

# To Rate Or Not To Rate?



## The Pros & Cons of Performance Ratings



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# To rate or not to rate – that is the question!

When it comes to performance appraisals, there are definite advantages and disadvantages of using performance ratings. This paper discusses the pros and cons of using ratings and shares common pitfalls that you may want to avoid if you are considering introducing ratings within your organisation or reflecting on the effectiveness.

So, first of all, do you need to introduce performance ratings at all? Well, it depends on what you want the purpose of your performance appraisals to be: are they about increasing employee engagement and talent retention or more about increasing productivity and performance? Perhaps they are seen purely as a mechanism to redistribute reward?

If this is a difficult question or you believe that the common answer to the question; “Why do we carry out performance appraisals here?” would be ‘because HR tell us to’ or that it is just ‘something we’ve always done?’ then it is worth re-defining the purpose of performance appraisals in your organisation from the top down. Answers like the above will result in appraisal being seen as a box ticking exercise or a painful annual activity that should be complied with and this perception needs addressing culturally.

Ultimately, appraisals should increase productivity AND employee engagement but delivered badly, have the power to do the opposite! Does this mean that we should consider ditching the performance appraisal altogether? Not unless you can be certain that you have a culture of regular, meaningful feedback between manager and employee that goes on all year round. That would be the ideal, but highly unlikely to be a reality in most organisational cultures without some formalised process or check points.

So, what does a good appraisal look like? Performance appraisals should be a meaningful discussion between manager and employee, reviewing past performance honestly and refocusing on expected future performance. They should encourage reflection and growth and the employee should feel challenged but motivated as a result of the conversation. Let’s consider how performance ratings fit with this.

## The Pros and Cons of Performance Ratings

Pros	Cons
<ul style="list-style-type: none"><li>• They allow an organisation to differentiate between high and low performers</li><li>• They allow reward to be distributed against performance</li><li>• They give a quantitative indicator of performance</li><li>• They give a performance discussion focus</li></ul>	<ul style="list-style-type: none"><li>• Few managers are skilled in objectively measuring performance</li><li>• Managers dislike giving bad news and will tend to bunch around middle ratings</li><li>• There is potential for discrepancy of rating from one manager to the next</li><li>• The rating can become the focus rather than the discussion</li></ul>



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# Avoiding common pitfalls with ratings

So you have ratings in your organisation or are about to introduce them, here are some of the more common pitfalls that you may want to avoid.

## 1. Ensure they don't become the purpose of the appraisal

Back to our earlier discussion on having clarity about the purpose of appraisal within your organisation. This needs to be positively communicated and understood by everybody with emphasis on the importance of meaningful performance conversations and the link between this and employee engagement. Without this context, there is a very real risk that the rating becomes the *raison d'être* of the entire appraisal resulting in our dreaded 'tick box' exercise and people feeling like a number. This may well mean some renewed communication and manager training and you also need to have clear answers on the purpose of ratings themselves e.g. to reward top performers or to allow the organisation to distribute development opportunities effectively.

## 2. 5 point scales

You may have heard of 'central tendency bias' which is where people avoid the outward extremes of a rating scale so with a 5 point performance management scale, in reality most managers will only use points 2-4 with the majority receiving a '3'. This is the first point about a 5 point scale – managers won't use it the full range and your distribution will be between 3 points only in reality. The second point is about the perception of the employee if they receive the central rating or '3', which is likely for the majority of your organisation as that is how the normal distribution curve will fall. It feels average even if you don't call it that (see our next point!) which isn't particularly engaging. We have found that a 4 point scale is really effective as by removing '5' which no one used anyway, managers still use ratings 2-4 but they are more considered about rating a '4' and both parties feel happier if they receive a '3'. A simple but effective way of making the experience more positive.

## 3. Demotivating the majority through negative terminology

I've seen too many ratings scales which have terminology which is somewhat underwhelming and could even be perceived as negative. How would you like to achieve all of your objectives and have your performance labelled 'Average'; 'Meets Expectations'; 'Acceptable Performance' or worse, simply '3'? Let's say that you have met the majority of your objectives and you receive this label, you are hardly going to leave the meeting jumping for joy, so in effect we are demotivating the majority. It doesn't take much to turn this into more aspirational language such as 'Fully Achieved' or 'Complete Performer'. Psychologically, this makes managers more likely to honestly rate performance if you can make the language more attractive 'Partially meets' or 'Almost achieved' is far better than 'Underperformance'. Then make the highest rating aspirational so 'Exceptional performance' or 'Significantly overachieved' – those who get it will feel fantastic and those who are one below are still extremely satisfied. Simple changes like this can make a huge difference to 'rating creep' as managers are more comfortable giving the 'average' rating when it is called 'fully achieved' and this has a positive impact on the individual.



