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Performance reviews

Understand the basics of performance reviews and how to ensure the process adds value to the organisation

Introduction

Performance reviews, also called appraisals, form part of a holistic approach to managing performance. The value of annual reviews has increasingly been challenged in recent years in favour of more regular conversations, but even so, performance appraisal remains a crucial aspect of the performance management cycle.

This factsheet outlines the elements of performance reviews and explores the role of line managers and the skills they require to carry out reviews. It looks at ways of measuring performance and the changing methods of gathering and giving feedback.

What is a performance review?

Performance reviews are one important element in the broader set of processes that make up performance management. Their purpose is to identify areas for growth and improvement and inform suitable development plans; or inform administrative decisions on contractual aspects of employment (such as pay, bonuses, promotions or redundancy).

How are performance reviews changing?

There's been much debate in recent years about whether traditional approaches to appraisal are fit for purpose. Some have argued that performance management should be abandoned wholesale, but often the detail of what's proposed does not match the rhetoric of such headline grabbing statements. Typically, the practical changes recommended revise or overhaul performance management rather than scrapping it.

Criticisms of traditional approaches to performance reviews are:

- They aren't frequent enough.
- They focus on past performance with little attention paid to future performance improvement, learning and development.
- Assessments are too subjective and not a reliable reflection of actual performance, especially if they use 'forced ranking' or 'guided distribution' ratings (that is, a fixed proportion of employees must be rated as high or low performers).
- Feedback often comes from a single source (the line manager) which can give too narrow a view.
- The process is excessively bureaucratic, time consuming and demotivating.

What is the evidence on performance reviews?

Our evidence review Could do better? What works in performance management summarises the best research, some of which confirms current thinking. For example, there's good evidence that it helps to give frequent and immediate feedback, and focus on strengths and development.

However, the research also uncovered aspects of performance reviews that are often overlooked. For example, the two uses of performance reviews – for learning and development purposes, and for administrative purposes of informing decisions on pay and promotion – involve different cognitive processes, so it seems best to separate these as far as possible by focusing on them separately. Further, as the purpose of performance reviews cannot be taken for granted, the purpose should always be made clear.

Additionally, there's strong evidence that it's employees' reactions to feedback, rather than the feedback itself, that influences future performance. So it's crucial that employees see performance reviews as fair as well as useful and worthwhile checking in with employees afterwards to see if this is the case.

Assessing and measuring performance

Performance is often assessed through standardised metrics but can also draw on qualitative comments.

The focus of performance measurements

Some jobs lend themselves much more readily to performance metrics than others. In some contexts, accurate and even real-time performance data are available on teams or individual employees – an example is a customer contact centre, where data on call length and outcomes can be recorded as the calls take place. In other contexts, what constitutes

good performance may be defined more broadly and there may be longer timeframes. Examples include: client development roles, in which targets on sales can be set for weeks or months and procedures are less fixed; and project work, in which very broad objectives are agreed for a period of months or longer, and there may not be clarity at the outset how they are to be achieved.

Not all measures focus on outcomes. They can also relate to employees' behaviours and attitudes against an organisation's values, or to their learning and development.

Methods of assessing performance

In some jobs, performance metrics can be calculated on an ongoing basis through management information systems. If reliable and relevant data can be collected, this can be a valuable source for performance reviews.

Some employers go further, making this data available through real-time dashboards. An additional benefit of a live dashboard is that people or teams can adjust their effort or the focus of their work in response to changing demands, which is especially useful in time critical environments.

A more subjective but sometimes more relevant and appropriate approach is for managers or their employees to given written feedback in their own words. This can be done through a questionnaire on aspects such as an employees' contribution to the team, role development and effectiveness.

Many organisations struggle to measure employees' performance. Where this is the case, improving workforce reporting should be a priority.

The right measures for the job

Managers can drown in data and collating it can be time consuming. We advise that performance measurements are kept to the minimum that are relevant and useful for employees, and matched to different types of jobs. Specific and stretching objectives increase performance in relatively straightforward jobs, so in this case, prioritising specific metrics is appropriate. But there's good evidence to show that, in complex jobs, less-specific outcome goals, behaviour standards and learning objectives are better drivers of performance. See more on objective setting in our performance management factsheet.

Bias in performance ratings

Performance measures need to be trustworthy as well as relevant if they are to be relied

upon. Unfortunately, there's a lot of potential for bias in performance ratings.

First, managers or raters may be biased, for example, if they personally like an employee, or hired them. Raters tend to give higher ratings if they are considerate, and lower ratings if they are conscientious or if they feel powerful in their organisation. Second, employees can sometimes enhance their ratings through self-promotion or ingratiation, or damage their ratings by challenging the status quo.

Ratings accuracy can be increased in various ways, including:

- Training raters (for example, in techniques for comparing employees with set standards).
- Using composite scores instead of a single score (for subjective measures).
- Averaging scores from different raters.
- Using an expert to check scores.

