
Designing effective performance appraisal systems

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Abstract

Reports that effective performance appraisal systems help to create a motivated and committed workforce. To be effective they require the support of top management to show their commitment and to translate organizational goals and objectives into personalized employee specific objectives. Explains a framework for the implementation of performance appraisal and in particular the need for appropriate training for supervisors, raters and employees, a system for the frequent review of performance, accurate record keeping, a clearly defined measurement system, and a multiple rater group to perform the appraisal.

Developing an appraisal system that accurately reflects employee performance is a difficult task. Performance appraisal systems are not generic or easily passed from one company to another; their design and administration must be tailor-made to match employee and organizational characteristics and qualities (Henderson, 1984, p. 54).

Performance appraisals are most commonly undertaken to let an employee know how his/her performance compares with the supervisor's expectations and to identify areas that require training or development. Employees have a legitimate need to know how their performance is viewed. At a basic level, without adequate communication between the employee and the supervisor, undesirable work habits may be formed or good work habits may be modified. Lack of such communication may be viewed by the employee as approval of their current work habits and performance.

The supervisor also has a legitimate reason to conduct performance appraisals. Unsatisfactory performance needs to be conveyed in order to arrange for improvement. Indeed, if performance is satisfactory the supervisor wants to promote continued satisfactory performance. In either case, it helps to have a systematic framework to ensure that performance appraisal is "fair" and consistent.

Organizational and employee objectives

One of the first steps in developing an effective performance evaluation system is to determine the organization's objectives. These are then translated into departmental and then individual position objectives – working with employees to agree their personal performance targets. This allows the employee to know "up front" the standards by which his/her performance will be evaluated. This process involves clarifying the job role, job description and responsibilities – explaining how the role and responsibilities contribute to wider goals, why individual and team performance is important and just what is expected within the current planning period. Objectives developed in this way should be reflective of the organizational goals and provide linkages between employee and organizational performance.

Within a given department some (and in some cases, many) objectives will be shared within a team or standardized across a

number of similar employees. However, it is important to ensure that, where necessary, an individual focus is maintained: within any group of employees performing the same job function there may be wide gaps in experience and technical knowledge. In order to keep each individual employee motivated and committed to performing at his/her best, some objectives need to be customized to allow for continued growth. A significant portion of an employee's performance should be based on these jointly (supervisor and employee) developed objectives.

It is important that the process ensures that employees understand how their personal job performance contributes to the overall performance of the company. This direct linkage helps to create teamworking and shared responsibility. Team effort stems from shared objectives reflecting organizational goals and clarification and understanding of the roles and responsibilities of each member (Kellogg, 1975, p. 22). Within such a framework, performance appraisal has higher acceptability.

Although (at least some of the) performance objectives should be individual and agreed between employee and supervisor, this does not mean that they should be easy to attain. All objectives, while being attainable, should challenge the employee to extend him/herself to exceptional levels.

Training

A major aspect of developing an effective performance system is training for those individuals involved as raters. This training should start with a focus on providing the manager with a systematic approach to the practice of effective people management (Goff and Longenecker, 1990). This training needs to focus on the process of managing, motivating and evaluating employee performance: performance appraisal is only a part of this overall process and it is important that managers see it within its wider context and not as a simple "quick fix" solution.

Thus training should begin those levels of management that will be involved in administering the programme and providing training for lower levels of supervision. Once these senior managers have "bought into" the system, skills training is needed for junior managers and supervisors. This specific training should include at least the following:

- supervision skills;

- coaching and counselling;
- conflict resolution;
- setting performance standards;
- linking the system to pay (assuming this is an aim of the appraisal system);
- providing employee feedback (Evans, 1991).

Once an individual rater has been through the necessary training, periodic refresher courses will be required to help the rater maintain necessary skills in performance assessment. Raters involved in the appraisal process should also be evaluated on how they conduct performance appraisals. This will help to make sure that evaluations are performed in a similar and consistent manner throughout the organization.

