

Improving Performance Through Appraisal Dialogues



Corporate Research Forum

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results through relationships

Executive summary

Conducted for the Corporate Research Forum, this research project examines whether the formal dialogue in performance appraisal between an employee and their manager is effective in improving the employee's performance.

The findings are based on input from HR managers in nearly 30 large organisations, case studies of six organisations, in-depth interviews with over 30 employees and several leading researchers in HRM.

Most appraisal discussions do not significantly improve performance

Most employees interviewed could not think of more than one or two appraisal discussions that had improved their performance. Over a quarter could not recall a single example of an effective appraisal - and they were rare even in organisations with carefully designed and implemented appraisal schemes.

Ineffective appraisals were characterised simply by a lack of useful feedback. They failed to tell an employee anything useful about how to perform better.

Effective appraisal discussions are tailored to the appraisee's needs

The key characteristic of effective appraisals is thoughtful, specific feedback, sensitively delivered and with clear links to action.

- Such appraisals could be traced to measurable performance improvements - often about working more efficiently or taking on higher-level tasks.
- This combination of feedback and follow-up improvement action was equally useful to both high- and low-performing employees.
- Praise was often used to boost confidence.

Above all, effective appraisal conversations focus on particular employee needs in their current situation - they are contingent on both the employee and their work context. A good appraisal concerns just one or two key issues.

Aligning individual and organisational goals through discussion

Organisations have made considerable progress in helping employees set objectives which align with corporate goals. Business planning is the key process here and needs to cascade goals down to team level. Within the team, more open discussion of business priorities and individual objectives is very helpful.

There is a trend towards defining performance both in terms of

- **what** is achieved, usually measured against objectives
- **how** it is achieved, in terms of behaviours linked to values and/or competencies - the link with values is a helpful reminder about the need to behave properly towards other people in achieving business objectives.

Regular one-to-one and team meetings are the main ways managers and employees track progress against objectives. Once embedded, they are the backbone of performance management.

There is a fine line in setting performance goals between seeking to improve standards of performance, and coercing employees to work harder without improving work methods.

Appraisal should be a developmental, personal conversation

Researchers, employees and HR managers all agree that effective appraisal dialogue is an open two-way discussion, with the employee taking the lead in reviewing their own performance. A skilful and committed line manager is the facilitator of this dialogue.

The emphasis should be forward-looking - and should result in actions to improve performance, while supporting skill and career development.

Trends in appraisal design and implementation support this model. They include

- improvements in objective-setting and in management training
- more frequent one-to-one review meetings.

Measurement and form-filling are still blocking progress

Other trends in appraisal design are, however, pulling us away from effective dialogue - and pulling very hard indeed.

There is a fundamental tension at the heart of appraisal which is not based on discussing both performance and development, as is often assumed.

Rather, the tension is between discussing performance *improvement* on the one hand and what to *record* about performance on the other.

Recording creates this tension in two ways.

- The appraisal form takes time to complete and tends to control the discussion agenda. The frequent redesign of appraisal forms makes them more distracting.
- As the information recorded may be used in future decisions, the employee will want the most positive version of their performance recorded. This makes it more difficult for the manager to give critical feedback. When the record involves a performance rating, the tension is sharpened.

The computerisation of appraisal forms does not help. Indeed, it can encourage the HR function to ask for more data such as skill profiles, interim assessments, etc. It also raises questions about who might see the appraisal data - and what they might do with it.

It is true that good managers can work round the appraisal form and have an effective dialogue in spite of it. But why not design a system which works in favour of effective dialogue and not against it? In particular, it is time for the HR profession to reconsider

- what items of appraisal data are legitimately used by people other than the individual and the line manager
- and that they are also valid for such use in their reliability and quality.

Those are the only items which should be corporately held.

