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Knowledge & Library Services (KLS) Evidence Briefing

What approaches to performance management and performance appraisal in the workplace are effective for improving organisational outcomes or staff attitudes to the process?

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Question

This briefing summarises the evidence on different approaches to performance management (PM) and performance appraisal (PA) in the workplace, including looking at outcomes on business and employee productivity, and staff attitudes to the process - from January 1st 2014 to November 12th 2019.

Key messages

- PA can have a positive impact on task performance, productivity, satisfaction and commitment
- PA is positively related to merit pay and bonuses, promotions, demotions and dismissal
- ratings may be limited as performance measures and raters cannot make nuanced performance judgments accurately
- appraisals without monetary consequences may have a detrimental effect on job satisfaction
- managers may avoid the emotional impact of having to give negative feedback and therefore not managing underperformance appropriately
- in many situations, feedback improves performance, but it may also have no effect or be harmful

Effective PM and PA approaches:

- regular positive feedback
- involving employees in appraisal discussions
- benchmarking
- establishing a PM system as 'fair'
- linking individuals' goals with business priorities
- managers coaching employees
- managers setting clear goals
- employees accepting feedback openly
- training raters in purpose, timing and frequency of appraisal and how to give negative feedback
- defining purpose of appraisal, enabling employee/manager ownership, developing user-friendly rating, establishing effective training and linking outcomes to performance ratings
- helping employees remove barriers to PM success
- more frequent meetings, with teams rather than individuals, more personal responsibility and openness, and focusing on interests of employees rather than the organisation

Evidence briefings are a summary of the best available evidence that has been selected from research using a systematic and transparent method in order to answer a specific question.

What doesn't this briefing do?
The findings from research papers summarised here have **not** been quality assessed or critically appraised. This briefing is a neutral presentation of the evidence and does **not** seek to make any recommendations.

Who is this briefing for?
This briefing is to inform the Workforce Development Manager, People Directorate.

Information about this evidence briefing
This briefing draws upon a literature search of the sources Scopus, Psycinfo, Business Source Complete, Health Business Elite, Proquest Chadwick Healy, Emerald Insight, Ingenta journals: Economics and Business, SAGE journals, HMIC, Taylor Francis online: Economics, Finance, Business & Industry, Springer Link: Business and Management, Google from Jan 1st 2014 to Nov 12th 2019

26 highly relevant citations were used to produce this evidence briefing.

You may request any publications referred to in this briefing from libraries@phe.gov.uk

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"Despite years of research and practice aimed at improving the performance appraisal and performance management process in organizations, dissatisfaction with the process is at an all-time high" (1)

Background

There is no definitive definition of performance management (PM) but it usually comprises a range of distinct tools and activities such as establishing objectives, improving performance among employees and holding people to account (2). Performance appraisal (PA) is one part of PM and often consists of setting performance ratings that are applied to employees, judging employees against the ratings and feeding back the judgement to the employee (2). The terms PM and PA are often used interchangeably in the literature (3), so this briefing includes both the traditionally narrower practices of PA as well as discussing the broader activities considered to be part of PM.

Companies such as Adobe and Netflix have abandoned formal annual reviews, adopting a process that focuses more on continuous PM (4). Ranking- and ratings-based PM may be damaging employee engagement and costing managers valuable time, leading to some organisations getting rid of the annual evaluation cycle and replacing it with ongoing feedback and coaching, according to a Deloite survey in 2014 (5). Their bottom line is "*a shift from "evaluation" to "development and performance improvement" will drive appreciable results*".

But what does the evidence suggest are the best approaches to PM and PA in the workplace, when looking at outcomes such as productivity and attitudes of the staff involved?

Effectiveness of PM and PA

The Chartered Institute of Personnel and Development (CIPD) main recommendations for effective PA are (2):

- Rely on managers' evaluations rather than self-assessments, as they are more powerful motivators
- Use strengths-based feedback that focuses on positive aspects of performance and future development
- Ensure managers involve employees in the appraisal discussions so that their voice can be heard
- Check in with employees following appraisal to see how they are responding

Feedback and goal orientation also seem to be gaining prominence within PA practice and research (6).

