

## **Performance appraisals are extremely effective if they are appropriately designed and deployed.**

Steven T. Hunt, Ph.D.

Click to follow my posts: [www.linkedin.com/in/steventhunt](http://www.linkedin.com/in/steventhunt)

Most attempts to achieve weight loss through dieting fail. Does that mean dieting is an ineffective way to lose weight? Should people completely ignore their diet and just focus on exercise? No, of course not. The problem is people struggle to follow healthy diets and so this weight loss technique doesn't always work for them. But just because it's difficult to manage what we eat, does not mean we should ignore our diet altogether. This analogy applies directly to claims that performance appraisals don't work, are hated by employees and managers, and should be completely replaced by performance coaching methods.

**Do performance appraisal processes improve organizational performance?** Rigorous empirical research on talent management shows that performance appraisal processes do work when they are appropriately designed and deployed. The following is a small sample of evidence from researchers who have studied this topic.<sup>1</sup> With the exception of Eichinger et al., these are from academics that to my knowledge have no financial interest in what sort of talent management process or technology your company chooses to buy. Some excerpts are taken from peer review journals and have somewhat confusing language and terminology. But I feel it is important to present these quotes verbatim to emphasize that these are research findings – not my personal opinions.

“A performance management system can make the following important contributions: motivation to perform is increased, self-esteem is increased, managers gain insight about subordinates, the definitions of job and criteria are clarified, self-insight and development are enhanced, administrative actions are fair and appropriate, organizational goals are made clear, employees become more competent, there is better protection from lawsuits, better and more timely differentiation between good and poor performers, supervisors' view of performance are communicated more clearly, organizational change is facilitated.” Aguinis, 2007 page 4.

“Researchers have begun to try to determine the return on investment of... using better selection methods, better training and development, and better performance management applications...at this time, the order from most to least is rigorous performance management, then training and development, then selection...So the fastest way to improve performance of any unit is to set rigorous performance standards and get rid of those who do not measure up.” Eichinger et al., page 208.

“Results suggested that forced distribution rating systems of the type we simulated could improve the performance potential of the typical organization's workforce and that the great majority of improvement should be expected to occur during the first several years.” Scullen et al., page 24

“The practice evaluation tool [measures the use of] eighteen key management practices...The monitoring section focuses on the tracking of performance of individuals, reviewing performance (e.g., through regular appraisals and job plans), and consequence management (e.g., making sure that plans are kept and appropriate sanctions and rewards are in place)... better management practice are strongly associated with superior firm performance in terms of productivity, profitability, Tobin's Q, sales growth, and survival.” Bloom & Van Reenen, pages 1361 & 1391

---

<sup>1</sup> Aguinis, H. (2007). Performance management. Pearson Prentice Hall: Upper Saddle River, New Jersey.

Eichinger, R.W., Lombardo, M.M., & Ulrich, D. (2006). 100 things you need to know: best people practices for managers & HR. Lominger Limited Inc: Minneapolis, MN.

Scullen, S.E., Bergey, P.K., & Aiman-Smith, L. (2005). Forced Distribution Rating Systems and the Improvement of Workforce Potential, Personnel Psychology, 58, 1-32.

Bloom, N. & Van Reenen, J. (2007). Measuring and explaining management practices across firms and countries. Quarterly Journal of Economics, 122, 1341-1408.

Empirical research shows that a well-designed and implemented performance appraisal process is a key part of a high performance organization. But research also shows that performance appraisal is a “double edged sword”.

“Some negative consequences associated with low-quality and poorly implemented systems [include] increased turnover, use of misleading information, lowered self-esteem, wasted time and money, damaged relationships, decreased motivation to perform, employee burnout and job dissatisfaction, increased risk of litigation, unjustified demands on managers’ resources, varying and unfair standards and ratings, emerging biases, unclear ratings system.”  
Aguinis, 2007 page 7.

A well-designed performance appraisal process significantly improves workforce productivity, but a poor process can severely hurt productivity. The key question is not whether to do performance appraisals, but how to ensure we do them in an effective manner.

**Should we stop doing performance appraisals because people don’t like them?** Claims that we should do away with performance appraisals because people don’t like them are misguided. First, it is misleading to say that people hate performance appraisals. To the contrary, many employees express frustration when their company delays or fails to conduct their performance review. What is more accurate is to say that people don’t like poorly designed performance appraisal processes. This is not the same as not liking any performance appraisal process. Second, just because some people may not like something is not adequate reason to stop doing it. Most people I know don’t particularly like going through the financial budgeting process, but that doesn’t mean we should stop creating budgets. Whether people like it or not, having a consistent performance appraisal process is critical to effective, efficient, and fair workforce management.

**Should companies replace performance appraisals with performance coaching?** Performance appraisals are an important component of an effective performance management system, but they are only one component. Another equally critical component is performance coaching and dialogue. Just because a company has a good performance appraisal process, does not mean it has a good overall performance management process. Companies need both accurate appraisals and effective feedback and development to maximize workforce productivity. Just like you need to focus on both diet and exercise to maximize your health, performance appraisal and performance coaching are two separate but interdependent processes that both contribute to workforce productivity. Each is valuable in different ways, and one should not be used to replace the other. The best results are achieved through improving both simultaneously in a coordinated fashion.

Can performance appraisals be improved? Absolutely! Are many of the performance appraisal processes currently be used by companies causing more harm than good? Definitely! Should companies invest more energy into creating better performance coaching and dialogue? Without a doubt! But this doesn’t mean performance appraisals don’t work. They add tremendous value when they are appropriately designed and implemented. Recommendations to eliminate performance appraisal processes are misguided and potentially harmful. The focus should be on how to improve their design, use, and impact.