

Current U.S. trends in formal performance appraisal: practices and opportunities – Part One

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Abstract

Purpose – *The purpose of this two-part paper is to explore the current practices being employed in the formal performance appraisal process in a cross-section of US service and manufacturing organizations. In this paper, the authors identify the current trends that emerged from this research study and the improvement opportunities that exist for organizations that currently engage in the practice of formally appraising their personnel.*

Design/methodology/approach – *The formal performance appraisal process, procedure, and rating form from 183 US organizations were reviewed by a three-person review panel and were content analyzed to identify current trends and opportunities for improvement.*

Findings – *This qualitative analysis revealed that the average rating procedure had been in place for 5.5 years, to serve a wide variety of purposes, identified critical gaps in training, made it clear that organizations employ a wide variety of performance criteria in assessing their people.*

Research limitations/implications – *The biggest limitation of this research is the fact that a convenience sample of 183 organizations was employed as the basis for this study.*

Practical implications – *Data on the actual formal performance appraisal process of organizations are rather limited and this research provides critical insight into current practice limiting potential generalizability.*

Social implications – *The social implications of this research suggests that organizations can do a much better job of equipping their leaders/employees to more effectively reap the organizational benefits of this key practice.*

Originality/value – *Research in this area is not prevalent so this is a descriptive research study that both researchers and organizations can use to further their knowledge in formal performance appraisals.*

Keywords *Performance, Trends, Practices, Opportunities, Appraisal*

Paper type *Research paper*

During my career with four different organizations, I have seen formal review processes that provided organizational leaders with good tools and procedures, and I have seen some really ineffective and mindless practices [...] Appraisals and reviews are challenging to begin with, but organizations can make it easier or more difficult for their managers by the approach they take in this regard. HR people really need to lead the way in this process, if they are serious about making this process a value-added experience for everybody! (A Senior Operations Manager's Observation).

Over 90 percent of US organizations engage in some form of formal performance appraisal process regardless of size of the organization, industry or competitive position in the marketplace (Longenecker, 2010). Literally thousands of research, practitioner, and journalistic articles are written on the subject every year dealing with performance appraisal. These articles cover everything from politics, psychometrics, rater errors, ways to link pay to performance, how to improve the rating and feedback process, to articles stating that the world would be a better place without formal performance appraisal altogether.

For the past 30 years, we have been researching how to improve the formal appraisal process and reviewing the work of others in this area of investigation. Over time, we have become more troubled by the fact that we could not find a great deal of information on current appraisal practices and trends in twenty-first century organizational America. For example, we lack knowledge concerning how organizations currently approach this process, whether or not industry practices now include many of the provided suggestions in the literature, where industry practices still need to improve, or if state-of-the-art practices are being used in companies that are ahead of the current academic dialogue. The purpose of this two part paper is to help fill in this void.

In Part I, we will discuss the research methodology of the study and the first four formal performance appraisal trends that emerged from this effort. We will describe each of these trends and provide specific observations that may benefit both practitioners and academics. Our goal, is improve our understanding of the current state of the performance appraisal process with the intent of finding opportunities for improvement in both current theory and practice. In Part II, of this paper that will appear in the next issue of industrial and commercial training we will discuss the final two trends observed from our research, what we learned in this project, and organizational opportunities that exist for improvement.

An applied investigation

With this backdrop, we embarked on a study to better understand the current state of the formal performance appraisal process in both service and manufacturing organizations across the USA. Over the past several years, we have been conducting an applied research study on the formal performance appraisal systems of 183 medium and large organizations from a large cross-section of US industries. The smallest organization in the sample had a workforce in excess of 600 employees, with the largest having approximately 30,000 employees. All of the organizations included in our convenience sample were for-profit enterprises; however, much of what we found is still applicable to non-profit organizations, as well as small-sized companies.

In this investigation, the formal appraisal process, procedure, and rating form from each organization were reviewed by a three-person review panel and were content analyzed on the following dimensions:

- the purpose and goals of the appraisal system;
- the rating procedure itself;
- the design of the rating format; and
- the training dimensions used in the appraisal process.