A meta-analysis on the impact of PM on performance in public organisations examined 2,188 effects gathered from 49 studies (7). The study examined the effect of the "average" PM system, whether beneficial PM practices can moderate the average effect, and what the effect of "time" on PM is. They found that PM systems

tend to have a small but positive average impact on performance in public organisations. The authors conclude that performance systems using best practice techniques are two to three times more effective than average. Benchmarking appears to be an effective method for learning who is performing well – practitioners should emphasise the use of benchmarking over time to provide a valid comparison and replicate success (7).

Four criteria for the effectiveness of PA systems have been suggested (8):
- utilisation - why PAs are conducted (the reason for the existence of performance appraisals is rarely considered (9))
- qualitative - user's justice perceptions and fairness of a PA system
- quantitative – the psychometric soundness of rating formats
- outcome - appraisee reactions and attitudinal evaluations of a PA system

A conceptual framework for an effective PA system, using the competing values approach has been developed (8). The proposed framework consisted of four quadrants; each quadrant had variables that held competing values with the variables of the diagonally opposing quadrant e.g. upper left quadrant focusing on human resources and interpersonal relations, which are in contrast with lower right quadrant (planning and achieving goals); upper right quadrant focusses on flexibility and adaptation while the lower left quadrant focusses on management control and internal process.

This framework implied that a PA system should be effective in four broad areas - internal process model, human relations model, open system model and rational goal model, which represent the four criteria of effectiveness. The authors conclude by stating that "*This framework is the first step in developing effectiveness criteria for PA systems; much of the work is remaining and could be done in the future. Future research may explore this framework by developing an instrument to measure set of values in each quadrant*" (8).

A review of performance evaluation based on research and practice found that (10):
- Ratings are inherently limited in their value as performance measures
- Rater-ratee relationship differences yield actual performance differences, which raises questions about whether a "true" performance level exists that can be reliably captured across raters
- Raters can accurately place others into general categories but cannot make nuanced performance judgments accurately
- Political and social factors have very strong impacts on ratings
- Properly selected, performance measures beyond ratings may mitigate challenges with ratings

A scoping review of the PM literature concluded that the literature explores the more process driven aspect of PM, namely PA, as opposed to investigating PM in a truly holistic way (11). The articles contained frequent references to setting goals and expectations, aligning goals to the organisation's strategic direction, the importance of feedback including frequency and rater-training, and that positive employee reactions and outcomes occur when a PM system is perceived as fair and employee-centred (11).

Organisational outcomes

Evaluating the effect of PA on workplace performance would require a large number of populations and contexts where PA was applied, and the measurement of a wide range of performance outcomes - such studies do not exist, and may be too difficult to carry out (12). However, this report states that there is consensus among researchers and practitioners that PA can have a positive impact on organisational outcomes such as task performance, productivity, satisfaction and commitment.

A study documenting evidence on the importance of PA using data from a large US corporation, found that appraisal scores varied considerably within individuals over time - a low score one year did not necessarily affect performance next year, as people can improve over time (9). Appraisal scores were shown to be positively related to a range of employment outcomes including merit pay and bonuses, promotions, demotions and dismissal.

A survey by McKinsey indicates that the key to getting positive business outcomes from PM is to establish a system that employees and managers perceive as fair – to do this, managers should link individuals' goals with business priorities, coach effectively, and differentiate compensation across levels of performance (13). Among respondents who said their organisations performed well on all three of these practices, 84% reported a positive impact on PM (13).

Behaviour of employees and managers

Some organisations have focused their efforts on streamlining the PM process, others have focused on driving more effective manager and employee behaviour, and some have made changes that leverage both approaches in tandem (10). Key behaviours for managers are to (10):

- set clear expectations, priorities, success criteria, and standards
- revise expectations in real time, so employees know what to do
- provide informal feedback daily to praise, coach or correct employee performance
- check in regularly with employees to stay in touch and provide guidance
- coach employees and help them solve problems to enable success

Key behaviours for employees are to (10):
- to clarify their performance expectations to ensure they understand priorities and standards
- set expectations with peers about who is doing what, and by when
- ask for and accept feedback openly and non-defensively
- use feedback to correct, and continuously improve, own performance

Supervisory styles have been shown to impact on the effectiveness of PA systems (14). A developmental style of management tends to create more learning and job satisfaction, than a benevolent or critical style.

