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What is This?

What Makes Performance Appraisals Effective?

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Abstract

Performance appraisals are often criticized and poorly done. However, they are not going away and should not go away. They are needed to effectively manage an organization's talent. Our research suggests that performance management systems can be effective if they are designed and executed correctly. Performance management systems are effective when they are based on goals that are jointly set and are driven by an organization's business strategy. The use of competency models that are based on business strategy is strongly associated with organizational effectiveness. When they drive salary increases and bonuses, they are executed better. Often absent but critical to the success of performance management systems is senior management leadership and ownership; much less important is ownership by human resources. Additional keys to effectiveness are training managers to do appraisals, holding them accountable for how well they do appraisals and using measures of how results are achieved.

Performance appraisals are one of the most frequently criticized talent management practices. The criticisms range from their being an enormous waste of time to their having a destructive impact on the relationship between managers and their subordinates.[1] Criticizing performance appraisals has a long history. For decades, the literature on human resources management has pointed out the flaws in most performance management systems and in some cases recommended completely abandoning them. The problem with abandoning them is that they are vital to effective talent management.

It is hard to imagine a company doing a good job of managing its talent without gathering information about how well individuals perform their jobs, what their skills and knowledge are and what their responsibilities and performance goals are for the future.[2] These data are simply fundamental to the effective management of any organization.

The literature on performance management contains many suggestions about how performance appraisals can be improved.[3] Many of them are focused on the "technology" of appraisals systems. For example, they suggest new rating scales, using forced distribution methods, better descriptions of competencies and performance levels and

automatic ties to pay and termination. The introduction of web-based performance management systems has increased the speed with which they can be done and has created a number of options with respect to how they are done. However, it is not clear whether it has increased their effectiveness, nor is it clear how frequently and how well web-based appraisals are being done. The technology of appraisals is important, but it may not be the most important determinant of performance appraisal effectiveness. Less frequently focused on, but perhaps more important, are the management systems and leadership behaviors that determine how appraisals are executed and utilized.

In 2002, we did a study of performance management in over 50 large U.S. firms and found that every firm had a performance management system.[4,5] In some cases, they were functioning reasonably well. There were, of course, organizations that did not have an effective system

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Table 1. Use of Goals

Performance management system	Mean[a]	Correlation coefficient		
		Overall performance management effectiveness	Organization's human resources function performance	Organization's performance
Preset performance goals for individuals	2.82	.187	.086	.096
Jointly set performance goals for individuals	3.72	.353***	.219*	.158
Performance goals that are driven by business strategy	3.89	.423***	.395***	.341***

a. Response scale: 1 = *no*, 2 = *some*, 3 = *moderate*, 4 = *great*, 5 = *very great*.
*p < .05, two-tailed. **p < .01, two-tailed. ***p < .001, two-tailed.

and were expecting to either redesign their system or cease doing performance appraisals. The latter is what you would expect organizations to do if they followed the advice of many of the critics of performance appraisals. But are they following it?

Recently, we took another look at whether organizations are doing performance appraisals and how they are doing them. The results of the survey of 100 large U.S. corporations provide some interesting data on whether organizations are doing performance appraisals. The bottom line is that every company reported that they have a performance management system, and only 6% said that they are considering eliminating performance appraisals for some, or all, of their employees. In short, the death of performance appraisals has not occurred and is unlikely to occur.

Companies reported that on average, 93% of their salaried employees receive a performance appraisal, typically at least once every year. Only one company reported that they had recently stopped doing evaluations for 50 or more of their employees. The survey did find that on the average, companies are not more satisfied with their performance management systems than they were 10 years ago. However, the vast majority, about 85%, report that their system is at least moderately effective. Given the relatively low satisfaction level with their appraisal system, it is not surprising that almost 50% say they are considering making major changes to it.

The obvious conclusion is that companies will continue to do performance appraisals despite their shortcomings and despite the many criticisms that appear in the management literature. It is also likely that they will continue to look for ways to improve their appraisal programs. This is hardly surprising; large organizations have no choice. They need valid performance appraisal data. Therefore, instead of wasting our time debating whether to eliminate performance appraisals, we should be focusing our efforts on how to make them more effective.

Performance management systems are complex and involve a number of features. To some degree, the right features are a function of fit with the design of organization and its strategy. Because of this, no size fits all

situations, but it is possible to determine whether most performance appraisal practices are usually effective or ineffective.

