Creating Effective
Performance
Appraisals

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Executive Summary

Performance appraisals can be a good way for organizations to boost employees' motivation and hone their competitive edge. But creating useful performance appraisals — and making sure they are used effectively throughout an organization — isn't easy. The 10 lessons here can help your company move closer to appraisals that help staff perform their best.

"The irony is that our organization has been doing formal appraisals for at least 30 years and we still struggle to do them right. It takes a clear purpose, a good system, and effective managers all operating together to get the job done." — *Director of human resources, Fortune 500 manufacturing organization.*

It is common knowledge that most managers and employees find participating in formal performance appraisals as appealing as having a root canal. However, it is also true that — for better or worse — formal performance appraisals are an inescapable part of organizational life.

There are two main reasons that formal performance appraisals are here to stay. First, formal appraisals are required to justify a wide range of human resource decisions such as pay raises, promotions, demotions, terminations, and selection validation. They also are key to evaluating recruitment results and determining training needs. Second, formal appraisals are required to maintain a competitive edge. In a recent study of high-performance organizations, the practice of employing a value-added performance appraisal process was cited as one of the top 10 vehicles for creating competitive advantage. The manufacturing organizations in this study clearly stated that an effective appraisal and review process created focus, a platform for measurement, a vehicle for employee improvement, and a means of linking key outcomes to performance.

During the 1990s, we and many other researchers have studied the formal performance appraisal process. The lessons presented here were culled from this research.

Effective performance appraisals

Our lessons for developing and sustaining a high-performance appraisal system are based upon two key tenets. The first tenet suggests that if appraisal processes operate as a system, a systems perspective must be applied to identify the critical appraisal system components and stages to make sure that organizational procedures and practices work in harmony. The second tenet is that individual managers play a pivotal role in achieving effective appraisals and that they need the right tools and support to be effective.

To identify the characteristics of effective performance appraisal systems, we conducted in-depth focus groups with 60 mid- and upper-level human resources executives from 28 U.S. manufacturing and service organizations. They were asked to identify the keys to effective appraisal systems (see Figure 1).

The keys to effective performance appraisal systems can be organized into three critical components: effective systems design, effective managerial practice, and effective appraisal system support. Within those categories, we identified 10 lessons that managers can apply to boost appraisal effectiveness.

Effective system design

Without a proper foundation it is impossible to build a successful appraisal program. A good system design lays the groundwork and provides the manager with the necessary tools.

Lesson 1: Clearly define why the organization conducts formal appraisals. The organizational leadership must identify and communicate to all employees why performance appraisals are being conducted and the specific goals of the appraisal system. Carefully developed and clearly articulated goals will enable managers to choose appraisal criteria that support the organization's goals. Also, clear goals increase managers' motivation to conduct appraisals properly and boost their interest in performance management. When managers know that information collected during their appraisals is likely to affect decisions about employee development, planning, performance improvement, compensation, and performance planning, they will be motivated to execute their responsibilities competently. This is especially true if managers are held accountable for the quality of their appraisals and performance management activities. Without clearly defined goals, managers may simply go through the motions of conducting appraisals and performance management, which can severely compromise the effectiveness of the system.

Lesson 2: Employee/manager involvement in systems design is critical. Effective appraisal systems include input from managers and employees about appraisal practices and the criteria used to evaluate performance. Involvement of employees at all levels facilitates acceptance of the system and increases cooperation. When employees are allowed to participate in the design of the appraisal system, their sense of ownership increases. Attempts to save time by bypassing employee and manager input can short-circuit ownership of the system, lower the system's credibility, produce a system that does not meet staff's needs, damage the perceived connection between pay and performance, and lose the performance-enhancing effects of employees' commitment to organizational goals.

Lesson 3: Develop user-friendly procedures and job-related forms. Effective appraisal systems need forms that are simple and easy to understand. Performance criteria, rating procedures, and feedback should be expressed in terms that are focused and meaningful for both managers and employees. It is essential that the forms assess the degree to which employees perform their job duties and achieve specific orga-

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Keys to an effective performance appraisal system

✓ Clearly defined value-added purpose for appraisals

✓ Employee/manager involvement in appraisal system design

✓ User-friendly, job-related ratings forms and procedures

✓ Properly trained personnel

✓ Effective performance planning

✓ Ongoing appraisals and coaching

✓ Raters who are motivated to conduct effective and candid appraisals

✓ Top management support/appraisal practice

✓ Appraisal outcomes linked to performance ratings

✓ Ongoing systems review and corrective action

Figure 1

nizational goals. Forms that include matters unrelated to performance of essential job functions or are deficient in measurement of important activities performed within a job function decrease the effectiveness of the system. Forms should be designed to aid communication between managers and employees about behaviors, work processes, and opportunities for improvement.

