Appraisal VS Performance Management

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Most organisations have some type of employee appraisal or review system and most are ill equipped to appreciate the shortcomings of these systems. In talking about Employee Performance Management, the question we are asked most often is “what is the difference between Appraisal systems and Performance Management”
Following is a break down of the major differences between the two:

Traditional Appraisal Systems

Definition

Appraisal systems were the precursor to today’s Performance Management. Appraisal systems are:

a) Typically based on a review of how a person completed their job for the year
b) Sometimes a pay review
c) Sometimes a review for bonuses
d) Sometimes an assessment of the employee for promotion
e) Typically conducted annually or less frequently
f) Typically paper based where HR is the custodian of the information. Otherwise, they are conducted less formally and without any documentation

Typical Outcomes

Annual appraisals or reviews are viewed by the staff and management as a difficult and painful process. The annual appraisal is:

High Stress

Both the employee and manager have elevated stress levels. They both know they will be judged on the outcome of the appraisal and the fallout is often destructive rather than constructive. This is because it is not objective and is not based on any well considered evaluation criteria. The employees’ remuneration and future are at stake and the goodwill of the managers future resources are also at stake. This leads to high stress in the case of both individuals and this is a poor emotional state in which to have a thorough discussion about employee performance.

Low Confidence

Where the appraisal system is poorly communicated, both the employee and manager enter these discussions with low confidence levels. This is due to a lack of “rules” as to how to go about the appraisal process and a lack of understanding of the expected outcomes

About the employee

As this process is infrequent, it is viewed by the employee as an opportunity to discuss remuneration, promotion prospects and other issues related to the employee. This means the discussion is dominated by employee content rather than measuring the desired objectives for the employee.

Not about the future

As a consequence of "employee domination" the annual appraisal very seldom contains sufficient content about what the employer wants or expects the employee to achieve for the next performance period. This leads to vague definition of performance goals and perpetuates the system of poorly defined and executed appraisals.

Irrelevant

As an annual review is so infrequent, both managers and employees find it difficult to remember what actually happened during the year. Both typically come to the meeting ill prepared with little meaningful content to discuss. This makes the appraisal more difficult and frustrates both the employee and manager.

No Alignment

Very often, the annual appraisal is performed on the employees anniversary which does not coincide with any particular performance period. This makes it near impossible to align the employee objectives with the organisations strategic goals as they are released or modified. If appraisals are conducted annually on the anniversary date, it is only possible to align at best only 50% of your staff with future objectives (assuming there is a normal distribution of start dates across the employee workforce).

Low Visibility

Given that most appraisal systems are not automated, there is poor reporting and therefore low visibility as to who did or did not achieve their objectives. This means that an employees' future is wholly dependent on their manager and the appraisal process. The CEO or other management does not have a view as to who achieved their objectives and who did not. The outcome for the CEO is that they do not have the ability to see failure as it is occurring. Instead, they see failure after the fact and radical adjustments are then required to repair the situation. By using appraisal systems, the outcome for the line manager is that they have added pressure to fix a problem that would have been otherwise identified and fixed in a very timely fashion.

Planning

Given that annual appraisals are only conducted once yearly, most line managers only seriously think and plan once a year. The consequences are poor resource management, put-out-the-fire management and costly and reactive problem fixing on the fly.

Not Linked to Succession Planning

Given that most appraisal systems are manual and on paper, the data arising from an excellent performance typically does not find its way into the Succession Planning process. Employees are therefore often disillusioned to find that they have been passed over for further development or a promotion when they have performed strongly for several years.

No Development Planning

Most appraisal systems do not feature a competency assessment or an active development plan that both the employee and manager have mutually agreed to. Staff often get disillusioned and leave the organisation if they can see no personal development prospects or if personal development has not occurred in practice for the last several years.

Broken Compliance

Given that most appraisal systems are manual, reporting is weak and therefore compliance reporting is not visible. This inevitably means that managers learn that they do not have to perform reviews and therefore they don't. Equally, employees learn that there is no consequence to not being reviewed, they lose faith in management and invariably look for somewhere else to work. Most manual appraisal systems suffer from sub 30% compliance and can get to this point after only 18 months of operation.

