning content on coaching into the development programs for managers. These programs are aimed at building the skills managers need at various career stages, such as newly appointed managers, midlevel managers, and senior management. Their belief is that building coaching and feedback capability through learning programs, coupled with the ongoing communication to all employees, will help to drive the necessary behavior change across the organization.

Additional changes being considered. As the company begins to shift the focus of the organization to "growth" (from both business and personal perspectives), they are working on developing ways for the PM process to reinforce and encourage the mindset and behaviors necessary to drive business growth—through balancing one's focus on short term and long term, encouraging expansive thinking, and cross-functional collaboration. One idea that is being considered to drive this mindset shift is having separate categories of goals that encourage employees to focus on the right priorities, such as goals focused on short-term business needs and those focused on making long-term investment to enable future growth. Another potential idea would be to identify and communicate the specific behaviors the company wants to instill to drive the "growth" mindset and measure those during the year-end process through a multisource feedback process incorporated into the evaluation of the employee's performance. Either of these ideas would represent a significant shift for the company and could enable the organization to focus on the business priorities necessary to drive growth.

Reflections on the State of PM

From my perspective, the field is moving in a positive direction in the sense that companies are looking carefully at their PM processes and assessing whether they are meeting the needs of the organization. It seems that companies are no longer just doing things the way they have always been done but instead are looking for opportunities to improve their processes to have the greatest impact.

Based on this company's experience and that of other peer companies, it is clear that removing ratings is not the right solution for every company. In some companies, the type of process described here can be quite effective, while in others, this may simply not work. Further work should be done to better understand the factors (industry, organization, history with PM, etc.) that enable this type of process to work well. For instance, is being ratingless more likely to be successful in mature stable companies or smaller start-ups? Is an industry like healthcare more conducive to this type of PM process than an industry like consumer products, technology, or retail? Further research and case studies are required in order to fully understand the factors that enable success.

Many organizations are under pressure to simplify their PM processes (from administration and flow standpoints) while making sure they are still serving the purpose of accurately assessing performance and differentiating performance and rewards to motivate future performance. Also, there are many technology tools and platforms available to organizations looking to "digitize" their PM process, including manager dashboards that pull together various sources of employee information in one place. Much of this technology sounds appealing, but I would recommend that companies think carefully about the goals of their PM process and how they can best meet those goals rather than chasing the latest technology or process "fad."

While technology can be a great enabler of progress in the PM area, it cannot drive a successful process on its own. The technology needs to be combined with a well-designed PM process and the organizational culture and manager capability to support it. For instance, there are technology solutions that enable managers to obtain feedback from their direct reports on a weekly basis to inform their weekly one-on-one meetings with their team members. However, if the organization's culture does not support this type of frequent feedback and managers do see value in having the weekly meetings, the technology system will not be fully utilized.

Ultimately, the process that each company implements must fit their own unique needs, and these needs will necessarily evolve over time. A company may determine that moving to a ratingless PM process is the right decision at a time in which they are going through significant organizational changes and striving to reduce the amount of time spent by managers to complete the year-end calibration process. Several years later, however, when this same organization is in a more stable state, the priority may shift to identifying higher performers across the enterprise, and ratings may be reinstituted. As business and talent priorities evolve, organizations must ensure they are agile and ready to shift their PM process to meet whatever needs and challenges they may face.