

What is a performance appraisal, and why is it important

Performance appraisal is a robust process to engage, retain and support employees. However, it's essential to use proper performance appraisal methods to ensure both the organization and employees benefit from the review.

For example, providing constructive feedback to employees leads to a [36% increase in performance](#), but focusing on negative feedback results in a 27% decline.

As such, organizations use a [performance management system](#) to streamline the performance appraisal process against benchmarked standards. The system helps HR managers and team leaders plan, implement and monitor performance appraisals by aligning employee growth and the company's objectives.

[Facebook holds performance appraisals](#) twice a year as 'checkpoints' rather than in-depth reviews, according to VP of People Lori Goler. She stressed that these appraisals help the company to align people to their roles and not serve as a tool to reprimand underperforming employees.

In this article, I'll explain what is performance appraisal and its key processes.

What is performance appraisal

Performance appraisal is a systematic process that helps HR managers to evaluate employee performance against pre-determined key indicators and goals. During a performance appraisal, the HR manager assesses the employee based on two criteria – target behavior and target results.

Target behavior describes the qualitative indicators that determine if the employee has developed specific skillsets or behaviors that help them to improve their performance. Meanwhile, the target result is a set of measurable goals that employees must strive for in their job.

Organizations use different criteria to evaluate employee performance during appraisals. This includes:

- Key competencies
- Core values and behavior.
- Industry-relevant knowledge.
- KPI
- OKR

Why performance appraisal is important

Performance appraisal is a necessary process that helps organizations build an engaged and high-performance workforce. These are the top reasons why performance appraisal matters.

- A [PwC study shows that 60% of employees](#) wanted a daily or monthly performance review. In fast-changing economies, employees don't want to wait until the end of the year to find out if they are doing well or vice versa.
- An objective performance review with honest feedback helps employees to grow professionally. Most employees are open to encouragement and criticism if delivered constructively.
- Holding regular performance appraisals allow organizations to address potential problems before they escalate. That said, it's vital to [conduct the interview in a stress-free manner](#) to enable employees to raise issues without fear or favor.
- Regular appraisals help employees to strengthen and align their commitment to the organization's goals. They get a clearer picture of how they actively contribute as part of a larger team.
- Besides discussing past results, appraisals encourage employees to discover upskilling opportunities that help them elevate future performance and take charge of their professional development.
- Performance appraisals provide an opportunity for HR managers, team leaders, and members to strengthen their professional bonds. This allows better communication and collaboration across the organization.

What are the performance appraisal processes?

Companies design their performance appraisal process to suit their unique business goals and employees' structure. However, creating an effective performance appraisal requires due consideration of the following elements.

Stages

The appraisal process goes through several stages to provide the interviewer with different perspectives on the employee's performance. Before the appraisal session, employees and managers fill out an assessment form to rate themselves, their peers, or subordinates on the listed criteria.

Then, the HR manager consolidates the results from the form and holds a 1:1 meeting with the employee. You can use this [1:1 meeting template](#) to get started. During the session, the interviewer asks questions that allow deeper conversations on teamwork, career plans, and other areas. The interviewer notes down the employee's responses in detail.

Types

Different performance appraisal methods allow HR managers to evaluate employees from different perspectives. For example, multiple parties, including the manager, supervisor, and team lead, assess the employee performance. A [360 performance review](#) that involves feedback from clients, managers, subordinates, peers, and self offers a comprehensive view of the employee.

Besides the individual-centric approach, the HR team can focus the evaluation on a team or group of employees. This allows managers to assess the team's compatibility, flexibility, trust, and collaboration. Some performance evaluations focus on the potential impact of a specific action.

Participants

All performance appraisals consist of two types of participants — appraisee and reviewer. The appraisee is the employee who is being evaluated, while reviewers are superiors who rate or evaluate the employee.

The evaluation might involve multiple reviewers. For example, an employee is evaluated by their direct supervisor, department manager, senior manager, and HR manager. Despite numerous evaluations, the final assessment involves an interview between a specific manager and the employee.

