

# The Pay Off

*Reciprocity is fundamental to performance appraisal. Stewart Forsyth and Andrea Polzer-Debruyne drill down into employees perceptions of this demanding process.*

Evidence confirms that well designed performance management approaches can make significant differences to job performance and productivity. But in considering overall organisational performance, performance appraisal (PA) does not seem to be making a difference to the bottom lines of organisations that use it.

So why do large numbers of organisations persist with such a demanding process if it is not helping make a difference? One possibility is that hope springs eternal. Taylor & O'Driscoll's 1993 survey of New Zealand organisations using PA found that 27% had made changes to their system.

## Reciprocity

Another likely reason is that the PA is fundamental to the psychological contract between the organisation and its workers. While the nature of this contract may have changed over the closing years of last century, there is still a belief in the reciprocity involved in the working relationship. Read a sample of job ads, and you'll see: 'career opportunity', 'international business', 'exciting projects' – all suggestions that these jobs are offering more than a wage.

For the worker of the mid-20<sup>th</sup> century, job security and inflation adjusted pay were important as insurance against the risks of only one



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earner per large family, high inflation and big mortgages. Their contract with their employer was to exchange loyalty for the guarantee of employment security.

For the worker of the early 21<sup>st</sup> century the risks have changed. Choose the wrong specialisation, or even the wrong project, and you could be on the wrong end of the next downsizing:

- The smart advice is to grow your CV so that you can always pick yourself up and try again, or simply have the cred to get on the right projects;
- The ideal contract to strive for is to offer up leading edge skills (and of course 'attitude') in exchange for employer investments in your ongoing employability.

PA could keep on keeping on because it provides the chance to check and reaffirm this contract. The most obvious example is the consulting firms, who appraise their consultants on their CVs, and help them grow their CVs by putting them on demanding projects. In fact consulting firms will often take on a project simply because it will make their consultant's CVs look good.

If this is a driver for PA's persistence we would expect it to

succeed through enriching the mix of growth opportunities for those workers who deliver on their side of the bargain.

## Prevalence

At present PA is fairly prevalent in New Zealand. The table shows different estimates of the proportion of staff who have regular performance reviews.

Surveys of businesses indicate that managers and professionals are more likely than other workers to receive performance appraisals.


Students completing HR papers at the University of Auckland during the 90s reported being appraised less frequently. This could be because the majority of them were in casual work. Or it could reflect a different perception of what PA is exactly. For example 6% of the students were 'unsure' if they had had a PA. This could reflect these students' vagueness, or their uncertainty as to whether the chat in the lift or the carpark could be dignified with the label of PA.

## Perceptions

We asked a sample of these students to complete a survey that explored the content of the PA and checked their perceptions of job satisfaction,

## Prevalence Of Performance Appraisal

Survey	Respondents	% Receiving PA
Gearing Up, 1999	Manufacturing	67% - 73%
Cranfield, 1997	All industries	69% - 86%
University of Auckland 1993-1999	HR students	33%




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job commitment and their job performance. When we drilled down into perceptions of their PAs we identified three components:

- Constructive meeting (open discussion and a plan for progress);
- Performance feedback (clear links between performance and results);
- Go forward (understanding of consequences of problems and ongoing support for the goals).

Which of these components made a difference to things like satisfaction and performance? Only one – we'll give you a clue – have you ever been asked by your staff to give them some feedback on how they are doing? Yes, performance feedback emerged as the critical factor in this analysis.

### Inter-relationships

The pattern of inter-relationships between the measures could be interpreted as:

- Satisfaction with the performance feedback leading to job satisfaction (and trust in the supervisor who provided the feedback);

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- Leading in turn to company commitment and then to performance.

While it is not strong or direct there was a link to performance (remember this was workers' own reports of their performance, so possibly there could be something of a golden aura contributing to their view of how effective they were).

Surprisingly the other two PA dimensions were not related to the other aspects of the students' jobs. Constructive meeting it might have been, but that didn't make a difference to satisfaction, commitment or performance. Similarly an orientation towards improving the future was not seen as relating to these other job aspects.

It is intriguing that for this sample of young, mainly casual workers, simply providing performance information is what makes a difference. And this could be done

without any direct interaction or PA at all. Is there perhaps a difference when PA is used in the context of an ongoing supervisor-worker relationship?

### Clear Relationship

Data from a New Zealand consulting business provides a view from mostly permanent staff of the impact of PA. The consultants at Meritec are engineers and other infrastructure professionals who have long term relationships with their managers. A recent survey indicates strong relationships between job satisfaction and work commitment and the consultants' satisfaction with their:

- PA (a goal based balanced score card, with one of the dimensions being personal development);
- Career opportunities, financial rewards and perception of their

own personal effectiveness;

- Managers' leadership skills.

In this setting there is a clear relationship between satisfaction with PA and with the career enhancing outcomes that would be expected from an effective performance appraisal process. This is the same relationship that would be expected by a worker who explicitly or otherwise saw her or his employment as being a contract where services provided and effort at updating skills are rewarded financially and by further investments in their human capital.

If this is one reason for PA's persistence, it gives us reason to check whether this is an output that is being delivered. And if we are going to persist with PA, then why not also make an effort, as has been demonstrated is possible, to have it make a contribution to performance and business results?

*Reference: Paul Taylor & Mike O'Driscoll, 1993. Functions and implementation of Performance Appraisal systems in New Zealand organisations. Asia Pacific J of HR, 31 (3), 20-32.* ➔ET