ENHANCING PERFORMANCE MANAGEMENT: THE VALUE OF STAFF APPRAISALS

A BUSINESS INSIGHT REPORT BY **KAPLAN**

KAPLAN

INTRODUCTION

In 2014, leading global education and training provider Kaplan carried out a survey among 170 companies on their staff appraisal programmes.

Looking to understand to what extent UK companies are fully engaged with the appraisal process, or to what extent it remains merely a tick-box exercise, Kaplan conducted online surveys covering 20 questions on staff appraisals and performance reviews.

This insight report provides a summary of the key survey findings. It is intended for HR, people managers and learning and development specialists – for anyone involved in conducting appraisals and performance reviews within organisations. It offers:

- Summary statistics and insight from our survey into appraisal programmes
- Guidance on how to maximise the appraisal process to help enhance performance management
- Recommendations on how to link appraisals to other internal development processes
- Options for further advice and information on appraisals and other areas of performance management

NUMBER OF COMPANIES SURVEYED BY SIZE

HOW MANY PEOPLE ARE EMPLOYED BY YOUR COMPANY?	COUNT	%	% ABLE TO ANSWER
0-50	27	15.9	15.9
51-100	17	10.0	10.0
101-250	18	10.6	10.6
251-500	28	16.5	16.5
501-1000	21	12.4	12.4
1000+	59	34.7	34.7
I dont know	0	0	0
Total	170		

NUMBER OF COMPANIES SURVEYED BY JOB ROLE

WHAT IS THE CATEGORY OF YOUR JOB ROLE?	COUNT	%
CEO	3	1.8
Finance Manager	46	27.1
Finance Officer	7	4.1
Financial Controller	15	8.8
Financial Director	15	8.8
Human Resources Business Partner	1	0.6
Human Resources Director	6	3.5
Human Resources Manager	6	3.5
Learning & Development Manager	17	10.0
Managing Director	4	2.4
Training Manager	11	6.5
Other (Please Specify)	39	22.9
Total	170	

GETTING THE MOST FROM YOUR WORKFORCE

Staff appraisals are one of the cornerstones of performance management.

Helping organisations to manage individuals and produce engaged and productive workforces, appraisals can lead to improved levels of organisational performance and business success.

The effective management of employees' development and performance can be critical to the strategic cohesion and overall productivity of an organisation. According to the UK's Chartered Institute of Personnel and Development (CIPD), performance management is about "helping people to understand how they contribute to the strategic goals of an organisation and ensuring that the right skills and effort are focused on the things that really matter."[1]

Staff appraisals are widely perceived to underpin the performance management process. In a CIPD survey, 83% of respondents agreed that 'performance appraisals', along with regular reviews, feedback and assessment of development needs, are critical components of performance management, contributing to the process by which employees:

- Know and understand what is expected of them
- Have the skills and ability to deliver on these expectations
- Are supported by an organisation to develop the capacity to meet these expectations
- Are given feedback on their performance
- Have the opportunity to discuss and contribute to individual and team aims and objectives [2]

And in 2012, a separate CIPD report claimed that "whether formal or informal, performance discussions help you to get the most from your workers."[3] Indeed, the staff appraisal process provides a vital mechanism for optimising output and ensuring business plans can be delivered at all levels.

[1] *CIPD: Performance Management in Action – current trends and practice, 2009*
[2] *CIPD: Performance Management in Action – current trends and practice, 2009*
[3] *CIPD: Performance and Retirement Practices – get it right, 2012*

APPRAISALS IN THE POST-RECESSION LANDSCAPE

Fully engaged appraisal processes and development opportunities can act as powerful recruitment and retention tools for companies and organisations – particularly in the post-recession landscape. Indeed, as growth and positivity return to the UK economy and the job market begins to pick up again,[4] employee appraisals fulfil two vital roles. Firstly, they ensure there is regular flow of information between employees and management. Secondly, they enable the development of existing workforce skills and give employees a sense of progression – thus helping organisations to retain key staff and attract new talent if necessary.

APPRAISALS AS A STRATEGIC EMPLOYEE ENGAGEMENT TOOL

Staff appraisals can help create an atmosphere of trust and build strong employee engagement – both of which are essential to unlocking productivity and transforming working lives.

Engaged employees are often more motivated and able to see a strong link between their organisation's success and their own career development – a link which can be reinforced during the appraisal process. Generally speaking, companies with engaged workforces also enjoy lower rates of absenteeism, fewer instances of employee error, as well as improved staff satisfaction and higher profitability. So compelling is this correlation that former Secretary of State for Business, Peter Mandelson, commissioned an investigation into how much UK competitiveness could be enhanced through employee engagement. This process culminated in the Macleod Report which found, among other things, that:

- *Engaged employees in the UK take an average of* ***2.69*** *sick days per year*
- ***70%*** *of engaged employees indicate they have a good understanding of how to meet customer needs*
- *Engaged employees are* ***87%*** *less likely to leave their organisation than the disengaged*

The Macleod report also found that one of the key drivers of engagement is 'voice', whereby employee views are not just listened to but acted upon – a process which is often facilitated within organisations by staff appraisals.