A point to note, self-evaluation is not taken into account in the evaluation results but can serve as additional information during the interview. Self-evaluation shares the same criteria as regular assessment, except for open-ended questions. The self-evaluation scores often lead to intriguing insights for reviewers during the interview,

Result

Through a series of evaluations and interviews, the reviewer concludes the appraisal with a definite score for the employee's performance. This results in recommendations for employees to improve their skills, behavior, collaboration, and other factors that allow them to be more productive.

Managers communicate the appraisal results to the employee efficiently, often with an HR management solution tool like [Plai](#). This allows the employees to receive feedback promptly after the interview and plan their next steps.

Frequency

Despite some employees pushing for weekly or daily reviews, the frequency of performance appraisals depends on the employee's job function, roles, responsibility, and seniority.

For example, entry-level positions such as junior software engineers are evaluated monthly or quarterly. This allows managers to ensure that the software engineer responds well to the assigned goals.

Meanwhile, senior executives and managers undergo the assessment after a longer period, typically half-annually or annually. This is because senior management engages with strategic indicators that might take months to bear results.

Features

Performance appraisal is an objective process that enables managers to evaluate an employee based on concrete and measurable indicators. For example, managers assess if the employee achieves the desired behavior, preset KPIs, and teamwork over several months. However, performance appraisal doesn't measure an employee's latent abilities or potential.

Several factors will dictate the efficiency of the performance appraisal, including the reviewer's role. For example, a reviewer who has direct involvement in setting goals and monitoring the employee's progress provides more helpful evaluation results.

Visibility

Since one of the performance appraisal's goals is to build trust, the process must be transparent for all participants. This includes the employee, manager, senior executives, HR managers, and other leaders directly involved in the appraisal.

Sometimes, the evaluator or manager gets the result before the employee, which is not ideal. By right, both the reviewer and appraisee must receive the appraisal report simultaneously. This assures the appraisee of the result's integrity and allows quick follow-up actions.

Timeline

It takes ample preparation to implement an effective performance appraisal, and doing so involves creating criteria, setting KPIs, and designing evaluation questions. Then, the manager briefs employees on their respective KPIs and how they are assessed.

This brings us to the evaluation stage, where employees fill up assessment forms and answer questions related to their performance. They then submit the assessment form, which the HR team compiles, compares, and analyze according to the set goals.

Allocate at least a month to prepare for annual performance appraisals. Meanwhile, appraisals with a shorter period need a shorter preparation time.

Is performance appraisal effective?

Conventional performance methods are bogged by limitations and practices that fail to create the desired results for employees and organizations. These are the common pitfalls of old-school performance appraisals.

Associating performance and rewards

Employees experience stress and uncertainties when an evaluation becomes decisive in determining their rewards or penalties. The rate and rank approach does not provide a clear picture of cross-team performance as the score is usually distributed over a bell curve.

Therefore, keeping performance appraisal and remuneration review as separate processes is essential. Hold the remuneration review several months after the performance appraisal.

Infrequent appraisals

Annual appraisals do not provide an accurate performance yardstick compared to continuous evaluations. Employees feel that evaluating their year-long performance with a single interview is not justifiable.

Instead, provide continuous feedback to help employees to improve. Besides, companies can better optimize workflow by gathering performance data daily via automated HR management solutions.

The blame culture

The usual practice in performance appraisal is to link the performance score with the employees. Such an approach is inaccurate, as external factors such as the system, software, or processes often influence the outcome of their work. Instead of blaming the employees, look for bottlenecks and optimize existing processes.

Performance appraisal is more effective when managers shift their attention towards professional development instead of shortcomings.

Summary

Performance appraisal remains a valuable process to engage, align and guide employees toward shared business goals. However, organizations must evolve from conventional practices and embrace new approaches that encourage continuous, fair, valuable, and open assessments.

As implementing effective performance appraisals become more complicated, it helps tap into the experience of HR experts.

Get started with Plai performance appraisal templates now.