

# EXECUTIVE SUMMARY

## Final Question

What alternative performance appraisal methods have companies used to replace forced rankings? What are the benefits and drawbacks to these methods? What are the potential solutions to the drawbacks?

## Introduction

Forced ranking systems became popular among major companies in the 1980s. However, researchers discovered that, in the long term, forced ranking systems damage morale<sup>1</sup>, deter teamwork<sup>2</sup>, and stifle innovation<sup>3</sup>. As a result, companies have replaced formalized ranking systems with two alternative performance appraisal methods: ongoing feedback/coaching and objectives setting. These two methods hold their own benefits in addressing the negative consequences of forced rankings. However, these methods also produce drawbacks. A full understanding of each is important to decide whether or not they are worthwhile replacements for a company.

## Alternative Performance Appraisal Methods

Many firms have adopted two common alternative performance appraisal methods. Each alternative performance appraisal methods are customized to accommodate each company's culture and organizational structure. See Appendix 1.

### 1. Ongoing Feedback/Coaching.

- a. **What It Is.** Ongoing feedback and coaching is the continuous process of providing advice for employees to improve their performance. Managers, supervisors, and employees frequently analyze their colleagues' performances and other job behaviors to boost motivation and job effectiveness.<sup>4</sup>
- b. **Case Studies.**
  - i. **Adobe** invigorated a "check-in" culture where ongoing discussions between managers and employees occur every three months or less.<sup>5</sup> Before the discussion takes place, an employee's colleagues evaluate the employee's performance. In addition, Adobe developed resources to equip managers with better coaching skills.<sup>12</sup> Managers use these skills to collaborate with the employee in order to establish expectations, offer advice on performance, and recognize exceptional work.<sup>5</sup> The purpose behind the check-ins is to foster opportunity for improvement.
  - ii. **Cargill** launched "Everyday Performance Management," a simplified performance management process that focuses on cultivating high-quality employee-manager relationships through day-to-day performance conversations. "Everyday Performance Management" reduces administrative burdens, such as eliminating formal performance ratings, so managers can develop the ability to provide candid feedback.<sup>6</sup> To increase employee engagement, the company trained managers on how to coach and center feedback discussions on the employee's impact to Cargill's business success.<sup>7</sup>

### 2. Objectives Setting.

- a. **What It Is.** Objectives are major work tasks that employees identify in order to clarify role responsibilities. The purpose behind the objectives setting process is to align business strategy to employee duties.<sup>8</sup> Either managers, employees, or groups can develop objectives in a brainstorming session.
- b. **Case Studies.**
  - i. **Accenture** asks that employees list their priorities during performance appraisal discussions. Priority setting is a form of objective setting where objectives are organized in order of importance. Employees discuss priorities and expectations with their supervisors to streamline the employee's performance and development with business objectives.<sup>9</sup> Priorities help managers frame employee conversations to be more forward-looking.

- ii. **General Electric** has installed an app called “PD@GE” which facilitates the performance management process for managers. Each employee has priorities, a series of near-term goals, which managers use to frame frequent discussions (called “touchpoints”). The app allows managers to note the progress towards those priorities. The app platform provides functions that allow managers to type notes, take photos, and record audio.<sup>10</sup>

## Benefits & Drawbacks

The two alternative performance appraisal methods have produced reported benefits such as increased employee engagement and reduced voluntary turnover. However, the lack of numerical performance ratings has created uncertainty about rater bias, merit-based pay, and employee standings.

### 1. Benefits.

- a. **Increased employee engagement.** Cargill reported a 9 percent increase in an employee’s sense of value between 2013 and 2014 as a result of ongoing feedback discussions.<sup>7</sup> 84 percent of employees felt that ongoing feedback helped focus them on work that mattered. Cargill also found that 38 percent of employees felt that high-quality discussions with effective managers had a positive impact.<sup>7</sup>
- b. **Reduced voluntary turnover.** Adobe experienced a 25 percent reduction in voluntary turnover between 2012 and 2014 despite the highly competitive culture embedded in the company.<sup>11, 12</sup> This suggests that top performing employees felt more valued, and employees with room for improvement felt supported and encouraged. Interestingly, Adobe also sees increases in involuntary attrition. Between 2012 and 2014, as a result of more frequent, difficult discussions with employees struggling with performance involuntary attrition rose to 50 percent.<sup>13</sup>

### 2. Drawbacks.

- a. **Rater Bias.** Managers without proper coaching and feedback training will conduct performance appraisals with bias.<sup>14</sup> Although forced ranking systems also do not accurately rank employees due to bias, A manager’s agreeableness and friendliness can impact the working relationship between a manager and employee and, thus, impact the quality of the employee discussions.  
Possible Solution: Develop and update trainings and resources for managers when providing feedback.
- b. **Uncertainty about Merit-Based Pay.** The elimination of forced rankings raises concern regarding merit-based pay. Companies must rethink how to allocate merit-based rewards to employees without a numerical ranking system.<sup>15</sup>  
Possible Solution: Allocate rewards based on contribution to projects. Salaries should reflect market value.<sup>15</sup> See Appendix 1 and 2.
- c. **Uncertainty about Employee Standings.** In addition, a lack of a numerical rating system has also created uncertainty in employee standings. Employee standings are important for (1) identifying high performers, (2) communicating to employees where they stand, and (3) deciding who to reward.<sup>16</sup>  
Possible Solution: “Tag” high performers with labels. Allocate rewards on-the-spot as they happen.<sup>16</sup>

## Conclusion

The long-term use of force ranking systems produce negative consequences that can damage a business’s bottom line. As a result, many companies are moving forward using ongoing feedback/coaching and objectives setting as alternative performance appraisal methods. The reported benefits from ongoing feedback and objectives setting include increased employee engagement and a reduction in voluntary turnover. Drawbacks include rater bias and uncertainty around merit-based pay and employee standings. While more research needs to be conducted to test for the effectiveness of the alternative performance appraisal methods, several companies that implemented these performance appraisal methods have reported positive results.

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**Appendix 1.**

In the Past	Today
Annual appraisal and rating	Continuous feedback and coaching, treating “feedback as a gift”
Forced ranking	No forced ranking and no rating at all in many cases
Annual goals and objectives	Quarterly or regular goal-setting with informal check-in process
Annual talent reviews by team	Continuous talent reviews by peers and manager
Development as afterthought	Development as core, managers rewarded for “talent production” not “talent hoarding”
Recognition by manager	Recognition by peers, manager, team leaders
Career plan for promotion and HiPos	Career plan for everyone, with open movement and career mobility
Focus on moving up or out	Focus on moving across, down, up, and around
Compensation based largely on ratings	Compensation based on performance, potential, market demand for position, critical nature of role, customer impact
Bell-curve distribution of raises and financial returns	High performers receive much higher levels of compensation than median or middle

Appendix 2.

**FIGURE 2** Performance Management Without Ratings