APPRAISALS AS A DRIVER OF COMPETITIVE ADVANTAGE

As key components of both performance management and employee engagement, staff appraisals therefore play a vital role in sharpening an organisation's competitive edge. As such, those businesses not optimising the appraisal process may run the risk of losing ground to their competitors.

[4] *Britain is expected to be the fastest-growing economy among the G7 nations in 2014, with the IMF predicting GDP growth of 3.2%; source, the Guardian: http://www.theguardian.com/business/2014/oct/24/uk-economic-growth-slows*

EXECUTIVE SUMMARY

An alarming number of organisations do not carry out formal staff appraisals or share business objectives with their workforce.

Staff appraisals help organisations to manage individuals and produce engaged and productive workforces. They can lead to improved levels of organisational performance and business success.

In 2014, to understand to what extent UK companies are fully engaged with the appraisal process, Kaplan carried out a survey among 170 companies on their staff appraisal programmes.

POSITIVE PROCESS OR BUREAUCRATIC EXPEDIENCY?

In our survey, 89.8% of participants said they carry out formal annual appraisals. This means around 10% of companies do not carry out appraisals at all.

In terms of perceived value, 89.2% of our respondents said they find appraisals ‘very valuable’. However, 10.8% said they considered appraisals ‘not at all valuable’, while 36.7% of respondents agreed that appraisals are seen to be mere ‘tick-box exercises’.

Elsewhere, 83.9% said they felt appraisals have a positive effect on individual performance, and 84% agreed that appraisals allow companies to manage staff better.

CONTRADICTORY VIEWS

Despite respondents claiming that appraisals make managing staff easier, 17.1% said they do not share business objectives with employees, and one in five companies said they do not set staff development goals. Without disclosure of business objectives and without development goals in place, staff are likely to be more difficult to manage.

▸ ***One in five*** *companies said they do not set staff development goals*

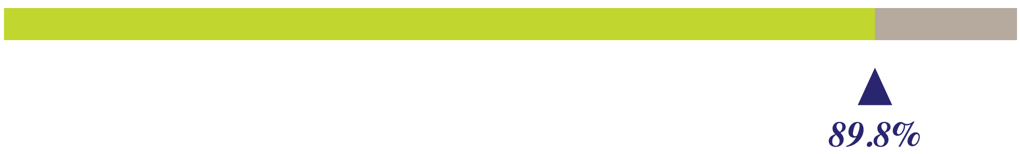
BIGGER COMPANIES STRUGGLING

Employees in bigger companies seem more sceptical about the value of appraisals. 27.3% of companies with 0-50 employees said 'yes' to the 'tick-box' question (see above), compared to 46.2% among those companies with 1,000+ employees. Furthermore, when asked whether appraisal results are linked to progression opportunities, the 'yes' responses decreased as company size increased, with only 51.1% for companies with 1,000 employees and over, and 78.9% for companies with 0-50.

TIME MATTERS

More time needs to be spent on appraisals. 74% of line managers and 81.5% of staff said they spend 'a day or less' preparing for appraisals. Additionally, 43% of respondents said they felt 'not enough time' was spent on performance reviews and appraisals overall.

▸ *In our survey, **89.8%** of participants said they carry out formal annual appraisals. This means over **10%** of companies do not carry out appraisals at all.*



KEY SURVEY FINDINGS

A number of organisations do not carry out formal staff appraisals.

Among those that do, a worrying percentage do not share business objectives with their employees or set development goals during the appraisal process. In this way, our study suggests that many companies are failing to engage properly with, or derive maximum value from, internal staff appraisals.

STAFF APPRAISALS – PERCEPTIONS OF VALUE

In response to our survey questions, 89.8% of participants said they carry out formal annual appraisals. While this initially sounds encouraging, it still means over 10% of companies do not carry out appraisals at all. This is a worrying statistic, particularly given that within that 10% there are larger companies with supposedly better resources and well-developed HR systems and processes.

In terms of perceived value, 89.2% of our respondents said they find appraisals 'very valuable'. However, 10.8% said they considered appraisals 'not at all valuable', while elsewhere 36.7% of respondents agreed that appraisals are seen to be mere 'tick-box exercises'. It is not clear whether this is the perception of line managers or direct reports, but there is clearly a strong sense among certain individuals in certain companies that appraisals are perfunctory and serve a bureaucratic expediency rather than a genuinely progressive purpose.

At the same time, we saw some very positive responses to the questions in our survey.

- *83.9% said they felt appraisals have a positive effect on individual performance*

84% agreed that appraisals allow companies to manage staff better. When respondents were asked who benefits most from appraisals they were asked to select one or more option which included the following; employees, line managers, HR, senior management, the organisation or don't know. 86.7% said 'employees', 59.3% said 'line managers' and 57.3 % said 'the organisation'– however, companies should remember to reinforce the point that individuals, teams and organisations as a whole all benefit from the appraisal process. Even if individuals appear to be the initial beneficiaries, the motivation, strategic insight and engagement that appraisals can provide often enable the individual to reach higher levels of productivity and performance which in turn benefits their team and their company.

