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Are Performance Ratings Really a Thing of the Past?

Major companies are dropping the use of performance ratings when it comes to managing their employees. Is this the common future trend, and how are firms responding? This article takes a closer look at new performance strategies that are happening across the globe, with a specific focus on Asia and the financial services sector.

In recent years, the news has been filled with anecdotes and examples of companies shunning performance ratings and moving to a more evolved approach to performance management. Some examples of first movers include Adobe, Deloitte, Goldman Sachs, Accenture, and Cargill—companies with a long-standing presence (some from the mid-19th century) and strong reputations around the world. HR practitioners across economies, sectors, and industries are taking this as a sign of things to come, but is it really time to drop traditional performance ratings?

Which companies are moving away?

From our observation, only mature and evolved companies appear to be moving away from traditional performance ratings. This is because companies at the protracted maturity stage have witnessed several business and macro-economic cycles, leadership changes, and restructuring.

These firms have a wealth of experience, advanced HR governance, and high levels of people manager capabilities, which enables them to effectively implement the concept of what we like to call, continuous listening. This means performance discussions and reviews happen through ongoing, everyday conversations between manager and employee, instead of once or twice per year.

Where do financial services firms stand?

With today's heightened concern regarding changes to performance management and newly emerged technologies, McLagan's Talent Pulse Study revealed that the two most challenging aspects of performance management for financial services firms pertain to managers: Feedback and coaching and holding managers accountable. Managers have historically relied on bonus payouts as a proxy for managing performance—so, how do firms instill the need for actual performance and feedback conversations? Shockingly, less than half of firms

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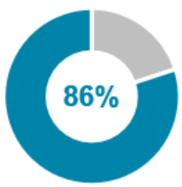
provide manager training on feedback and coaching and only a quarter articulate people management as a competency and specifically rate managers on it.

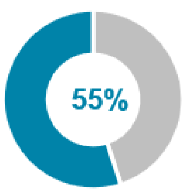
To face this challenge head on, financial services firms must first define a clear and compelling strategy that defines what they are trying to achieve through performance management. Once a simple process is designed that meets business priorities, firms should provide people managers with the latest tools, apps, and resources to bring this vision to life. Throughout all of this, it’s essential for firms to have the courage to hold managers accountable to use these resources to their advantage and take sufficient action to meet all expectations.

Here are some ways we are seeing financial services firms move closer towards supporting these critical steps associated with a formal and effective performance management system:

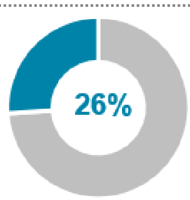
How does your organization encourage managers to provide feedback and coaching to employees?



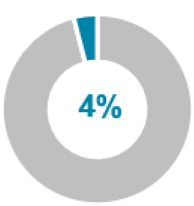
Managers are expected to formally discuss individual performance with employees at least once annually



Training and resources for managers on providing feedback and coaching



Managers receive a separate assessment / rating for people management as part of performance management



Feedback is enabled through a separate app specifically geared to providing instant feedback and coaching

Although firms are at different stages, having *some* form of performance assessment or rating is clearly prevalent in the financial services industry. However, the utility for consequence management varies from front office to infrastructure functions. This chart highlights key approaches to assessment that front vs. back office functions typically take.

Performance Management for Front vs. Back Office Functions in Financial Services

	Front office functions (e.g. traders, bankers, RMs, etc.)	Back office infrastructure and support functions
Setting performance expectations	Driven by financial and risk KPIs.	Ambiguous and manager-driven.
Managers to provide performance rating for their staff	Firm-wide policy for managers to provide rating for employees.	Firm-wide policy for managers to provide rating for employees.
Drivers of performance rating	Financial success and, in some sectors, risk factors drive ratings. There is limited weight on behavioral competencies. Conduct has become a growing trend to drive ratings downwards, rather than upwards.	KPIs tend to be very fluid, leaving a lot of room for ambiguity in the performance discussion. The role of the manager therefore becomes critical in setting performance expectations and providing ratings.
Linking pay and performance	Performance ratings have limited impact on pay. Compensation is significantly driven by financial success.	Performance rating has marginal impact on pay. In emerging markets, highly socialist culture makes pay differential very limited. In developed markets, pay differential is higher, but lack of clarity on drivers of performance rating makes the appearance / perception of the link weaker.

What does Asia look like?