Supervisors' relationship-oriented (i.e. satisfaction, motivation and well-being) behaviour triggered active employee contributions and vice versa (15) – these patterns were linked to higher interview success ratings by both supervisors and employees. Employee disagreement can also be a crucial form of active employee contribution during an appraisal interview (15).

A study of US federal employees found that 'psychological contracts' i.e. the expectations between an employee and the employer and what each gives and expects in return from the other, have a positive impact on the employees' perceived fairness of PA (16).

Reactions and attitudes of employees and managers
A model of evaluative criteria underlying PM effectiveness includes employee/managers reactions to PM, their PM learning, emergence enablers, human capital resources, operational and financial outcomes, and how these criteria are transferred between the components in the model (3). Employee reactions are most influenced by informal processes - more positive cognitive reactions, as well as greater satisfaction, result when employees have knowledge about how the PM process works, and when they believe their supervisors are unbiased and fair (3). Manager reactions are more influenced by formal processes, including rating approaches, as well as by managers' previous PM experience and personality. For employee motivation, it appears that goal-setting and feedback are most impactful.

PA may be a process during which both manager and employee feel uncomfortable, defensive or emotional (17). Organisations should ensure that all raters have been sufficiently trained, including in aspects such as the purpose of appraisal, the timing and frequency, what should be measured, and how to give negative feedback.

There is a significantly positive effect of PA on job satisfaction, which is driven by appraisals that are linked to monetary outcomes (18). For some employees, appraisals which induce performance monitoring without any monetary consequences, may have a detrimental effect on job satisfaction rates.

In a sample of 238 employees from 54 work teams, perceptions of PAquality were found to be positively associated with increased participation in informal learning (such as reflection on daily activities, knowledge sharing with colleagues and innovative behaviour) over time (19).

Feedback

A qualitative study of NHS managers' experiences of managing staff underperformance showed that the management of underperformance was related to the delivery of negative feedback to staff, which triggered either acceptance, overt (explicit) rejection or covert (hidden) rejection of the feedback (20). Managers failed to recognise covert rejection and did not manage it appropriately. Managers tended to avoid the emotional impact of having to give negative feedback, and this played a large part in them not managing underperformance (20).

Managers may communicate negative feedback ineffectively because they suffer from transparency illusions that cause them to overestimate how accurately employees perceive their feedback (21). This may be because managers are insufficiently motivated to engage in effortful thinking, and this reduces the accuracy with which they communicate negative feedback to employees.

Feedback interventions have variable effects on performance – in some situations, feedback improves performance, but in other situations it has no effect or may be harmful (12). The effect of PA can be moderated by factors such as personality variables, perceived fairness, rating format and rating method, and the quality of the relationship between manager and employee.

Improving PM and PA

A set of lessons, based on research, surveys and managerial experience, that organisations can use to design or re-design their performance appraisal systems and practices are summarised (22). These include:
- clearly define why your organisation conducts formal appraisals
- employee/manager ownership of system's design is critical
- develop user-friendly rating procedures and job-related forms
- effective appraisal education and training is a must
- managers must conduct ongoing appraisal and regular feedback/coaching
- appraisal outcomes must be linked to performance ratings

The authors state that "*the key to improving the formal appraisal process is the behavior of managers within your organization. If managers are to increase the effectiveness of their rating behavior, they need to operate using an effective appraisal system as a foundation; demonstrate and practice effective rating behaviors; and finally receive ongoing motivation and support to conduct effective appraisals*" (22).

