Why Do You Have a Performance Appraisal System?

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Performance appraisal (PA) systems are lightning rods for controversy. Some think they are indispensable. Others argue that they are ineffective at best and actually operate in most cases to the organization's detriment.

Among the critics is quality guru W. Edwards Deming, who labeled performance appraisal systems a "Deadly Disease" in organizations, and claimed that they "leave people bitter, crushed, bruised, battered, desolate, despondent, dejected, feeling inferior, some even depressed, unfit for work for weeks after receipt of rating, unable to comprehend why they are inferior"[1]. Professor Samuel Culbert argues that appraisers and appraisees alike find the PA process unpleasant and dysfunctional [2], and that PA causes low morale, reduces teamwork, and creates obstacles between managers and ratees[3]. Researchers Clint Longenecker, Henry Sims, and Dennis Gioia[4] have found that raters often allow ulterior motives to color their appraisals of subordinates.

Advocates, however, argue that PA systems are useful and necessary. Dick Grote, a consultant who works extensively in this area, argues that employees are hungry for feedback on how they are doing and where they stand, and that organizations and managers owe that to their employees[5]. Jack Welch, the longtime and highly acclaimed former CEO of General Electric, says that it is actually a form of false kindness to withhold from poor performers information about their supervisors' assessments of them[6]. Others may simply observe that everyone's performance is appraised, whether it happens formally or informally – and that a good case can be made for bringing the process out into the open so people will be aware of how it is done, when it is done, and what the results are.

Given the strong feelings on both sides of this issue, it is essential that organizational leaders consider four fundamental questions about PA systems. (1) Why do we have a PA system in our organization; that is, what purposes is it intended to serve? (2) What evidence do we have, or could we get, that our PA system is delivering on those intended purposes? (3) What are the various costs of our PA system? (4) Are there other ways we could achieve the objectives behind our PA system? I will offer some thoughts on each of those questions.

1. Why do we have a PA system in our organization? What purposes is it intended to serve?

There are a number of purposes that formal PA systems might serve. They can provide employees with information about how they are perceived in the organization – where they stand. They can provide developmental feedback on the strengths the employee should capitalize on and the weaknesses where improvement may be required. PA systems are useful for documenting performance, good or poor, to provide information and justification for compensation, promotion, and sometimes termination or other disciplinary decisions. They can also be used for HR system improvement, including such things as validation studies for personnel selection techniques or the evaluation of training programs (did job performance

improve after training?) and recruitment sources (which sources provide us with high-performing employees who tend to remain with the organization?). There could be other reasons as well.

Why and how does your organization use formal performance appraisal? Unfortunately, it is too often the case with these kinds of things that organizational leaders base their choices on what "everybody" does. Frankly, I am not sure that many leaders have really stopped to consider why they have a formal PA system. But I am sure that having one because everybody else does is not a very good reason.

PA systems consume resources and create considerable angst. Therefore, it makes good sense to think deeply about exactly what it is that the system might deliver and why that would be valuable to the organization.

2. What evidence do we have, or could we get, that our PA system is delivering on the intended purposes?

It would be possible, for any of the PA purposes I have listed, to generate evidence bearing on whether or not the PA system facilitates progress toward goals, as well as the benefits (or costs) of that progress. For instance, employees could be surveyed to determine the extent to which they believe that PA has provided them with accurate, thorough, useful, and fair information about where they stand in the organization and about their relative strengths and weaknesses. They could also be asked about the amount of value they attach to that information. Managers could be surveyed to determine what they see as the benefits, tangible or intangible, organizational or personal, of getting that information into their employees' hands.

Managers and legal staff could be asked for evidence of the actual (or potential) value of the organization's PA system for documentation of performance and for supporting effective recruitment, selection, compensation, and training and development programs. What evidence do we have pertaining to our PA system's contributions to improved decision-making with regard to questions such as which employees should be promoted, who gets pay raises and in what amounts, who needs what kinds of training, who should be groomed to take on additional responsibilities, and who should or should not be terminated.

The HR department could be asked how they use (or could use) PA data to improve the systems the organization uses to hire, appraise, compensate, develop, and discipline employees.

With these sorts of information in hand, leaders can better understand how and where the PA system does, and perhaps does not, deliver desired results.

3. What are the various costs of our PA system?

Obviously, there are financial costs, the most substantial probably being the cost of all the time it takes for managers to think about, prepare for, and conduct individual PA interviews with all of the appraised employees.