Performance-related pay drives data collection

The biggest single pressure to measure and record is performance-related pay (PRP). Its administration normally requires some kind of performance rating. The idea of rating performance - and of relating pay to performance - is attractive, but

- it results in telling most employees that they are average - hardly a motivating message
- high performers and appraisers are dissatisfied as performance pay awards are too small to motivate - and the performance pay mechanism is seen as remote from the employee-manager relationship
- more insidiously, rating and PRP shift the appraisal dialogue onto a more nervous and adversarial footing, reducing employee ownership of the dialogue - and also reducing the time and energy spent discussing the future.

Leading HR researchers in the UK do not believe that PRP in its current form improves performance. If rating and PRP were medicines, the National Institute of Clinical Excellence (NICE) would not recommend prescribing them.

Appraisal training is much appreciated and needs to be extended

Managers benefit from training in

- the appraisal process
- the analytical aspects of performance management - objective setting, for example
- behaviours for appraisal discussions
- understanding employee motivation
- how to develop employees.

Behavioural training and understanding motivation and development are seen as the most important.

Progress is being made in management training for appraisal, but more attention needs to be paid to skill progression in this area (especially for senior managers), refresher training, and training for appraisees as well as managers.

Culture counts

Corporate culture has a significant impact on the effectiveness of appraisal dialogues. Factors leading to a positive performance

climate include the following.

- Open communication of business goals and results.
- The opportunity for employees to influence objective-setting and work standards - and to give upward feedback on management and leadership.
- Positive behaviour of senior managers in relation to business performance, employee development, ownership of the appraisal process and 'living the values' of the organisation.
- A business and employment strategy based on improved ways of working and employee motivation - working 'smarter' not just 'harder'.

Employee surveys can be a lever for improvement and evaluation

Traditionally, HR 'checks up' on appraisal by making sure documents are completed. Newer approaches to evaluating appraisal through regular employee surveys give a more direct feel for whether it is being well conducted. This feedback can encourage managers to take appraisal discussions more seriously.

These surveys open the door to using 'value chain' type analysis at an organisational level to establish the relationship between specific aspects of appraisal and measures of employee attitudes - employee engagement, for example - which, in turn, link to organisational performance.

Such analysis could help to prioritise the aspects of appraisal design and implementation most likely to improve this level of performance.

It would be healthy if evaluations of appraisal examined costs as well as benefits.

So what does appraisal need to do?

Those aspects of appraisal most likely to improve performance are as follows.

- Objective-setting, constructive feedback through dialogue, and the links to skill and career development.
- Current 'best practice' appraisal systems intend to lead to a motivating dialogue, but only one-third of HR managers think appraisal meets its objectives (IRS, 2005).
- Employees want an opportunity to discuss how they

could perform better and - for some - how they could progress to their next role. Regular one-to-one meetings tend not to address this more personal agenda.

- Appraisal dialogues need to be much more flexible to cover different issues for different employees.

In the case of poor performing employees, a clear message is needed that performance is not up to expectations. The manager then needs to work closely with the employee to try and fix the problem. Careful documenting of progress - or a lack of it - is necessary, once poor performance has been identified.

Contemporary appraisal systems have largely ignored the issues of job design and work systems, of upward appraisal from the employee to the manager, and of other relationships at work. These elements need to be built in.

Principles for fixing the motivation gap

This research supports previous UK work which shows that appraisal is primarily a motivational tool, but one that currently fails to deliver. Evidence suggests four principles which would improve appraisal dialogues.

- 1 Objective-setting is a core business (not HR) process** - HR should help managers if necessary, but should not lay claim to the objective-setting process itself. Regular one-to-one and team meetings are the natural way to set goals.
- 2 Appraisal dialogues have a flexible format** - they provide 'space' in which the employee discusses their performance and development.
- 3 Performance improvement is a two-way process** - appraisal dialogues should include what the employee needs from the manager, colleagues and work design to help them perform better.
- 4 The employee is in the driving seat** - setting the agenda, involving relevant people and keeping a record of the discussion.



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