To gather data on the effectiveness of a range of performance management designs and practices, survey data were collected from 102 large corporations. In addition to asking about performance management practices and systems, it asked about their effectiveness and about the performance of the organization's human resources (HR) function and its overall performance relative to its competitors.

Use of Goals

The literature on goals is extensive and definitive. It clearly shows that goals can contribute to directing individuals to perform in ways that contribute to organizational effectiveness and can motivate them to perform effectively. Goals provide a very effective approach to directing individuals to support the business strategy of an organization and can translate strategies from an organizational objective to specific individual behaviors.[6,7]

It is hard to imagine an effective performance management system that does not utilize performance goals in some way. The key to their being effective is the type of goals that are set and, of course, how they are set. As far as setting goals is concerned, a key difference is between goals that are preset and handed to those that are expected to perform and goals that are jointly set between the appraiser and the individual being appraised. The survey results with respect to this difference are shown in Table 1 and are definitive. The use of preset goals is not significantly related to the effectiveness of the performance management system or the organization. On the other hand, performance goals that are jointly set are strongly related to the effectiveness of the performance management system and the HR functions performance. Furthermore, the most effective performance goals are those that are driven by the business strategy. These are most strongly related to the performance management system effectiveness as well as to the HR functions' performance and the overall organization's performance. The latter finding is particularly interesting.

Table 2. Employee Development

Performance management system	Mean[a]	Correlation coefficient		
		Overall performance management effectiveness	Organization's human resources function performance	Organization's performance
Development planning	3.36	.382***	.387***	.076
Competencies	3.51	.393***	.219*	.128
Competency models that are based on business strategy	3.05	.398***	.278**	.339***
Discussion of development held separately from appraisal	3.08	.369***	.189	.049
Measures of how individuals achieve their results	3.21	.500***	.342***	.217*
A 360° process that is used for development only	2.41	.235*	.098	.053
Training for managers doing appraisals	3.14	.541***	.370***	.168
Training for individuals being appraised	2.42	.376***	.334***	.137

a. Response scale: 1 = *no*, 2 = *some*, 3 = *moderate*, 4 = *great*, 5 = *very great*.
*$p < .05$, two-tailed. **$p < .01$, two-tailed. ***$p < .001$, two-tailed.

The strong correlation with organization performance undoubtedly is due to more than simply having goals that are aligned with the organization's strategy. So many things influence an organization's performance that this one practice is unlikely, by itself, to lead to a high level of organizational performance. However, it is most likely that an organization that has done a good job of tying business strategy to individual performance goals also does a number of other things with respect to strategy implementation, which produce outstanding organizational performance. This relates to the point that system issues are a big influence on the effectiveness of performance management systems and organizations. Goals need to be clearly related to the organization's strategy and as our data suggest, need to be influenced by individuals, not just imposed on them.

The best explanation for the low relationship between pre-set goals and performance is the acceptance of the goals by the individual who is expected to meet them. Individuals who do not participate in setting goals often lack the internal commitment to reach them and, therefore, are not highly motivated to achieve them. They may see them as too difficult or simply as something that is not important to them; as a result, the intrinsic rewards associated with goal achievement are not present to the degree that they are when they participate in setting them and make a commitment to meeting them.

A comparison between the 2002 and 2012 survey data shows a change in two of the three items concerned with goal setting. Organizations in 2012 are less likely to jointly set goals and less likely to have performance goals that are driven by business strategy. This clearly is not a positive change. Both of these changes are likely to reduce the effectiveness of the performance management system since they are both positively related to its effectiveness.

Employee Development

The ability of individuals to perform well enough to meet their goals and objectives is a critical determinant of their ultimate performance. Thus, a key issue for any performance management system is how effectively it identifies the skill needs of individuals and assures that they are adequate. Table 2 presents the data from seven questionnaire items concerning employee development. All of the items are highly correlated with the overall effectiveness of the performance management system. There are, however, differences in how strongly they are correlated with the HR function's performance and with the overall organization's performance.

Only competency models that are based on business strategy are strongly related to the organization's performance. This is not surprising since this feature is key to determining whether individuals have the right skills for the organization to execute its strategy. In the absence of a close tie to business strategy, individuals may develop skills and abilities that are not helpful in achieving high organizational performance or may fail to develop their skills at all. The results do show that development planning, particularly where competency models are involved, is a positive contributor to performance management system effectiveness.

The data also show that it is advantageous to hold a discussion of development separate from the discussion of performance effectiveness. This is undoubtedly because of the fact that appraisal discussions are often difficult to hold and can make it difficult for individuals to focus and participate meaningfully in a discussion of their development. All too often, appraisals contain some negative feedback and it tends to dominate the discussion.

