

Performance Appraisals: Obsolete or Useful in Today's Data-Driven World

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ABSTRACT

Performance appraisals have undergone radical changes over the last several decades, but a lack of theoretical progress has sparked an academic interest in the theory underlying effective performance appraisals. Many researchers have condemned performance appraisals as destined for collapse and plenty of companies have abandoned their use due to a lack of efficacy in actually motivating employees and evaluating performance. This can be traced back to a lack of training for managers, who struggle to let go of their own biases, but also the actual evaluation criteria. Improving the effectiveness of performance assessments means using objective measures of competency and simplification of existing systems, including more frequent and relevant feedback and coaching that focuses on employees' strengths for the future.

1. Introduction

While performance appraisals have changed dramatically in recent years, these changes can mostly be attributed to changes in the structure of organizations themselves. Although little progress has come to pass regarding the actual structure of the assessments, an increased interest in the theory behind effective performance appraisals has begun to stimulate the development of a contemporary and inventive system of performance appraisals.

2. The development of performance appraisals

The human mind exists in a constant state of evaluation—some may argue that it is indeed accurate appraisal of the current environment that sets the stage for human progress and innovation. How could we possibly improve if we are unable to assess our current position in the world? When we consider things from this perspective, it seems obvious that informal performance appraisals have been a part of all jobs throughout human existence; however, as our work has crystallized into something more formal, these appraisals have also become a standardized part of management practices.

Grint (1993) asserted that the roots of today's performance appraisals date back to a third-century Chinese practice, in which emperors hired "Imperial Raters" to evaluate official family members' job performance (Wiese and Buckley, 1998). Since then,

performance appraisals travelled to Western countries, where they have arguably become the very cornerstone of performance management.

In the United States, the first performance appraisals can be traced back to the military. In 1813, an Army General submitted the first performance appraisals to the Department of War; these consisted of a global rating and descriptive evaluation of each of his men's performance (Bellows and Estep, 1954, Weise and Buckley, 1998). In the United Kingdom, Robert Owen was the first to use performance appraisals in his textile mills. These "silent monitors" were painted blocks of wood that hung over each worker's area; the wood was turned each day so that the outer face displayed a color-coded reflection of the prior day's work. This practice supposedly encouraged Owen's employees to modulate their behavior according to their daily assessments (Randell, 1989).

It is safe to say that today's performance appraisals have evolved far beyond a simple colored block of wood. Nowadays, annual performance appraisals are considered to be critical by many human resources managers as they inform important personnel management decisions, such as compensation. However, not all line managers are such big fans of these evaluations, for reasons that will be discussed in part four of the present paper. Occupational psychologists and other academics have recently taken a keen interest in deconstructing this practice in order to improve its accuracy and effectiveness. This has caused a boom of new research, which now needs to be evaluated in order to maximize the

benefits and negate the disadvantages of these assessments in order to optimize performance management.

3. The different kinds of performance appraisals

As we stated in the last section, today's performance appraisals have grown increasingly complex. The vast range of methods used to conduct performance appraisals range from the simplest ranking systems to the most complex behaviorally anchored evaluation systems, and everything in between. The large variety of methods makes sense considering that different organizations use these evaluations for a variety of different purposes, the most common being:

- to elucidate performance expectations
- to identify needs for development and training
- to offer career counseling
- to improve performance at the individual, team, and corporate levels
- to facilitate communication
- to engage and motivate employees
- to assist in making decisions about compensation and promotions
- to change corporate culture

We will now discuss some popular types of performance appraisal which are being used in practice.

Upward appraisal is most common in American companies and has only recently begun to spread to the United Kingdom. In simple terms, upward appraisal turns the tables and each manager is evaluated by his/her employees via an anonymous survey. Proponents of upward appraisal claim that it gives employees a voice in improving the leadership and efficacy of managers (Redman and Snape, 1992, Bettnehausen and Fefor, 1997). This appraisal style is certainly in sync with the delayed organization as employees have the most direct contact with their direct supervisor. However, many managers are afraid that upward appraisal systems will cause them to lose their management positions because some companies have used the data from systems to "demote" managers (Thomas et al. 1992). Despite managers' negative view of upward appraisal, the aggregation of multiple ratings from different individuals means that it would be hard to mount a legal challenge to the final assessment (Lee et al. 2004).

360-degree performance appraisals are becoming more popular in the United Kingdom, but they originated in the 1970s in the United States military

(Dugdill, 1994). When the US Army discovered that superior officers were less able to judge a soldier's abilities than his peers were (Dugdill, 1994). So what is 360-degree feedback? It is a type of assessment in which the 'appraisee' is given feedback from every direction: his/her superiors, subordinates, peers, and even clients. The criteria being measured vary widely between different companies and different kind of jobs. Feedback is generally done on paper or online by filling in an assessment form; evidence can also be taken from audio or video recordings of the individual conducting his/her own job. By taking feedback from many directions, the result will be more precise and less biased than if any single kind of evaluation were to be used on its own.

