

5-Minute Insight

Performance ratings

Keeping the forced distribution method, tweaking the assumptions

If performance ratings are an integral part of your performance management framework, but you recognise the flaws of forced distributed rankings, getting rid of performance ratings may be a bridge too far. This 5-Minute Insight explains three options for adjusting the forced distribution method, if you want to retain the system but improve its effectiveness.

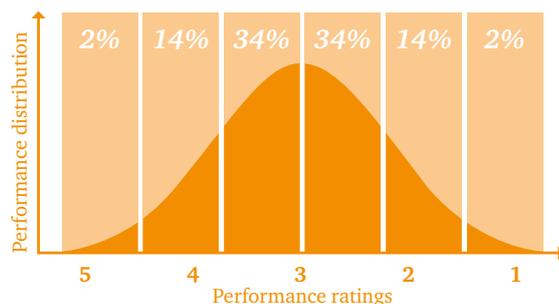
Forced distribution method

The forced distribution method prescribes the outcome of performance appraisals in terms of the distribution of ratings over an employee group. The method is often based on the work of Carl Friedrich Gauss (see text box). By assuming that employee performance is 'normally distributed', performance groups (ratings) are formed, enforcing relative performance differences.

By differentiating performance in accordance with these ratings, the forced distribution method recognises excellent performers and underperformers

Shortcomings of the method

Two shortcomings become evident when strictly applying the forced distribution for performance management.



First, the method may not sufficiently take into account absolute company performance. Company revenue is likely to be positively associated with employee performance, but this is not reflected as such in the method. For example, if revenue drops by 10%, the method still 'forces' you to rate around 84% of your employees as at least 'meeting expectations', whilst one would expect, based on the drop in revenues, that employee performance has decreased.

The performance ratings correspond with the following performance descriptions:

- 5 does not meet expectations
- 4 partly meets expectations
- 3 meets expectations
- 2 exceeds expectations
- 1 significantly exceeds expectations

Second, the method provides a rigid relative performance distribution. The normal distribution forces organisations to rate around 68% of its employees as 'meeting expectations', leaving 'only' 32% for differentiation. The conventional performance distribution does not allow companies to differentiate more on individual performance.

Normal distribution: the scientific foundation of the forced distribution method

Carl Friedrich Gauss (1777 – 1855) is known for his work on 'normal distribution' which states that as long as a sample of observations is large enough, it tends to be 'normally distributed' (bell shaped curve).

This means that out of a group of observations:

- about 68% has almost the same score;
- about 14% has lower scores and 14% has higher scores than the 68% category
- about 2% has substantially lower scores than the 68% category
- and 2% has substantially higher scores than the 68% category

Option 1: Adjust for absolute performance

Performance ratings can be adjusted for (absolute) business performance. A decrease in company revenue may, for example, imply an adjustment in ratings either on a straight-line basis (say, - 0.2 point per rating) or a progressive basis (- 0.1 for high performers, - 0.8 for low performers). The adjustment may also be a function of organisational position: Executive Management ratings face a larger adjustment than lower levels, as Executive Management is expected to have a higher impact on absolute company performance.



Option 2: Adjust for relative performance

The normal distribution can be adjusted to further differentiate between employee performances. For example, in pursuing an 'up-or-out' model, operating a more flat performance curve decreases the 'meets expectations' category at the 'benefit' of over- and under-performers. In this way, the need for more differentiation could be met.



Option 3: Define and rate 'midpoint performance'

Executive Management defines a 'target performance rating' for the entire organisation, equalling the 'meets expectations' category (3 rating). Executive Management then assesses whether the end-year company performance is below, at or above target performance and adjusts the target performance rating accordingly. This results in a 'mid-point' rating. Line managers are free to decide upon the individual performance ratings for their subordinates, as long as all their ratings equal (on average) the defined mid-point performance rating.



Key take-aways

Performance ratings are widely used to prescribe the performance appraisal process, but prove to have shortcomings. In line with the main market trend – adjusting, improving or integrating innovations to existing frameworks – we have presented three options that can increase the effectiveness of the method: adjust for absolute and relative performance and 'mid-point' performance.

In order to retain the strength of the normal distribution method, while taking into account both absolute and relative performance ('keeping the method, tweaking the assumptions'), we believe that Option 3 – 'midpoint performance' – best addresses the challenge. It takes into account the absolute performance by adjusting individual performance ratings in the light of company performance while it also accounts for relative performance by 'flattening' the performance curve.

The success of applying 'midpoint performance' in improving the performance rating method strongly depends on the managers in the organisation, as they play a key role in rating the individual employees. Training the capabilities of line managers in this respect may be required.

Evolution instead of revolution

Effective performance management is crucial to ensure that individual performance is driving overall organisational goals. This 5-Minute Insight builds on our Performance Survey 'The changing performance management paradigm: evolution or revolution?' (October 2015). Performance management frameworks are being reinvented, from abandoning systems altogether to modifying practices that are already in place. Our survey showed that most respondents chose to either adjust, improve or integrate innovations into their existing frameworks, making performance management changes mostly evolutionary, rather than revolutionary. These changes are triggered and supported by increased technological capabilities and digitisation of the performance management process, allowing for real-time reviews and a simplified process. This 2015 report can be downloaded [here](#).

For a deeper discussion about the above ideas, please contact:

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