Perhaps the most surprising result in Table 2 is the strong relationship between utilizing measures of how individuals achieve their results and the three kinds of performance. In some respects, it is easy to see why measures of how individuals achieve their results would be helpful in guiding individuals to perform even better and thus be a powerful contributor to the right kind of

employee development and performance. Still, the correlations with respect to organizational performance are surprisingly high since how the results are accomplished may not be a direct contributor to organizational performance. In most cases, it is more important whether the desired results are achieved. Regardless, the data clearly support the importance of measuring how individuals achieve their results as well as whether they achieve them. It is not just a nice thing or the right thing to do; it is an important thing because it is related to the effectiveness of the system and the organization.

The last two items focus on the type of training support that is provided to managers and the individuals being appraised. The correlation between whether managers are trained to do appraisals and the performance effectiveness of appraisals is very high. It is also high for the effectiveness of the organization's HR function. Lower correlations exist for training individuals who are being appraised, but even this correlates significantly with both performance management system effectiveness and the organization's HR functions effectiveness. These data strongly support the argument that it is worthwhile doing training to improve the skills of the individuals who are involved in appraisals. This is hardly surprising given that being in an appraisal session is an unusual and infrequent event both for the individual doing the appraisal and the individual being appraised.

Some of the discomfort and anxiety involved with being in an appraisal situation can potentially be eliminated by training sessions that help make both the appraiser and the appraisee comfortable with the situation and what is going to transpire in it. One interesting training approach is to have them role-play an appraisal event. It can be done either with the individuals who will ultimately be meeting with each other in an appraisal or with individuals who are not going to be involved with each other in an appraisal event. There are no data on which approach is best, but our guess is that it is role-playing with individuals who will meet in appraisal.

Table 2 clearly shows that training for managers is more common than training for individuals. This is not surprising since appraisals are traditionally seen as a management controlled event that requires certain skills to execute well. It is worth noting, however, that it is also an unusual event for the individuals being appraised and that they are likely to gain more from it if they have an understanding of what is going to occur and what their role in the event should be. Educating them is also a way to be sure that they understand what their rights are and what they should expect in terms of fairness, accountability and outcomes.

The data showing the frequency of using competencies for employee development indicate that most organizations are not utilizing them as much as they should. They are only used between a moderate and great extent. The lowest use is of competency models that are based on

business strategy. This is clearly an area where improvement is desirable given that it has the highest correlation with organizational performance.

Organizations need to separate the discussion of development from the discussion of performance appraisals impact on rewards. There is evidence that when pay and appraisal results are discussed at the same time, there is a tendency for individuals to not hear development feedback and will respond to it poorly. Despite this, the results show this is not a highly utilized practice. Despite its positive relationship to effectiveness, training those who are being appraised is also not a common practice. This is another missed opportunity to improve performance management systems.

System Management and Leadership

Performance management systems are complex and require effective management actions as well as the right types of leadership behaviors. The best designed system will fail if there is not the right leadership and management support practices in place. In some respects, performance management requires some "unnatural" behaviors. As a result, managers, appraisers and those being appraised may do the wrong thing or nothing at all, if a system of checks and balances is not in place to ensure that they execute the system properly.

Table 3 provides data on the key managerial and leadership practices that it can be argued determine the effectiveness of performance management systems. They include leadership by senior management, management ownership, checks and balances and operational systems. The first three items deal with who owns and leads the system. According to the data, line management has a greater ownership than the HR function in most organizations. It also shows that this is very much a positive for the effectiveness of the system. Line management ownership correlates highly with performance management effectiveness while HR ownership does not. Effectiveness is most highly correlated with leadership by senior management. All three of these items correlate highly with HR function performance and the effectiveness of the performance management system. None of them quite reach statistical significance with respect to organizational performance. It is a little surprising they are not more highly correlated with organizational performance, but as noted earlier, there is a considerable distance between how a performance management system is run and the overall performance of a large, complex organization.