Our findings emerged from the consensus among a three-person panel and this in-depth analysis provided us with a current picture and an improved understanding of what a large cross-section of US organizations are currently doing when it comes to formally evaluating their people. These findings provided us with a number of insights concerning how organizations can still take their formal appraisal processes to the next level of effectiveness.

Current performance appraisal practices and trends – Part I

Through this formal review, we identified specific organizational practices and trends from this sample of organizations. Now we would like to share with you the first four of the most interesting performance appraisal trends that emerged from this analysis to help fill the void in knowledge concerning twenty-first century appraisal practices. These will include: the purpose of the appraisal process, equipping people for appraisal success, number of people involved in the rating process, and use of technology and frequency of formal appraisals.

Trend: longevity of process

At the time of this study, the current rating process in these organizations had been in place an average of 5.5 years and nearly 30 percent of the organizations were in the process of reviewing and revising their appraisal procedure.

Observations: every organizational appraisal system has an “effectiveness life-cycle” and there is very little research that suggests how long that life cycle might or should be. It was not surprising that organizations leave appraisal systems in place for well over five years as the implementation process and usage comfort levels take time to develop. The question is, “what causes an organization to change its appraisal process?” The triggers for change could include a new CEO or HR Leader, new business strategy, new compensation system, greater need for talent development, or a lawsuit or some major problem with the old system. Thus, it is equally no surprise that at any given time 30 percent of organizations are in the process of redesigning or realigning their appraisal process. What organizations need to do is to figure out the correct “triggers” or “indicators” that a change in their appraisal system is warranted.

Trend: multi-dimensional purposes of appraisal

Totally, 76 percent of the organizations had a clearly stated purpose(s) and articulated goals for conducting formal appraisals and reviews. The top five reasons cited for using the formal performance appraisal were as follows:

- documenting employee performance and contributions;
- performance planning and clarifying performance expectations;
- creating linkage with key HR decisions;
- improving employee performance/employee development; and
- creating a platform to stimulate/improve communication and feedback.

Observations: a significant majority of our sample organizations are on track in determining the potential purposes of their process. Approximately two-thirds of the organizations in this sample had identified a clear purpose or set of goals for their formal appraisal process. This finding is critical as organizational members need to have a clear understanding of why the organization is dedicating time, effort, and energy to this process. In addition, there is a substantial body of research that makes it clear that this is a needed and obtainable goal for a well-run appraisal process (Dessler, 2013). Conversely, it is important to note that close to 34 percent of the participating organizations did not have a clear purpose that had been articulated for engaging in this process. When organizational members are left to their own interpretation or understanding of why an organization does anything, the potential for misunderstanding, misdirection, miscommunication, and subsequent misaligned activity is significant.

Trend: equipping people for successful appraisals

In reviewing how organizations prepare people to participate in the formal performance appraisal process, a number of key findings emerged:

- in all, 67.2 percent of the rating forms had detailed instructions and guidelines attached;
- in all, 37.2 percent of the organizations required formal rater training for their managers; and
- in all, 19.1 percent of the organizations offered employee training as to their role in the rating process.

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Observations: approximately two-thirds of the organizations in our study followed the important practice of providing detailed instructions and guidelines on how the formal performance appraisal process should operate. However, about a third of the sample organizations are not providing the needed guidance to properly execute their evaluation process. This is highly problematic because this information is critically needed to leverage their employees' performance. Also, while most organizations are doing well in providing formal information on the appraisal process, a majority of our sample is failing to properly equip their managers with the requisite performance planning, coaching, legal compliance, rating, writing, feedback, and face-to-face interviewing skills necessary for success in this process (Longenecker and Fink, 2011). In addition, over 80 percent of organizations throw away the opportunity to effectively engage and prepare their employees to successfully enact their role in the appraisal process. These two gaps represent a significant opportunity loss for all parties concerned, as our previous research in this area makes it clear that goals are best met when everyone is properly equipped to perform their role (Longenecker and Fink, 2007).