Again, involvement of managers and employees in the design of the forms and procedures is the best way to ensure that an appraisal system has these important attributes. Unclear, poorly focused, and cumbersome forms and procedures decrease ownership of the system and negatively affect essential trust and communication between supervisor and subordinate. When performance on key aspects of your employees' jobs is ignored, it sends the message that those aspects are unimportant and should be ignored.

Lesson 4: Employees and managers must know how the process operates and understand their roles. Surprisingly, managers frequently report that they receive very little training beyond a description of the rating form. An effective for-

mal appraisal system cannot exist without the ongoing education of all key players in the appraisal process.

There are four basic integrated stages in the performance appraisal process, and they require different appraisal competencies on the part of managers. Failure of managers to properly execute their responsibilities at any stage undermines the effectiveness of the entire system.
- Stage 1: performance planning
- Stage 2: performance management and ongoing coaching
- Stage 3: the written performance appraisal
- Stage 4: the performance appraisal review

In our research, managers were asked to identify the skills and abilities needed to conduct effective appraisals. The results are ranked in Figure 2. These critical skills are necessary to complete the four basic stages of the performance appraisal process.

Once the appraisal system foundation is in place, managerial appraisal practices will determine how well appraisal plans are translated into action.

Managerial systems practices
The following standard operating procedures reflect and influence the organizational performance appraisal culture.

Lesson 5: Managers must conduct effective performance planning. At the beginning of the appraisal cycle, managers must work closely with employees to review their job descriptions and duties, set clearly defined goals, and communicate expectations of behaviors and results for which the employee will be held accountable and be rewarded. Important behaviors and activities that critically affect performance and the appraisal form itself (which should include evaluation of these behaviors and activities) should be discussed early in the performance evaluation cycle. When managers conduct effective performance planning, the credibility of the formal performance appraisal is enhanced and employees are motivated to perform behaviors and activities that support the organization. Failure to plan effectively eliminates a valuable performance-enhancing tool and decreases managers' and employees' satisfaction with the process and its results.

Lesson 6: Managers should provide their direct reports with ongoing informal performance feedback. Effective appraisal systems do not consist solely of once-a-year formal performance reviews. Failure to provide ongoing informal feedback allows minor, easily correctable problems to grow into more serious ones. Lack of ongoing coaching can lead to employees disengaging from work, looking for alternative employment, and demonstrating decreased productivity. Lack of ongoing coaching also makes it difficult to conduct reviews of employee performance and can fray the bonds between managers and their employees, since employees may interpret the lack of feedback as a sign of supervisors' disinterest in employees' professional growth.
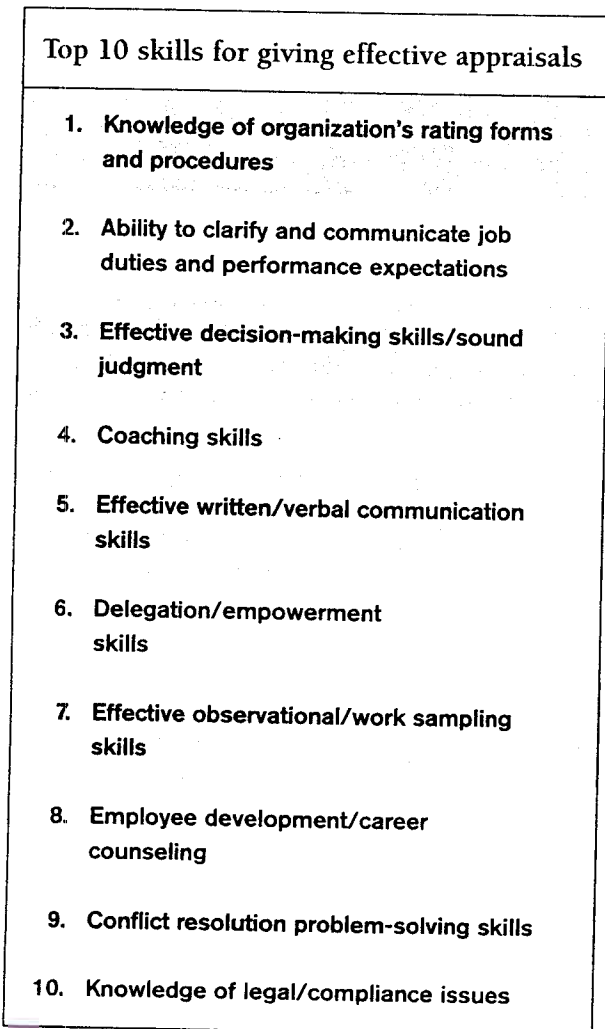