Less obvious, but potentially very real, are the psychological costs described by Deming (disappointment, feelings of inferiority, etc.) and mentioned in the introductory paragraphs of this article. Culbert outlined other costs, such as low morale and reduced willingness to engage in teamwork, that could lead to actual dollar costs as well.

It might be difficult to measure some of these costs. The value of supervisors' and managers' time spent on PA could be estimated. Employee morale (pre- and post PA?) and satisfaction with the PA system could be assessed, although I think it must be clearly understood that seeking this type of feedback from employees can be dangerous unless management is willing to act upon that feedback.

However costs might be measured, having a good sense for both the benefits and the costs of the PA system would give managers a means for assessing the overall value of the system. If the costs are high relative to the benefits, it is certainly worth considering Question 4 below. Could we do this another way? But even if that is not the case, I believe there is always value in thinking about potentially better or easier ways to achieve objectives.

4. Are there other ways we could achieve the objectives behind our PA system?

I think at least some of the PA purposes I have described could be served just as well by other methods with smaller downside risks.

Managers could be charged with discussing individually with employees what their (the employees') goals and aspirations for the future are. If the manager gave frank assessments of how realistic those goals and aspirations are, and what would likely be required of the employee to achieve them, that would seem to directly address the purpose of letting people know where they stand.

Developmental feedback on strengths and weaknesses would likely be more effective if it came on an ongoing basis, rather than in an annual or semi-annual PA. Fairly frequent, short meetings designed to keep the employee and the manager abreast of progress toward goals and obstacles to performance should result in a more useful and less intimidating way for employees to become aware of developmental issues and for managers to provide coaching to help the employee improve.

Documentation of performance is clearly important, and can be crucial if performance is substandard and sanctions must be imposed. The regular ongoing meetings I have just described could be formalized when needed, with notes taken and filed with regard to notifying the employee of performance problems, recommendations for improvement, offers to help the employee improve, information about how much improvement is needed and in what time frame, and what will happen if that improvement does not occur. Of course, documentation is also important for employees whose performance is satisfactory or better, but I see no reason why this documentation could not come in the form of a series of short performance-related conversations rather than one formal annual or semi-annual meeting.

The job performance data the HR department would need to evaluate its own systems (recruiting, selection, training, etc.) could come directly from the managers who currently provide the employee appraisals. In fact, research suggests that ratings of this sort, meaning appraisals where the raters know the data will not have consequences for individual employees (e.g., to determine pay raises or layoffs) is generally more accurate than ratings that do have individual consequences. This suggests that data gathered for HR system improvement purposes only would likely be more valid than data gathered from annual performance appraisals – and would cause neither the rater nor the ratee the discomfort that usually accompanies a formal performance appraisal.

The Bottom Line

Leaders, whether they do or do not have formal PA programs in their organizations, should think very carefully about the benefits and the costs of these programs. There are obvious costs in terms of money and time, and some believe there are other costs, such as increased turnover, decreased productivity, and damage to employees' psychological well-being.

But perhaps those costs are more than offset by the benefits of the PA program. Benefits may include a lower rate of turnover among high performers, a greater likelihood of recognizing and releasing poor performers, an overall increase in productivity, and enhanced employee well-being associated with knowing how one is doing and how this relates to his or her status and future in the organization. The organization may also benefit from improvements in its HR systems.

I urge organizational leaders to identify the benefits they expect to receive from their PA systems, find ways to measure the extent to which those benefits actually accrue to the organization, find ways to measure what the associated costs may be, and finally, think about ways that any or all of what is already being done could be done more effectively and/or at less financial and psychological cost. An analysis of that sort should make it clearer whether a PA system makes sense for the organization. It might also suggest areas where an existing system could be improved.

PA systems should be subject to the same level of scrutiny as other major organizational investments.

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[1] Deming, W. E. (1986). *Out of the Crisis* (p. 102), Cambridge, Massachusetts: MIT.

[2] Culbert, S. A. (2010, April 11). Yes, everyone really does hate performance reviews. *Wall Street Journal*.

[3] Culbert, S. A. (2008, October 20). Get rid of the performance review! It destroys morale, kills teamwork and hurts the bottom line; And that's just for starters. *Wall Street Journal*.

[4] Longenecker, C. O., Sims, H. P., & Gioia, D. A. (1987). Behind the mask: The politics of employee appraisal. *Academy of Management Executive*, 1, 183-193.

[5] Grote, D. (2005). *Forced Ranking: Making Performance Management Work*. Boston: Harvard Business School.

[6] Welch, J. with Byrne, J. A. (2001). *Jack: Straight from the gut*. New York, NY: Warner Business Books.