Customer appraisal programs have become prevalent across the United Kingdom in recent years. Based on these systems, employees' performance appraisals now have a clear tie to customer satisfaction. It is very easy to understand the reason behind it: customers are the key to business growth. Sam Walton, the founder of Walmart, once said, "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else." No employee deserves to be well-rated if he or she does not bring satisfaction to customers, especially when it comes to jobs that work directly with customers, such as sales, consulting, doctors, etc.

This type of performance appraisal can take the form of "hard" quantitative or "soft" qualitative indicators; for example, when evaluating an employee's greeting of a customer, a "soft" indicator could be the warmth of the greeting, while a "hard" indicator could be the number of minutes that the customer spent in the store before being greeted. Data is gathered through customer satisfaction surveys (online, phone, etc.), surveillance (audio and video recordings of interactions with customers), and "mystery shoppers," employees who are trained to pose as a real customer and evaluate certain aspects of the customer experience. Service guarantees also help to generate customer data, as unhappy customers are more likely to speak up about bad service when they know they are entitled to compensation.

Team-based appraisal can take two different forms: either the manager evaluates the whole team as a unit or team members evaluate each individual member via an anonymous survey. Since in many companies, teams are being charged with making hiring and compensation decisions, it makes sense for teams to conduct performance appraisals. When the team is evaluated as a unit, it creates an incentive for team members to work together in order to resolve any performance issues. When the entire team is

rewarded equally, individual performance becomes irrelevant and only team performance matters for the final rating and ultimate compensation. Regarding teamwork, it is often said that conflict is not good and will affect the team's performance, but at some point, conflict caused by different approaches to solving problems may be effective at promoting innovation between team members.

4. An appraisal of performance appraisals

Many companies are calling for an end to performance appraisals due to the downsides that they present, most significantly their limited perspective and inherent biases. However, there are also significant advantages that come along with an annual assessment of performance, namely adding transparency and structure to a process that would otherwise take place behind closed doors. In this section of this paper, we will present the pros and cons of performance appraisals, along with case studies from companies that have chosen to stop or continue using a performance appraisal system.

Numerous researchers and companies alike have been calling for an end to performance appraisals. Many consider them to be an outdated measure of performance that is expensive and of little use for strategic management. It has been called both "doomed" (Halachmi, 1993) and a managerial practice "whose time has gone" (Fletcher 1993; Bhote 1994); most recently, researchers Coens and Jenkins (2000) recommended that performance appraisals should be "abolished" in favor of "broader performance management approaches focused on customer outcomes." The company Deloitte recently conducted a survey of corporate executives that revealed that more than half of them (58%) are not confident that the current system of performance management can actually engage employees and encourage high performance. Worst of all, many critics of performance appraisals believe that these assessments can actually backfire, demotivating employees and harming performance. It has been estimated that it takes six months for an employee to recover from a negative evaluation. These evaluations can also cause significant conflict between the employee being evaluated and the manager conducting the appraisal.

Why have so many companies abandoned the traditional annual performance appraisal? The main reasons are the fact that the process is inherently biased, ineffective, intensely time-consuming, and does not offer feedback in real time. By the time the entire process is carried out, the data seems to be outdated and very possibly irrelevant to current and

future performance. One of the reasons that Deloitte discontinued their annual performance appraisal is that they calculated that the process ate up nearly 2 million hours of time every year, the majority of which was spent discussing employees "behind closed doors." The software empire, Adobe, also ditched their annual performance appraisal process after the company calculated that it consumed "80,000 hours of time from its 2,000 managers, the equivalent of 40 full-time staff".

The entire time-consuming process can feel out of sync in our technological world where data is instantaneously available, not to mention punitive and discouraging, especially when negative feedback is delivered. Deloitte believes that the data from annual reviews is too "concentrated" to be useful, "and conversations about year-end ratings are generally less valuable than conversations conducted in the moment about actual performance. Adobe conducted surveys that showed their employees actually "felt less inspired and motivated after the appraisal episodes". Fears of demotivating employees and excessive lag-time in providing feedback are two of the main drives causing so many companies to give up the traditional performance review in favor of new, and hopefully more relevant, measures of performance.

So if performance appraisals are so time-consuming, they must be highly accurate measures, right? Actually, more and more research has been proving the contrary. In spite of the costly investments of time required, performance appraisals are actually ineffective in measuring performance. The main reason for this is that managers are actually ill equipped to conduct these types of assessments. Personal bias and "political" power games come into play and ultimately render the results pretty useless (Snape et al., 1994). In fact, research has shown that managers artificially inflate and deflate certain employees' ratings in order to establish dominance, garner positive attention for themselves, or get rid of a problem employee through either termination or promotion (Longenecker, 1989). Even the most well intentioned managers are often ill prepared to conduct a proper evaluation, replying on "gut feelings" or complaints from third-parties. Impartial and effective evaluations are actually an "unnatural act" for managers, who require extensive training (Lawler, 1994).