Top 10 skills for giving effective appraisals

1. **Knowledge of organization's rating forms and procedures**

2. **Ability to clarify and communicate job duties and performance expectations**

3. **Effective decision-making skills/sound judgment**

4. **Coaching skills**

5. **Effective written/verbal communication skills**

6. **Delegation/empowerment skills**

7. **Effective observational/work sampling skills**

8. **Employee development/career counseling**

9. **Conflict resolution problem-solving skills**

10. **Knowledge of legal/compliance issues**

Figure 2

Lesson 7: Raters must be motivated to conduct effective appraisals. An organization will never achieve effective appraisal practices if the managers are not motivated to follow procedural guidelines and use information from training to conduct effective written and face-to-face performance reviews. Unmotivated managers can undo even the best performance appraisal system because they most directly impact the overall quality of the appraisal process and the motivation of employees to perform. Managers will be motivated to conduct effective appraisals when their supervisors conduct effective appraisals on them. Effective appraisal of managers by their supervisors signals the importance of appraisals in the organization and models proper procedure. In addition, a manager's motivation to conduct effective appraisals will increase when manager appraisals are based in part on how effectively they execute their role in the appraisal process and how well they coach their employees. Failure to motivate supervisors to conduct effective appraisals can lead to poorly documented, poorly run appraisals in which ratings of subordinates are inflated or deflated for expediency or in the pursuit of personal agendas. This, in turn, tends to reduce employee faith in the performance appraisal system, motivation to perform, and willingness to accept and pursue organizational goals.

Even a properly designed system will fail if these suggested managerial practices are not followed. The manager responsible for employee performance must be proficient at these activities if appraisals are to get desired results.

Appraisal system support

Appraisal system support directly affects managerial motiva-

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tion to perform required appraisal activities diligently; it also protects the system from problems caused by inconsistent or improper execution of appraisal procedures. The lessons below can help companies develop effective appraisal system support.

Lesson 8: Top management must support and demonstrate effective appraisal practices. For appraisal systems to be effective, they must get support from top management. Support for effective appraisal practices can be demonstrated through written and oral communications with managers and employees in memos, testimonials, videotaped messages, and company newsletters. Top executives can also show support by practicing the same appraisal practices when they appraise managers. Our research clearly indicates that when top managers don't practice what they preach, lower-level managers emulate those practices instead of stated policies.

Lesson 9: Effective appraisal systems link performance ratings to organizational rewards. Research consistently indicates that, to maximize the effectiveness of a pay-for-performance program, organizational rewards must link greater rewards to superior job performance. When employees feel that their rated performance is accurate and reflects the full range of their contributions to the organization, their motivation to perform increases. On the other hand, when employees feel that performance ratings are inaccurate or a function of politics, they tend to perform only to minimum standards, be absent more often, engage in theft, or quit.

Lesson 10: Appraisal systems require ongoing systems review and corrective action. It is important to systematically and regularly review system operations to make sure that processes and practices are being followed and are effective. Examples of measures that can be used to assess the health of your appraisal system include employee acceptance and trust of the appraisal system; the relationship between level of performance and rewards; level of individual performance and organizational financial performance; consistency of implementation of policies and practices across levels, departments, and locations; and turnover and absenteeism rates compared to other organizations or to levels at the organization itself before and after the start of the performance appraisal system.

All the support components function to encourage effective rating practices on the part of individual managers who determine the ultimate effectiveness of most appraisal systems.

This approach is outlined in Figure 3. Ineffective appraisals lead to a number of serious problems that negatively affect both individual and organizational performance. To avoid these problems, it is important to focus on the three critical appraisal system components and make sure that managers have the skills needed to complete each stage of the appraisal process effectively. Attention to all three appraisal system components and all four appraisal system stages is vital for a formal performance appraisal system to motivate employees and to improve manufacturing organizations' competitiveness.