## 4. Vague or woolly objectives or absolute objectives

Ask someone if they know what a SMART objective is and they nod and roll their eyes - of course they do, BUT how good are they at actually writing one? Writing objectives is a skill and you cannot rate something objectively if it isn't clearly defined. If you are considering introducing ratings in your organisation, it is vital that managers develop the skill of writing truly SMART objectives, and this is different from understanding what the mnemonic stands for! The other challenge arises with an absolute or binary objective e.g. Deliver X project to Y team by Z date. Some objectives don't lend themselves to over achievement, you have either achieved it or not. In this situation it is really important that the manager and the employee understand clearly through discussion what achievement or over achievement would constitute.

## 5. No clear consequences of ratings

Rating performance really needs to have a purpose, if it isn't ultimately going to link to pay or some other reward in the form of development then people are likely to ask questions and become cynical. It takes time and emotional effort to deliver a good quality appraisal and this is increased if it is to result in a performance rating. Because ratings allow absolute comparison between people they can be highly contentious if they are not seen to be fair. If you don't intend to do anything with the ratings as an organisation or cannot provide some positive consequences then it is probably better to save the time, effort and pain of introducing them in the first place and focusing people on having better quality conversations.

## 6. Linking to pay too early or without calibration

If you are going to link ratings to reward, it is a good idea to have at least one year with a dry run. This will allow you to take the whole organisation through the experience of setting objectives and rating against them, followed by a facilitated calibration process. Calibration is where managers sit with their peers and discuss the distribution of performance ratings in their area. They may have to justify the ratings of their own people with examples or evidence and challenge the ratings of others. It is possible that individual's ratings can change as a result of this process. The process of calibration must be well managed by a skilled facilitator as the purpose is to increase objectivity into the ratings distribution at a divisional or organisation level. If you are linking ratings to pay, it is essential that you have a calibration process or similar, otherwise you could be accused of being discriminative.

This can be an extremely powerful learning experience for most managers, especially on the first couple of occasions as they may find their perceptions challenged and the ratings of their people changed. You will generally find that managers will be much more inclined to write really SMART objectives or to prepare better for appraisal and calibration when they have been through this experience at least once. Therefore, links to pay and reward should only take place when the organisation has developed enough skill to do this as objectively as possible.



## 7. Forcing ratings into a normal distribution

Just in case you have forgotten your statistics, a formal distribution is also known as a bell curve which shows statistically in populations above a certain size differences will average out. So if you took 100 people and measured their height, the vast majority would be in the middle - at the top of the bell. Smaller numbers would be very tall or very short which are at either side of the bell. This works, but only in populations above a certain size i.e. at least 100. In groups smaller than this, it may not work – you may have a very tall team or a very short team but in a large enough group it all averages out.

So let's apply this theory to performance ratings – with a big enough population, if managers are being objective you would expect to get close to a normal distribution. You would not expect to necessarily get a normal distribution at a team level and it would be unfair to force it – effectively saying that for one person to be marked up, another has to be marked down. In my view, ratings should only be changed if the evidence brought out at calibration points to flaws in the decision making e.g. A manager has rated his whole team as 4's but as an overall team they have not met their performance targets.

It is quite common for an organisation to have a skewed positive performance curve and I would argue that is a good thing if they are generally achieving their overall business goals. This is because underperformance should be managed throughout the year and individuals turned around or managed out. Having a high number of underperformers in order to fit the bell curve is not a positive sign for the organisation.

However, my pet hate is managing people down to allow pay distribution, if a manager has his ratings challenged down at calibration based on evidence of performance relative to others then that is a tough but reasonable message to take back to his team. If he has to go back and say "I know I gave you a 4 but there were too many 4's to fit the normal distribution so you are now a 3" then that is an appalling message. A better way of managing it that I have seen is to adjust the bonus remuneration pot to fit the distribution not the other way round. So last year, receiving a 4 may have meant a 5% bonus and this year it is 4% as more people over achieved. This means that people cannot equate ratings to an actual % bonus or salary increase as the 'pot' and distribution may vary from year to year. But, they can trust that the principles and process of rating performance are consistent and objective, which is a far more positive message.

So, to rate, or not to rate that is still the question...there are advantages and disadvantages, as we have discussed. For ratings to work, you have to get the messaging right, take heed of the pitfalls and manage the process effectively. You also need to give managers the support and time to develop the skills required and allow the culture to mature.

**So, on a scale of 1-4 – how useful was this article? We'd love to know.**