The problem also lies in the actual performance assessment criteria. This is why many companies are trying to find more objective ways of measuring performance. However, objective measurement can be very challenging; as Wright (1991) notes, "there are a number of jobs where the meaningful is not measurable and the measurable is not meaningful."

Even so, more objective measures can avoid the legal headaches caused by the trait and personality-based systems that allow managers too much subjective control and open the company up to litigation (Lee et al., 2004).

After consideration of this data, it should come as no surprise that at least thirty Fortune 500 companies had already eradicated performance appraisals before the end of 2015. However, other companies, like Facebook, have decided to keep using performance appraisals after carefully weighing the costs and benefits associated with the system. After focus groups and a survey had been conducted, they found that performance appraisals were actually popular favor within the company. In fact, 87% of Facebook employees are in favor of their continued use. The main benefits that Facebook found—the opportunity for fairness, an avenue for transparency, and the possibilities for development—are all reasons why the company ultimately decided to continue using performance appraisals.

It is true that performance appraisals can cause stress and anxiety, but neuroscience has shown us that the only thing more stressful than negative feedback is uncertainty, especially for people who are overly anxious. A study conducted by the technology firm CEB found that removal of performance appraisals caused “a considerable decline in productivity.” Engagement and performance dropped by up to 10 percent, and their removal had an especially negative impact on high performers, of whom 28 percent fewer were satisfied with their interactions with their manager.

Since high performers are currently getting the highest ratings, it makes sense that they would favor the current system, but even low performers are more likely to accept negative news when they perceive the process as being fair. One study also revealed that, without performance appraisals, many employees doubt the fairness of compensation decisions (pay raises specifically). Performance appraisals also allow companies to both save time on compensation decisions and be more objective by taking these decisions out of the hands of managers. Facebook believes that their company saves time because although it takes time to conduct performance appraisals, once the ratings have been generated, they can be used to directly determine pay raises and other compensation decisions. This formula allows the company to save time when it comes to compensation and be more objective and transparent about compensation decisions.

5. How can performance appraisals be more effective?

There are a number of ways in which performance appraisal systems can be improved; the E-reward survey (2005), in particular, has shown that “simplification and the use of competencies are among the most common measures applied to improve existing systems.” In this final part of the present paper, we will evaluate different ways in which companies have improved the effectiveness of their performance appraisals.

The tricky part of performance appraisals is finding a balance between the company’s interests and the interests of the employee being evaluated. Armstrong and Baron (2005) made the claim that by changing the terminology, the very philosophy of the process could be shifted from the concept of a performance appraisal, “a punitive, top-down control device,” to the concept of performance management “a holistic, total approach to engaging everyone in the organisation in a continuous process, to improve everyone and their performance, and thereby the performance of the whole organisation.” Through this linguist shift, they believed that we could merge the interests of the organization and the employee, minimizing the tension and judgment inherent in a system of appraisal.

This idea is mirrored by Baron’s (2004) assertion that performance management should focus on factors “such as recognition, constructive feedback, personal development and career opportunities.” Adobe’s new system of quarterly “check-ins” does just that—provide recognition for the highest performers and constructive feedback for lower performers. This focus on performance improvement, instead of compensation or rankings, aims to “make coaching and developing a continuous, collaborative process between managers and employees—a far more motivating outcome.” In fact, since the implementation of this new system, Adobe has been able to reduce voluntary turnover by 30 percent!

Gallup’s research on of high-performing teams, which began in the late 1990s and eventually involved more than 1.4 million employees nearly 200 organizations discovered that the most powerful statement that set high-performing teams apart from the rest was: “At work, I have the opportunity to do what I do best every day.” When employees “strongly agreed” with this statement, their teams had 44% higher customer satisfaction scores, 50% lower employee turnover, and 38% higher productivity. Deloitte expanded upon this research by focusing their performance evaluation on employees’ strengths, not only by recognizing past

performance, but also by fuelling future high performance.

Improving the effectiveness of performance assessments is not just about getting rid of annual performance appraisals entirely. Instead, companies should consider the “outcomes” that are linked with individual performance and develop measures relevant to the key stakeholders. To sum up, the main ways to improve the effectiveness of performance appraisals are more frequent evaluations to provide timely and relevant feedback and coaching, wherein the manager can identify an employee’s strengths and channel those strengths into future assignments. This focus on the future motivates employees to utilize their strengths and creates high-performing teams over the long term.

6. Conclusion

Although performance appraisals have already changed to an extreme extent in recent years, there is still work to be done. Researchers condemnation of annual performance appraisals have stemmed from the inherent biases revealed by managers’ manipulation techniques and the inadequacy of the current measures in evaluating employees’ performance. More frequent evaluations and objective measures are predicted provide avenues for more relevant feedback and career coaching that takes individual, team, and company-wide goals into account.

7. References

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