The other three items in Table 3 all have to do with the operation of the system and the degree to which it includes checks and balances to be sure that the performance appraisals are done well. They all show significant positive relationships to the effectiveness of the performance

Table 3. Managerial Behavior

| | | Correlation coefficient | | |
Performance management system	Mean[a]	Overall performance management effectiveness	Organization's human resources function performance	Organization's performance
Leadership by senior management	3.31	.502***	.312**	.189
Ownership of performance management by line management	3.59	.541***	.371***	.049
Ownership of performance management by human resources	3.17	.270**	.185	.179
Appraisal of how well managers do appraisals	1.79	.273**	.240*	.089
Calibration meetings that compare ratings by different managers	3.13	.329***	.255**	.123
Measures of the effectiveness of the system	2.40	.559***	.357***	.168

a. Response scale: 1 = *no*, 2 = *some*, 3 = *moderate*, 4 = *great*, 5 = *very great*.
*p < .05, two-tailed. **p < .01, two-tailed. ***p < .001, two-tailed.

management system. The lowest is for appraisals of how well managers do appraisals. It is a bit surprising that this accountability measure does not correlate more strongly with performance management effectiveness, but it does correlate significantly. It is also surprising that it seems to be a relatively rare activity, as over 50% of the respondents say it exists within their organizations to a little or to no extent. This is clearly an area where additional focus on how appraisals are done is appropriate and will potentially lead to better performance management outcomes.

Measures of the effectiveness of the system are not frequently used. Again, the fact that this practice is not present to a great extent argues that firms are not doing as much as they should be doing with respect to supporting the effectiveness of their performance management systems. This item is a particularly important one as it has the highest correlation with the effectiveness of the system of any survey item.

Calibration meetings have been used for a number of years to sharpen the quality of the ratings that managers make and to improve managers' skills and insight into the performance management process. The frequency data concerning this practice show that it is used to only a moderate extent even though calibration meetings are significantly related to performance management effectiveness and the HR functions effectiveness. They are a practice that warrant more use given their effectiveness ratings. They have the potential to both educate managers on how to do appraisals and create a type of accountability that often is lacking when there is no calibration system in place. The key here is managers having to defend their ratings to other managers and the opportunity that it provides for managers to hear what each other thinks about the performance of individuals and what constitutes effective performance.

Overall, the data show that there is enormous room for improvement in the leadership and systems management

aspect of performance management systems and that this is a very important area. Most companies do not report high levels of activity with respect to the practices and systems that are shown to be key determinants of the effectiveness of the performance management system. A particularly good candidate for improvement is measures of the effectiveness of the system. It has a very low score with respect to the extent that measures are used but the highest correlation with overall performance management system effectiveness. Also important to note is that ownership of the performance management system definitely should rest with line management. This is a relatively high-scoring item with respect to the extent that it exists, but it could be much higher and probably should be in order to have an effective performance management system.

Web Appraisal Systems

There are a number of reasons why organizations should and are moving their appraisal systems onto the web. Even the most minimal appraisal system involves a considerable amount of paperwork and a great deal of information moving from one individual to another. For those companies that have a well-developed information technology network, a logical way to accomplish performance management is by using one of the many software products that are available.

Table 4 presents data on the effectiveness of web-based performance management systems. None of the differences in effectiveness between the companies that use and do not use them are statistically significant. The largest difference is for overall performance management effectiveness. This difference nears but does not reach statistical significance. The data for the impact of having a web-based system on the HR functions performance show only a minor difference between organizations that have it and those who do not. The same is true of the

Table 4. Web Appraisal Systems

	Utilization	
Performance management system effectiveness	Yes, N = 72, Mean	No, N = 30, Mean
Overall performance management effectiveness[a]	4.77	4.37
Human resources function performance[b]	3.72	3.53
Organization's performance[b]	3.85	3.97

a. Response scale: 1 = *not effective at all* to 7 = *very effective*.
b. Response scale: 1 = *much below average*, 2 = *somewhat below average*, 3 = *about average*, 4 = *somewhat above average*, 5 = *much above average*.

relationship between organizational performance and having a web-based system. Thus, overall, there is no evidence that having a web-based performance management system actually improves the performance of the HR function or of an organization.

It is not obvious why web performance management systems do not help make the HR function and the performance management systems of organizations more effective. Using the web should speed the process up and allow a broader participation base in the appraisal, goal-setting and work-structuring process for individuals. Multiple individuals can see what others are planning to do, comment and get involved in the process. One possible explanation for the lack of relationship between using the web and performance appraisal effectiveness is that the programs being used are still relatively new and the users of them are not at this point highly skilled or adept at employing them. In any case, it is likely that in the future we will see most major companies using web-based appraisal systems. They have a great deal to offer, with respect to speed, cost and the potential to integrate the results with other pieces of the talent management process of corporations.