Since we are asking employees to contribute to the process (by being involved in the setting of personal objectives – and obviously in the review process), some training is required for all employees. This training should include how to set objectives, how to keep accurate records, and how to communicate all aspects of performance.

Frequency of appraisal

Employee reviews should be performed on a frequent and ongoing basis. The actual time period may vary in different organizations and with different aims but a typical frequency would be bi-monthly or quarterly. By conducting reviews frequently two situations are eliminated:

- (1) selective memory by the supervisor or the employee; and
- (2) surprises at an annual review.

People generally tend to remember what happened within the last month or high profile situations (good or bad). Frequent reviews help eliminate the effects of this, generally unconscious, selective memory.

Eliminating surprises in the appraisal process is also important. Both the supervisor and employee need to know that there is a performance problem prior to any major annual review. The longer a problem is allowed to continue, the more difficult it is to take corrective action. Frequent performance appraisals should eliminate the surprise element and help to modify performance prior to any annual review.

Of course, if there is a good relationship between supervisor and employee, informal

reviews of an employee's performance may be undertaken almost continually. Poor performance should not go unchallenged just because the quarterly review is not due for two months. Frequent reviews also allow for clarification and revision of objectives. This leads to better informed employees who are better equipped to perform their job satisfactorily.

In addition frequent reviews give supervisors more opportunity to assure that progress is being made in developmental objectives (Sahl, 1990). Job demands can frequently prevent employees from achieving specified objectives. In this case the supervisor must either re-assign work to allow the completion of this objective or modify the objective to reflect the changing conditions of the job.

Maintaining records

Another key to ensuring the effective use of a performance appraisal scheme is keeping and maintaining accurate records of employee's performance. Carefully maintained, they establish patterns in an employee's behaviour that may be difficult to spot by typical incident-by-incident supervision (Crane, 1991). Careful review of the records helps avoid the selective memory mentioned earlier and helps plot appropriate actions. Of course, well-maintained records are essential if the need arises to discipline, demote or dismiss an employee.

It is particularly helpful if employees are themselves responsible for part of the process of record-keeping: this helps reinforce the fact that a major part of the process is devoted to employee development – and that employees have a responsibility for their own development. Such an approach to dual documentation also helps in the elimination of surprises.

Measurement system

The actual measurement or grading system used to rate employee's performance needs to be designed carefully. A performance appraisal system which ranks employees according to a numerical rating tends to lead to a great deal of average performers. For example, if a 1-5 scale is used, five being best, a majority of employees will be rated a three. While this may be reflective of their actual performance, few people take gratification in being called average. Another problem arises

when it is made extremely difficult to perform at a level greater than a three or average. A company in this situation tends to breed mediocre performance even from its outstanding performers. A possible solution to the average rating problem is to have an even scale, for example 1-4 (forcing raters to come down on one side of the central point) or not to have numeric ratings at all.

In developing a rating system, a clear definition of each level of performance must be provided and disseminated to all employees. Employees and all supervisors must clearly believe that a rating higher than average is achievable and attainable. Of course, they should also clearly believe that ratings lower than average are achievable and will be given if appropriate. This again will help the employees to clearly understand that the measurement system is accurately reflecting the true level of performance for every employee.

Conducting the performance appraisal

In many systems, the front-line supervisor is responsible for conducting the performance review. However, a multiple rater system should be considered. Multiple rater systems provide a form of "triangulation" that results in ratings in which employees and managers have greater confidence. It may also be necessary to restrict the number of employees rated by any one individual – especially in today's new, flatter organization in which spans of supervision may be 60 people or more. Such organizations as Bausch & Lomb, Arizona Public Service Co. and E.I. Du Pont & Co. are moving towards flat organizations with large spans of control (Edwards, 1990). With large spans of control, several supervisors may work with an individual employee. The input from all supervisors about the employee's performance is required to complete a thorough performance review.

