Out Of The Money?

Smart organisations are getting more from performance appraisal than meets the financial eye. Stewart Forsyth reports on a recent survey that suggests why 'the rest' might be missing out.

Stewart Forsyth is Director of FX Consultants (see p49), specialists in lifting productivity and performance through the creative use of measurement and motivational systems. Special thanks to Dr Suchitra Mouly and Dr Gene Johnson of the University of Auckland for providing access to the 1997 Cranfield Survey data

Results from a recent large survey of New Zealand organisations have bad news for boosters of performance appraisal. There is no evidence that performance appraisal makes a difference to businesses' profit.

- Is this more support for critics who claim that appraisal is a difficult and painful process with dubious benefits?
- If it's not fun, and it's not making money, why bother?

Heroic Responses

Over 500 New Zealand organisations participated in the New Zealand leg of the 1997 multinational survey. This was an initiative jointly supported by the University of Auckland and NZIM.

Along with a slew of other questions the respondents were asked:

- Who was appraised (69% of manual, 83% of clerical, 86% of managers and professional workers);
- The appraisal outputs (from least to most frequent: work organisation, 43%; organisational training needs, 50%; promotion potential, 56%; individual performance related pay, 61%; career development, 69%; individual training needs, 86%).

Our heroic survey respondents were also asked about their organisation's profit performance (good news here – in 1997, 82% of the profit oriented organisations were making money).

Chance To Reflect

Performance appraisal is typically defined in terms of individually focused, one-on-one feedback with the objective of measuring and judging performance. The chance to reflect on how the person is doing and how performance can be improved. Critical components for success are:

- Communication of shared organisational mission and objectives;
- Setting individual or team goals which relate to the overarching objectives;
- Ongoing objective feedback on performance against goals;
- Regular review of progress;
- System design and evaluation in consultation with staff;
- Leadership to build commitment to the process.

Dubious Differentiator

For the Cranfield survey data, I compared businesses reporting high profit levels with 'the rest'. Exactly the same proportions of the two groups of businesses used performance appraisal. Not what you'd call a point of differentiation, or source of competitive advantage.

Before we ask what is wrong with New Zealand's performance appraisal designers, we need to remember that a UK survey of over 6,000 organisations obtained the same result in 1991. Doing futile things isn't unique to New Zealand business.

But the New Zealand data do provide another example of wasted effort, and money. Many in the sample use performance appraisal to drive their individual incentive systems. Does this make a difference to the financial performance of the organisation? No.

Balanced Score Card

Is this financial view overly narrow?

Your enterprise may use performance appraisal as a way to:

- Build intellectual capital;
- Lift organisational commitment;
- Reduce employee churn (so contributing to customer satisfaction, perhaps); or
- Lift productivity through a shared understanding of the business vision and better ability to make a contribution.

The inventors of the 'Balanced Score Card' emphasise that it is important to go beyond just looking at financial results. Learning and innovation, productivity and client satisfaction are important dimensions that need to be managed, and so measured.

Get Smart

But the assumption must be, that if these drivers are well managed, they will make a contribution to shareholder value. Or looking at the converse: '…if improved performance fails to be reflected in the bottom line, executives should re-examine the basic assumptions of their strategy and mission.' (Kaplan & Norton, 1992, p77).

Ultimately, if what you and your people do doesn't create value, you are wasting money (and resources such as time).

But, get a grip, surely some organisations are getting value out of performance appraisal? They are. Performance management is part of the best practice mix for world class businesses. An overview study of MbO (Management by Objectives for the youthful among you) reports an average 47% productivity increase (summarising 70 studies).

The smart ones are making it work, but the rest have a lot to learn before they get among the money.

References

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- Kaplan & Norton, *Harvard Business Review* 1992. The Balanced Score Card: Measures that drive performance.
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