CONFLICTING VIEWS AND CONTRADICTIONS

- *83.9% felt appraisals have a positive effect on individual performance*
- *36.7% agreed that appraisals are seen to be mere 'tick-box exercises*

As the above findings show, our survey clearly identified some conflicting views about the value of staff appraisals. Indeed, 17.1% of respondents said they do not share business objectives with employees, and one in five companies said they do not set staff development goals, both of which would seem to contradict claims that appraisals make managing staff easier.

Without disclosure of business objectives, staff will have only a limited sense that what they are doing in their day-to-day role is contributing to the overall strategy and success of their organisation. And without development goals in place staff will be unable to see a clearly defined career pathway along which they can progress. In each case, staff are likely to feel directionless and disenfranchised and as a result could be more difficult to manage.

Similarly, the 36.7% who claimed appraisals are seen as box-ticking exercises also seem at odds with the 89.2% who said they regard appraisals as 'very valuable'. These contradictions may hint at different interpretations of the word 'value'. From a cynical and entirely pragmatic management perspective, there could be perceived 'value' in a perfunctory, box-ticking approach to appraisals that enables HR to be seen to be engaging with employees without actually having to deliver on commitments. Obviously, any derived or perceived 'value' here pertains to management, not staff; but in any case such 'value' is illusory, as this approach would fail to deliver long-term performance or productivity benefits to the organisation as a whole.

- *17.1% of respondents said they do not share business objectives with employees*

SIZE MATTERS

Interestingly, we found that bigger companies are struggling more than smaller companies to positively engage their employees with the appraisal process. The percentage of those companies answering 'yes' to the 'tick-box' question got higher according to company size: 27.3% of companies with 0-50 employees said yes here, compared to 46.2% amongst those companies with 1,000+ employees.

This could suggest that employees in larger companies are more jaded by corporate bureaucracy and therefore more sceptical of internal systems and processes. Is the staff appraisal simply another bureaucratic hoop to jump through for employees in larger organisations?

Larger companies certainly seem to be missing a trick in terms of utilising appraisals as an employee engagement and retention tool: when asked whether appraisal results are linked to progression opportunities, the 'yes' responses decreased as company size increased, with only 51.1% for companies with 1,000 employees and over, and 78.9% for companies with 0-50. In this way, it seems that more could be done within larger companies – certainly among those we surveyed – to make appraisals deliver greater value to employees by including career development discussion and action points. This in turn would improve staff motivation and help nurture a sense of 'voice' (a major driver of employee engagement), ultimately delivering greater value to the organisation as a whole.

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TIME SPENT ON APPRAISALS

The time spent on appraisals is revealing. From the answers given, it would seem that line managers spend more time preparing for performance reviews than direct reports: 74% of line managers spend 'a day or less' preparing, compared 81.5% of staff, with 62.2% of staff spending less than a day.

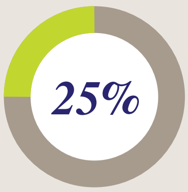
These findings raise the following questions: Where does responsibility for the appraisal process lie? Does more need to be done to engage employees with the importance of appraisals? Certainly, 43% of respondents said they felt 'not enough time' was spent on performance reviews and appraisals overall, which suggests they are perceived to be a somewhat peripheral and non-critical exercise.

If appraisals are to occupy a more central role in employees' minds and in corporate life generally, organisations need to invest more time in the process. They should also insist that line managers and employees spend equal amounts of time preparing for reviews; only in this way will appraisals enable meaningful dialogue to be embedded at the heart of company culture.

DEVELOPMENT DEFICIT

Around 75% of respondents claimed to carry out performance reviews or development goal reviews in the workplace. This means a quarter of those companies surveyed appear to be failing to link appraisals to employee development. And as we have already seen, one in five organisations do not set development goals for their staff. Additionally, of those able to answer, over 12% said they don't have a strategy in place to support their employees' training and development needs.

If appraisals are to underpin effective performance management, they must feed into a broader process which enables staff to develop the skills and capabilities they need to meet the expectations placed upon them. At present, on the evidence we have gathered from our survey, this doesn't seem to be happening enough.



do not link appraisals to employee development

do not have a strategy in place to support their employees' training and development needs

RECOMMENDATIONS

ENGAGE AND SHARE

We would recommend all companies to engage fully with the staff appraisal process, for the benefit of individuals and teams within the organisation, and for the organisation as a whole. As set out at the beginning of this report, staff appraisals underpin the vital processes which help companies achieve high levels of organisational performance and business success.

OUR RECOMMENDATIONS TO ENSURE COMPANIES DERIVE MAXIMUM VALUE FROM THEIR APPRAISAL PROGRAMMES

FREE EXPERT PERFORMANCE MANAGEMENT WEBINAR

Gain expert tips and techniques from Kaplan's Management expert Trevor Whaley on performance management to help benchmark your strategy to improve your appraisal and objective setting processes.

Register now: www.kaplan.co.uk/appraisals

If you would like to find out more about our work and research in this area, or to hear how Kaplan can help you make the most of your employee appraisals though an in house training programme please contact us.

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