Multiple rater systems can be computerized to allow statistical analysis to identify bias – this can be particularly important where an organization is keen to avoid real or perceived bias with respect to race, gender or age.

Another advantage of multiple rating systems is that they can shift the supervisor's role from that of judge to performance coach. An individual supervisor will no longer be responsible for a single employee's review. This in turn lifts the burden of "policing"

from the supervisor and allows him/her to focus on coaching and developing the employee.

Some multiple rater systems go as far as involving the use of subordinates in the evaluation process. This is especially effective in a work environment which is self-governing. General Foods Corporation has used this approach in some of its plants utilising self-governing work groups. Subordinate evaluations have generally shown to be more accurate than supervisors in truly reflecting employee performance. This system of evaluation allows employees to participate in the decisions that affect them directly.

As part of the overall process, employee self-appraisals should be encouraged (Goff and Longenecker, 1990). This helps the employee to be less defensive and passive in the appraisal review. Self-appraisals can lead to self-improvement. The employee's self-appraisal can also be helpful for the supervisor in opening a communication link and allowing for comparison of performance results. Self-appraisals give the supervisor helpful insight as to how the employee views his/her performance. Generally speaking people will be at least as tough on themselves as the formal rater. A proper process of employee and supervisor (or multiple rater) review can help employees agree on areas for development and how the organization can help (Gates, 1991).

Pay for performance

Many performance appraisal systems attempt to relate pay to performance. However, this link is often unsatisfactorily established and even less often maintained to the satisfaction of employees and supervisor/organization. The People's Natural Gas Company, a regulated utility based in Pittsburgh, Pennsylvania discovered that in order to remain competitive, it is important that this linkage be obtained and maintained. While researching a potential new system, both the supervisors and employees were interviewed. An unexpected finding from the employee interviews indicated the company's six-month separation between performance appraisal and the resulting merit increase was blurring the perceived link between an employee's performance and pay (Guinn and Corona, 1991). When pay is not directly related to

performance, it is possible that employees will discount the appraisal process.

In order for an appraisal system to be truly effective in a pay for performance environment, adjustments to pay should come as close in time as possible to the conducted performance review. The preferable length would relate review to the next full pay check or at the most the beginning of the next month. This immediate effect helps motivate and commit the employee to the appraisal process. It also allows the employee to distinguish clearly how successful or unsuccessful completion of objectives affects them directly.

Legal issues

While the basic intent of developing an effective performance appraisal system is to make a company more productive, profitable and to let employees know their level of performance, there are also legal reasons for developing an effective performance appraisal system. Failure to conduct appraisal "properly" (failing to maintain adequate records, for example) may result in employees (or their trades unions) taking legal action. Where an employee handbook makes reference to performance appraisal or review, they must be carried out to acceptable levels of details. Many states have recognized statements in employee handbooks as implied contracts of employment. If an employer states annual performance reviews will be conducted and then fails to do so, the employer could find him/herself liable for breach of an implied promise. Employers must ensure, therefore, that they adhere to their commitments to conduct such reviews (Nobile, 1991).

It is extremely important that all strengths and weakness be clearly documented in the performance review and follow up action on unsatisfactory performance pursued. This is especially important in the case of termination of an unsatisfactory employee.

Conclusion

Developing an effective performance appraisal system requires strong commitment from top management: if the system does not provide the linkage between employee performance and organizational goals, it is bound to be less than completely effective.

To build linkages employees must have individualized objectives and performance criteria which allow them to relate directly to the organization. Objectives should be developed jointly between the supervisor and the employee. Once the objectives are determined, appraisals should be performed frequently to help build the direct communication link. Support documentation for performance should be maintained by both the employee and supervisor in order for the appraisal process to be conducted in a productive manner.

Organizations operating in this time of continual change and global competition cannot afford unmotivated and uncommitted employees. An effective system of performance appraisal is a major component of an organization that allows every employee to feel that his/her contribution has contributed to the success of the organization and a desire to add to that success.

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