Performance appraisals don’t work

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Abstract: By evaluating performance then rewarding it monetarily, managers hope to motivate employees to work harder, work smarter, and stay at the job. However, after many years of use and much study, there is little hard evidence that performance appraisal programs elicit the desired effects. In fact, tying performance appraisals to merit increases may be simply a waste of time because it presupposes that managers understand and can manipulate something as complex as human work behavior. Most people are unqualified to understand, let alone tamper with the complexities of employee performance. Even more to the point is the fact that performance appraisals do not produce more competent, loyal workers because the practice is inherently flawed. Most performance appraisal programs used for determining merit increases fail to generate enthusiasm or motivation. However, even some of the most forward-looking companies are still using compensation systems introduced in the 1950s, and these hardly drive or complement the dynamics of the current organization.

The author explains problems associated with using employee performance appraisals as the basis for determining merit pay increases. He argues that a system by which employees are paid a fair market wage is a better business practice.

Employers have been trying to link performance appraisals to pay raises ever since the end of World War II. By evaluating performance then rewarding it monetarily, managers hope to motivate employees to work harder, work smarter, and stay at the job.

However, after many years of use and much study, there is little hard evidence that performance appraisal programs elicit the desired effects. In fact, tying performance appraisals to merit increases may be simply a waste of time.

Why? Because it presupposes that we understand and can manipulate something as complex as human work behavior. Most of us are unqualified to understand, let alone tamper with the complexities of employee performance.

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Performance appraisals don’t work

The conventional performance appraisal system is more like gambling than an objective observation process. It is distorted by evaluator bias and more often reflects the unpredictability of the organization's dynamics. Many employees are skeptical of the evaluation results and even more doubtful of the ability of managers who indulge in the annual flurry of paper.

Most performance appraisal programs used for determining merit increases fail to generate enthusiasm or motivation. Why? There are at least four key reasons:

* They aren't in sync with the way businesses operate today. There has been considerable incentive in recent years for organizations to flatten their internal structure and become customer driven. Restructuring and "right-sizing" have enabled them to compete more effectively in the global marketplace, to reduce and control costs, and to improve organizational effectiveness.

However, even some of the most forward-looking companies are still using compensation systems introduced in the 1950s, and these hardly drive or complement the dynamics of the
current organization. For example, while today's emphasis is on team contribution, rewards are 
still based on individual merit. Obviously, the signals we're giving employees are confusing.

* They aren't a motivating factor. With merit budgets of 4 percent to 4.5 percent, there is little 
eticement to achieve an additional 1 percent of base pay by exceeding expectations or by being 
rated exceptional.

According to Edward E. Lawler III, founder and director of the University of Southern 
California's Center for Effective Organizations, "The difference in merit pay between the 
outstanding and poor performers is so small that there no incentive value at all. Not to mention the 
fact that its so unclear how a person got a higher or lower raise that it takes an enormous leap of 
faith, or stupidity, for an employee to decide that pay and performance are really related."

* No one is average. At least that's how we all see ourselves. Typical appraisal forms ask the 
manager to rank employee performance as unacceptable, acceptable, good, very good, or 
outstanding, with the budgeting process dictating that most ratings should be in the good category 
- in other words, almost everyone should be rated average.

Yet few, if any, workers would describe their own performance as average. During presentations 
to companies and other organizations, I ask for those people who are average performers to raise 
their hands. I don't recall anyone ever responding. But when I request a show of hands of the 
outstanding or very good performers, the reaction is substantial. People simply do not see their 
performance as average. Yet we use the results of this flawed process to reward, punish, or 
promote. (As an aside, I find it extremely ironic that many companies issue mission statements 
suggesting they will excel beyond the competition ... and they plan to do it with an "average" 
workforce.)

The timing is terrible. For most companies, the fiscal year begins Jan. 1. That means corporate 
budgeting and performance evaluation coincide with the winter holiday season - a period of 
considerable stress and time pressure for most people. By contrast, this is also when it's human 
nature to feel at least a little more charitable, and that can result in undeservedly high pay 
increases. Under these conditions, can we really expect managers to be objective and honest 
regarding appraisals and pay raises?

Dump the system

Performance appraisal requires a process that is objective, consistent, and dependable. But for 
managers and supervisors facing expanded administrative tasks in addition to their already 
difficult job duties, this can be an overwhelming if not impossible demand.

Many appraisal programs are imposed without thorough and proper training, under the 
presumption that managers are capable of implementing them anyway But how can a system be 
objective, consistent, and dependable if the manager executing it lacks the appropriate skills, 
training, or time?

Performance appraisal encourages mediocrity by rewarding safe behavior as opposed to 
risk-taking and self-- challenge. More specifically, employees are rewarded for not being 
challenged and creative. Managers don't have time to deal with it.

Most work is the product of a group of people. Evaluating an individual requires a pretense that 
the individual is working alone. Highly unique and individualized jobs do exist that have no 
interaction or dependence on other jobs, but these rare positions generally escape the formal 
performance appraisal process.

Performance evaluation provides feedback distorted by evaluator bias about events that are
usually beyond the employee's ability to control. Credible feedback is usually too little too late.

Performance appraisals are not a protection from discrimination problems. Performance appraisal gives only the appearance of an equitable, objective system. It is neither; therefore, it is indefensible. Performance appraisal documentation can be a double-edged sword; I have observed many times when it enlarges a problem rather than solving it. For example, when I worked in corporate human resources years ago, managers often came to me asking how to terminate an employee due to "performance problems." The first thing we would do was review past performance appraisals. No surprise: The prior evaluations were often extremely positive, glowing affirmations of the employee's value and how the company would suffer if he or she left.

Some people have asked me if their company wasn't legally required to conduct performance appraisals. No. It is a prudent practice to maintain records of employee problems and advise employees of performance issues with relevant documentation. But the private sector is not required to do so using the typical performance appraisal format associated with merit pay increases. If you are in doubt regarding your specific legal situation, consult your attorney.

What about companies that use performance appraisals for performance planning, too? If that's the case, you're expecting a lot out of one set of forms. In addition, you are probably diluting the performance planning process with a form that is perceived by employees to be linked to money. Why force-fit an important internal system to be a one-size-fits-all solution?

Instead of the typical performance appraisal system, consider a market-driven approach. Pay the market rate for every job, and as the market changes alter the pay accordingly, always keeping an eye on affordability.

The market rate of most jobs can be determined by participating in surveys sponsored by industry groups, trade commissions, or compensation consulting firms. And if your company is not meeting its financial goals, you can be selective in terms of who gets a pay increase. Better yet, create a variable pay plan linked directly to organizational achievement and individual contribution.