Conclusion

"If your organization does formal appraisals, it is imperative to do them right. This requires time, effort, discipline, and proper support. If you do appraisals in a cavalier or ineffective fashion you are making trouble for yourself in a time when the last thing organizations need is more problems."
— *Veteran automotive plant manager*

In these days of re-engineering, total quality management, and continuous improvement, pro-
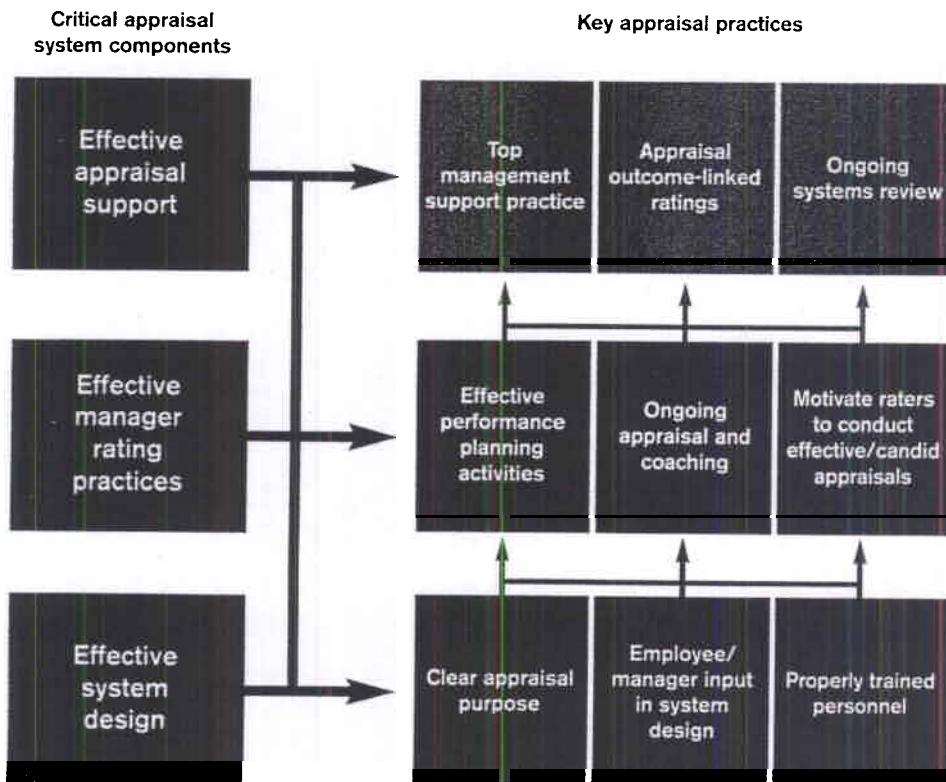

Figure 3. A systems approach to effective appraisals.

Instructions: Review each of the key components of an effective performance appraisal system listed below and assess the extent to which your organization possesses these qualities.

To what extent has our organization....	None	Limited	Some	Great
1. Clearly defined and communicated the purpose(s) for conducting formal appraisals?	◯	◯	◯	◯
2. Solicited employee and manager input in our appraisal system design?	◯	◯	◯	◯
3. Made our rating forms job-related and user-friendly?	◯	◯	◯	◯
4. Properly trained managers and employees to conduct effective appraisals?	◯	◯	◯	◯
5. Do our top executives set the proper example by conducting effective managerial appraisals?	◯	◯	◯	◯
6. Do our managers conduct effective performance planning to clarify employee duties, responsibilities, and goals?	◯	◯	◯	◯
7. Do our managers provide their employees with ongoing performance feedback and coaching?	◯	◯	◯	◯
8. Are our managers motivated to conduct effective and candid appraisals?	◯	◯	◯	◯
9. Are appraisal ratings linked to organizational outcomes?	◯	◯	◯	◯
10. Do we provide an ongoing system review and take steps when problems exist?	◯	◯	◯	◯

Figure 4. Performance appraisal self-assessment.

gressive organizations will do well to conduct a self-assessment of their current appraisal practices against the benchmarks of high-performance appraisal systems. The self-appraisal tool in Figure 5 is a good way to start the continuous improvement process. If your appraisal system is not a value-added activity, then it just might be time for a change. ▥

For further reading

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