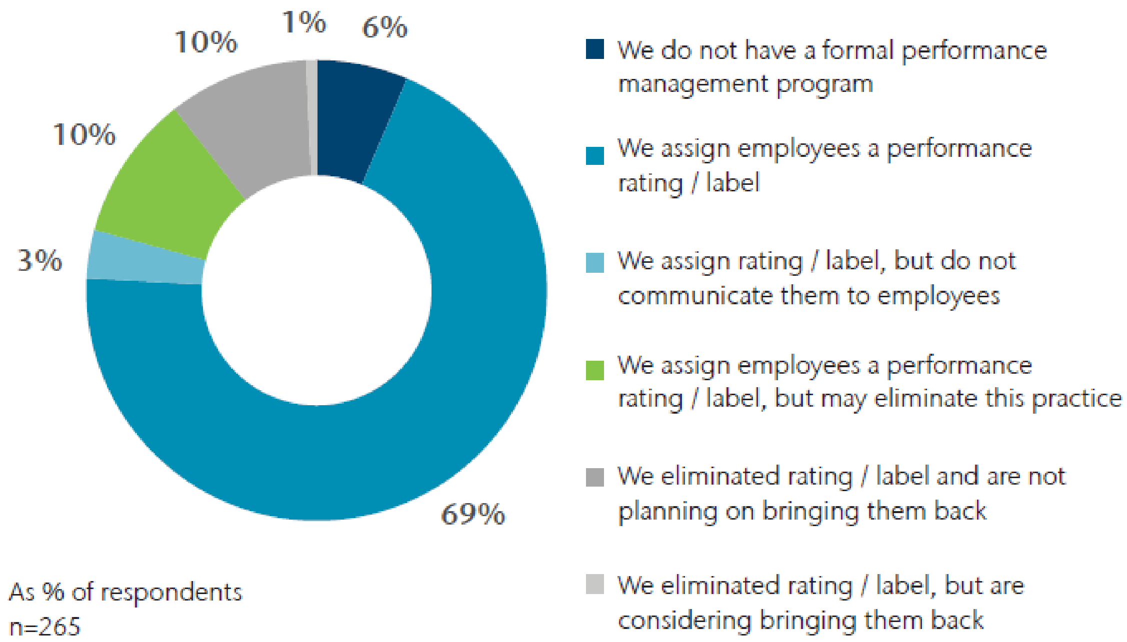
Close to half of global growth and 3/4 of the global workforce is constituted of / contributed by Asia. This growth will be shared among large MNCs betting on big economies, such as India and China, as well as the homegrown companies in these economies and high-growth markets, such as Malaysia and Indonesia. For firms that have already implemented new performance management processes, their biggest challenge will be to communicate them to employees, train managers, and govern execution of the processes in diverse cultures and operating environments.

On the other hand, local firms in emerging markets in South East Asia are mostly entrepreneur- or promoter-led and are not likely to have the same proportion of professional managers to successfully adopt the continuous listening approach. Therefore, traditional performance ratings remain an effective tool for determining rewards, recognition, and career progression opportunities.

What's on the horizon?

Aon's Workforce Mindset Study reveals that only 46% of employees feel that the way their company measures performance is effective, yet 64% believe that a performance review should involve a rating. This number is significantly higher for top performers and millennials, with 88% and 64% of employees respectively expressing a desire to be rated. For financial services, McLagan's Talent Pulse Study found that over 80% of firms have some form of a rating and only 10% are considering eliminating them.

Which of the following best describes your organization's performance management program?



In the haste of burying the dreaded bell curve, performance indicators should not be taken to the grave as well. On the contrary, these should be made more measurable, and in real time, to enable higher productivity and better performance conversations all year round. An objective assessment of people manager capabilities is also critical before making a call on transforming existing performance ratings and systems.

In the Asian talent market, where rewards and careers are key engagement drivers, we believe ratings will continue to weigh in heavily on performance pay, identification of high-potential employees, and development. The managerial capability gap in Asia gets amplified in financial services, as is also the case for other industries. Rapid, unabated economic growth (the global financial crisis had limited impact on Asia) and increasing competition throughout the financial services industry has pushed people management responsibilities onto leaders relatively early. In addition, financial services firms in regional centers like Hong Kong, Singapore, and Dubai have the added complexity of cultural diversity, coupled with the need to hire talent from other industries to fulfill the new demands associated with technology convergence. How their ratings are determined and calibrated in terms of solid KPIs and robust discussions on behaviors, respectively, will put more trust in the rewards management process.

To learn more or get advice on your organization's performance assessment strategy, please contact our team.

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About McLagan

McLagan provides tailored talent, rewards, and performance expertise to financial services firms across the globe. Since 1966, we have partnered with the largest and smallest financial services firms to help them make data-driven decisions to hire, retain, and engage the top talent for keeping the global economy running. Our compensation surveys are the most comprehensive, in-depth source of rewards data covering over 150 countries from more than 2,500 clients. Our consultants work with hundreds of firms annually to design total rewards programs and benchmark financial performance for boards of directors, executives, employees, and sales professionals. McLagan is a part of Aon plc (NYSE: AON). For more information, please visit mclagan.aon.com.

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