Performance Management

Definition

Performance Management systems typically are:

a) A definition of what you want an employee to do for the next performance period (normally the next quarter or half a year). The definition takes the form of specific objectives for the quarter, backed up by a job description which takes into account the normal expectations for that position
b) A review of remuneration/bonuses if these objectives are met
c) A review of the personal development objectives
d) Performed quarterly or half yearly
e) Typically fully automated where the information is accessible to all participants at any time
f) Content rich if the automated Performance Management system has features such as a Performance Diary

Typical Outcomes

Lower Stress

The employee and manager communicate more frequently and agree on changed objectives to suit continuing changes in conditions and priorities. This is an inclusive and collaborative process, which ensures that the employee has input and does not feel they have wasted the year. The employee works to specific objectives that have been thought about and are relevant. If the organisation is using a Performance Management product that has a Performance Diary, both the manager and employee attend the meeting with copies of their Performance Diary. This contains content from the Performance period about to be reviewed. Given that both have content, they feel much better prepared and stress is lower than if attending a meeting and waiting for surprises.

Moderate to High Levels of confidence

Where there is a well structured Performance Management System that is well communicated, both the employee and manager enter the process with better levels of confidence as there are “rules” that clearly spell out what is being assessed and how. Employees are assessed on achievement of objectives that have been clearly spelled out and agreed to. Managers have a better framework to assess an employees’ performance as they know on which criteria to assess the employee. The outcome is that both individuals have an informed discussion and focus on achievement of both personal and business objectives, not on issues that are not relevant.

If the organisation is operating a Performance Management solution with a Performance Diary, then both parties are very well prepared with relevant content to discuss as they have diary notes that relate to performance during the entire Performance Period. This raises confidence and reduces stress and both parties know they can have a content rich discussion about performance, which is based on facts.

Focused on performance

Given that these performance reviews happen more frequently, the discussion centers on performance of objectives rather than being dominated by the employees’ needs. The employee’s needs are talked about more frequently as are the needs of the business to achieve specific performance outcomes. This means both the employee and manager communicate more effectively and achieve better outcomes.

Aligned to the corporate plan

As expectations are modified when a Performance Management system is introduced, most organisations switch to defined performance periods. This means that the performance reviews are conducted quarterly or half yearly and enable management to direct effort to those objectives that need to be performed according to the strategic or operating plan.

Relevant

By conducting more frequent reviews, objectives can be adjusted and modified to suit changing business conditions. This dramatically increases the probability that the objectives are relevant and are able to be acted upon during the performance period.

High Visibility

By performing frequent Performance Reviews, visibility is increased dramatically. Areas of non performance receive much more focus and attention and problems can be acted upon much more quickly. Most Performance Management systems provide reporting as to who has or has not achieved their objectives (departments and individuals). Adjustments to objectives or strategy can then be made to ensure expectations can be met. Alternately, expectations can be modified as appropriate.

Planning

By reviewing more frequently, all managers and staff start to plan and execute to well thought out objectives. This results in better resource management, less fire fighting and enables managers to work on the business, not in the business.

Human Capital Development

Given that most Performance Management systems require that managers and employees commit to a Development Plan, employees experience real personal development and become more engaged with the organisation. They feel part of the organisation and start to understand that they and the organisation are interdependant. The organisation is developing the employee and the employee is working towards developing the organisation by achieving its goals.

Compliance

Most Performance Management systems are able to provide simple graphical compliance reports. Therefore, the setting of Objectives and a Development plan for employees can no longer be ignored. Employees see real planning, are involved in setting meaningful objectives and have input into personal development plans which benefit both themselves and the organisation as well. In all, this results in a more engaged workforce who are more committed to achieving real outcomes for the organisation.

Research

IXP3 conducted several research studies in focus groups over the last four years. Further research has been conducted during seminars on Performance Management. Following is a summary of the findings:

- 87% of organisations have some type of appraisal system. Often this is referred to as the Performance Management system.
- Of the 87% that have these systems, 95% were manual systems without Performance Objectives or Development plans
- 68% were annual appraisal systems

It was clear from the research that many organisations incorrectly view manual annual appraisal systems as Performance Management systems.

Summary

The major differences between appraisal systems and Performance Management are:

- Performance Management Reviews are conducted more frequently than annual appraisals
- Objectives are aligned to strategic or operational plans
- Performance Management systems typically have tighter structure due to compliance reporting
- Performance Management focuses staff on Performance of objectives, development and business
- Accessible by everyone, all through the year
- Enables both managers and staff to come better prepared for reviews
- Lower stress and increased confidence of both parties
- Increases staff engagement as they are recognized for their efforts and receive meaningful development

Technology has enabled organisations to move from annual appraisals/reviews to Performance Management. Annual appraisal systems are currently the norm in most organisations as they have not yet adopted new technology.

Low adoption rate of automated systems is changing fast. Demand is high for automated systems that are simple to use, quick to deploy and inexpensive.

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