Trend: people involved in the rating process

Several key findings were found that pertained to who is allowed to participate in the actual process of rating/appraising employee contributions to the enterprise:

- in all, 96.2 percent of the organizations surveyed had the employee's immediate supervisor responsible for conducting the appraisal;
- in all, 92.3 percent of rating processes required a review of the evaluation by at least one other person (other than the rater), while 54.1 percent required at least two other people to sign off on the review; and
- in all, 20.2 percent of the rating forms allowed for employee self-appraisal.

Observations: one quite unremarkable finding from this investigation was the fact that an employee's immediate supervisor is almost always the primary driver of the appraisal process. Yet, based on the previous findings already discussed, he/she is unlikely to have been trained to perform this important activity. Further, the findings indicate that almost all organizations include others in the process to help provide secondary assessment and/or checks and balances to the process. Some organizations require only one additional party involved in the process, but a majority require at least two additional parties to sign-off or be involved in the process. And, it is not surprising to find organizations requiring three or four additional signatures. In every case, organizations need to conduct a cost/benefit analysis when they consider adding an additional party's engagement and/or signature in the process. There is likely to be a decreasing marginal return in value, as an additional person's involvement takes time, can slow the process, and create a myriad of unforeseen bureaucratic obstacles. Finally, a real improvement opportunity exists when nearly 80 percent of organizations, in this sample, fail to take advantage

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“... a real improvement opportunity exists when nearly 80 percent of organizations, in this sample, fail to take advantage of the many-fold benefits that can be accrued from effective self-appraisal. Self-appraisal can provide an additional source of information for the rater, greater employee involvement and engagement in the process, and greater ownership over outcomes.”

of the many-fold benefits that can be accrued from effective self-appraisal. Self-appraisal can provide an additional source of information for the rater, greater employee involvement and engagement in the process, and greater ownership over outcomes (Longenecker and Fink, 2006).

Trend: how technology is used and how often appraisals are conducted

In exploring the appraisal processes in this study, we discovered three findings that focussed on the use of technology and the frequency of the rating cycle:

- in all, 93.9 percent of the organizations used some form of electronic or web-based platforms for completing the rating forms;
- in all, 72.1 percent of the organizations conduct formal appraisals annually; while 23 percent conducted appraisals semi-annually and 4.91 percent quarterly; and
- in all, 24 percent of the organizations required some form of informal, mid-performance cycle, alignment review session.

Observations: in the midst of this information age, it should come as no surprise that 94 percent of the organizations in this study used some type of electronic or web-based system to support the formal appraisal process. An electronically-based process allows raters to access rating forms and content electronically, which the rater can complete and control until it is time to formally submit the documents. The next evolutionary step in this process is when organizations move from a paper and pencil format to an electronically-based system and then to a web-based system, where raters access a central site and complete the evaluation form and the information is stored on the organization's server.

While technology can make the process more efficient, it also brings with it the concern of the security of this confidential information. This is especially true in web-based systems. In either case, confidentiality of information needs to be a primary consideration in designing and maintaining such systems. Once the confidentiality of the system is breached, it raises a host of legal, ethical, and trust issues that can greatly damage a managers' credibility, the employees' faith in the system, and an HR department's standing in the organization.

In terms of frequency of evaluations, the lion-share of organizations still conduct the formal review on an annual basis. It is interesting to point out that a full 28 percent of organizations conduct formal appraisals more than once a year. Additionally, 24 percent of organizations that have only one formal review, still require further informal feedback and coaching in-between formal reviews. The purpose for this increasing frequency of formal or informal evaluation is driven by any number of factors including rapidly changing job demands, need for on-going workforce alignment, not to mention the need to be able to adjust goals mid-stream, especially in a sales environment or wherever quotas might be used, or with the use of HR and workforce scorecards designed to quickly catch problems in upstream performance, and to encourage/force performance feedback and coaching, among others (Huselid *et al.*, 2005).

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In closing

As we conclude our discussion of the first four performance appraisal trends that emerged from our research, we would ask the reader to review our findings and assess the extent to which these findings track with your own experiences. In Part II of this study, we will discuss the final two trends and provide the reader with a series of assessment questions to help you identify specific opportunities for improving the appraisal process in your organization.

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