A literature review highlighted the fairness and accuracy of PA systems – they categorised errors/biases of rating into four groups: rater-centric, ratee-centric, relation-centric and system-centric errors, in an effort to encourage PA practitioners to direct efforts into minimising bias and increasing accuracy of rating (6).

Adler et al. state that "*many organizations seeking to improve their performance management approaches want to start with questions such as "should we have ratings?"…..these are the wrong questions to ask at the start. The better questions to start with are these: What are the critical outcomes we want to achieve, and how can we best ensure employees deliver against key goals and outcomes?"* (1).

Performance should be managed with three critical goals in mind (1):
- Enable employees to align their efforts to the organisation's goals
- Provide guideposts to monitor behaviour and results, and make real-time adjustments to maximise performance
- Help employees remove barriers to success

PM processes that tend to focus on how to use automated systems and tools to complete PM activities may add to their bureaucratic and administrative emphasis (23). Focusing directly on several key PM behaviours (managers setting clear expectations, providing regular informal feedback, and helping employees develop and succeed) has been suggested, as these have been shown to increase employee performance and engagement. The authors state that "*PM needs to shift from focusing on the formal system to focusing on the PM behaviors that matter every day"* (23).

A demographic analysis and examination of changing workplaces recommended a much stronger emphasis on the developmental aspect of PA, as well as more frequent feedback and mentoring (24).

More organisations are abolishing their traditional annual PA, or at least parts of it (25). Alternative approaches to the traditional performance appraisal involve more agile approaches (more frequent or case-based meetings, involving teams rather than individuals, more personal responsibility and openness, focusing on interests of employees rather than the organisation) (25). The author states "*it is naive to think it is possible to motivate employees, encourage learning through feedback, distinguish between performance strengths and weaknesses, identify talent, manage the company, retain employees, develop employees, determine internal suitability, and illustrate career prospects with just one single instrument, regardless of the company's framework conditions*" (25).

Training programmes aimed at improving the accuracy of PA were shown to improve knowledge about bias identification and performance dimensions, as well as the development of a framework-of-reference shared by the raters, which can improve performance appraisal accuracy (26).

Summary

There has been a lot of research on PM and PA approaches in the workplace (much of it theoretical which has not been included in this briefing), but there is no consensus about the "best" or "most effective" method. However, there are a variety of approaches that have been shown to be effective for improving PM or PA, in terms of impacting organisational outcomes, or improving employee motivations and attitudes towards the appraisal or PM process. Employees' reactions to PA, the behaviour of managers, and how fair PA is perceived to be, seems to be as important as the system or process of appraisal itself.

What approaches to performance management in the workplace are effective for improving organisational outcomes or staff attitudes to the process?

Example search strategy

Inclusion/exclusion criteria

Ovid PsycInfo

1. performance appraisal*.tw.
2. ((End of year or mid year or appraisal*) adj (feedback or objective* or performance or conversation* or goal*)).tw.
3. (performance management or performance review* or performance evaluation).tw.
4. ((manag* adj2 performance) or employee performance or assess* performance).tw.
5. (employee feedback or performance conversation* or career conversation*).tw.
6. (development* performance or admin* performance).tw.
7. ("360" adj2 feedback).tw.
8. ongoing feedback.tw.
9. (employee review* or employee evaluation).tw.
10. 1 or 2 or 3 or 4 or 5 or 6 or 7 or 8 or 9
11. (employee* or employer* or manager*).ti.
12. (efficien* or effective*).ti.
13. (impact* or productiv* or value or purpose or outcome*).ti.
14. (attitude* or approach* or aware*).ti.
15. (time or resource* or staff or paperwork).ti.
16. exp *Efficiency/
17. *Attitudes/
18. *Awareness/
19. *Time/
20. 11 or 12 or 13 or 14 or 15 or 16 or 17 or 18 or 19
21. 10 and 20
22. limit 21 to yr="2014 - 2019

Inclusion criteria

- Performance management or appraisal in the workplace
- Impact/outcome shown on the employee, manager or business
- Published 2014-2019

Exclusion criteria

- Commentary or opinion piece
- No obvious practical implications
- Not in English language

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