360 degree feedback

One particular feedback method is 360 degree or multisource feedback, in which typically between 8 and 10 people complete questionnaires on an employee's performance. Reviewers can include peers, direct reports, more senior colleagues, or customers.

The rationale for gathering 360 degree feedback is that managers will not fully understand the contribution of the people they manage, so obtaining information from more sources helps the employee and their manager form a more accurate picture of performance.

360 degree feedback can help change employees' perceptions of their skills and performance, either because reviewers take a clearly different view of aspects of their behaviour or performance, or because certain aspects are shown to be more, or less, important than they thought. It can also help to make performance management a more objective and fair process.

However, for it to be effective, employees must feel confident that 360 degree feedback is trustworthy and fair. This is a risk as the process can lend itself to being 'gamed' – for example, reviewers' ratings may be biased because they have an interest in showing the employee in a good light, or alternatively have an axe to grind.

Some things that help are:

- Briefing employees and reviewers clearly on the aims and objectives, what the feedback will be used for and how it should be given.
- Explaining the process, including how reviewers are selected, how feedback is

collated and how it will be presented.
- Giving employees the opportunity to ask questions or raise concerns.
- Maintaining confidentiality, not attributing feedback to an individual without their permission.
- Offering support to employees so that they can act on the feedback.

Feedback and performance conversations

Feedback is important because it both directs employees' attention to learning and development, and supports motivation by helping them to see their progress towards goals. So it's important that feedback is given regularly. Many organisations are moving towards more continuous feedback, rather than relying on annual or six-monthly reviews, which is a positive change.

Performance feedback should also be a two-way process, so it can make more sense to talk about performance conversations. As well as recent performance, this can cover factors that have helped or hindered, practical support or development needed, and how the employees' current role and career may be developed

Feedback skills

Once managers have their employees' performance assessments, they should lead a two-way discussion with them of the results. This process requires well-developed skills in giving feedback. These include:

- **Asking good questions** – when to use open or closed questions, and how to probe in a way that encourages people to expand on their experiences, views or feelings.

- **Active listening** – to take in what is being said, notice body language, help people clarify and respond in a way that helps the conversation.

- **Giving constructive feedback** – focusing on evidence and actual examples, not subjective opinion, reinforcing positives and strengths (see above), and knowing when to be directive and when to take a coaching approach.

Performance reviews will be more effective when managers have a healthy relationship with their staff in general. Read more in our factsheet on line managers' role in supporting people professionals.

The strengths-based approach

A human tendency when considering how to improve is to focus on weaknesses or problem areas and try to fix them. However, there's growing research including our report Strengths-based performance conversations showing that it can be better to help employees build their strengths and replicate successes in other areas of their work. Strengths-based approaches tend to take a coaching style and be more future-focused, which may be part of the reason for their effectiveness. They don't mean ignoring underperformance, but rather taking a default approach of focusing on what's already working well.

A practical description of how managers can strengths-based performance conversations is described by Kluger and Nir:

- **Step 1 – 'Eliciting a success story'**: Ask the employee to focus on what's been working well for them, identify a specific instance and expand on it in detail.

- **Step 2 – 'Discovering your personal success code'**: Get them to explain how they contributed towards this success (and what support they needed).

- **Step 3 – 'The feedforward question'**: Ask them to reflect on their current priorities and consider how they can replicate this 'success code'.

Further reading

Books and reports

ARMSTRONG, M. (2017) *Armstrong's handbook of performance management: an evidence-based guide to delivering high performance.* 6th ed. London: Kogan Page.

ASHDOWN, L. (2018) *Performance management: a practical introduction.* 2nd ed. HR Fundamentals. London: CIPD and Kogan Page.

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Journal articles

CAPPELLI, P. and TAVIS, A. (2016) The performance management revolution. *Harvard Business Review.* Vol 94, No 10, October. pp58-67. Reviewed in *In a Nutshell*, issue 62.

DENISI, A.S. and PRITCHARD, R.D. (2006) Performance appraisal, performance management and improving individual performance: a motivational framework. *Management and Organization Review.* Vol 2, No 2. pp253-77.

HARARI, M.B. and RUDOLPH, C.W. (2017) The effect of rater accountability on performance ratings: a meta-analytic review. *Human Resource Management Review*. Vol 27, No 1, March. pp121-133.

IQBAL, M.Z., AKBAR, S. and BUDHWAR, P. (2015) Effectiveness of performance appraisal: an integrated framework. *International Journal of Management Reviews*. Vol 17, No 4, October. pp510-533.

KLUGER, A.N. and DENISI, A. (1996) The effects of feedback interventions on performance: a historical review, a meta-analysis, and a preliminary feedback intervention theory. *Psychological Bulletin*. Vol 119, No 2. pp254-284.

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This factsheet was last updated by Jonny Gifford.