The use of web-based performance management systems is increasing. Our data show an increase in company use from 57% in 2002 to 71% in 2012. In some respects, it is surprising that the result in 2012 is only 71%. Most, if not all, of the companies surveyed have extensive web-based information systems, so the lack of technology should not be a factor leading to nonadoption of web-based performance management systems. It must be that they simply have not felt it was worth making the investment in the software that is needed to install a web-based performance management system. Again, given the talent management software suites that are now being offered by a number of major vendors, it is very likely that most of the 29% who do not currently have a web-based performance management system will have one in the near future.

Web-based performance management systems can perform a number of pieces of the performance management process. Table 5 shows data for nine potential performance appraisal uses of web-based systems. It also shows the percentage of organizations that use them for each of the purposes and the overall performance effectiveness of those that use and do not use them. Almost half of the firms use their web-based system for everything and have a paperless system. Those that do use them for everything have a slightly, but not significantly, lower effectiveness rating than those that use it for a limited number of things. Obviously, this is not a ringing endorsement for the idea of going totally paperless when it comes to performance management.

The areas where the web systems are used most frequently are those that involve developing performance goals and measures. Of the sample, 69% say that they use them for this purpose. Here, too, the results do not show this use as a positive contributor to performance appraisal effectiveness. The data show a slightly lower effectiveness rating for those organizations that use the web for developing performance goals and measures, but the difference is not statistically significant.

Providing information, measuring performance and providing feedback are other frequent uses of web-based appraisal systems. However, none of these uses is significantly associated with appraisal effectiveness. The most effective use of the web seems to be for 360-degree appraisals. This makes sense given the amount of data collection and analysis that is needed to pull off a true 360-degree evaluation process. However, just to do a 360-degree process may not be a sufficient reason to get a total web-based appraisal system. In the current sample of companies, only 28% had a 360-degree process that used the web.

Clearly, the idea of using the web as a substitute for face-to-face meetings has not caught on. Only two companies in the sample are using it to substitute for face-to-face meetings. They also rated their overall appraisal system as very ineffective. Another infrequently used feature of web-based performance management systems is facilitating social networking. This would seem be a natural use of the web, particularly for the younger generation given their use of Facebook and other programs that allow them to talk about what they are doing and how they are doing it and to get feedback. Obviously, it has not caught on as a feature of company performance

Table 5. Web Appraisal Systems

| | Utilization | | Effectiveness[a] | |
| | | | Utilization | |
Performance management system	Yes, %	No, %	Yes, Mean	No, Mean
Everything (paperless system)	43.7	56.3	4.38	4.62
Developing performance goals and measures	69.0	31.0	4.38	4.81
Providing information to participants	53.5	46.5	4.46	4.58
Training participants	29.6	70.4	4.28	4.61
Facilitating social networking about performance	7.0	93.0	4.01	4.55
Measuring performance	66.2	33.8	4.42	4.71
360-degree process	28.2	71.8	4.73	4.43
Providing feedback	59.2	40.8	4.47	4.57
As a substitute for a face-to-face meeting	1.4	98.6	1.29*	4.56

a. Mean rating, response scale: 1 = *not effective at all* to 7 = *very effective*.
*$p < .05$ in the two-sided test of equality for column means.

management systems, even though it could have positive results concerning coaching, goal setting and the interfaces people have with other individuals. Overall, the data on effectiveness are not particularly favorable to the idea of social networking, which shows the lowest effectiveness rating of any of the uses except for being a substitute for face-to-face meetings.

Overall, the data on web-based performance management systems are not particularly favorable. Yes, there is growing use of them and organizations are finding a number of pieces of the performance management process that they can use them for, but there is no evidence that this is increasing the effectiveness of the user's performance management systems. It may be that it is simply a matter of time. Individuals and organizations will learn how to effectively use these systems, and when they do, the results will be more positive. It does seem that the logistic and operational advantages of doing performance management on electronic systems are so significant that, eventually, they will be the only way performance management is done in larger organizations.

Appraiser Design Decisions

The work in large corporations varies enormously on almost every dimension that can be imagined. There are extremely simple jobs that require little training and can be done in a few seconds or at most a few minutes. With these jobs, it is easy to determine how well someone performs them and to give immediate feedback. On the other hand, there are extremely complex, difficult jobs that take years to master and often good and bad performance can only be determined after several years. This is particularly true for research and development jobs in industries such as pharmaceuticals and technology and, of course, for senior management jobs.

Because of the variety of jobs that exist in most corporations, it is highly unlikely that a single performance management system will fit every job. Despite this, in our sample of companies, 58% have only one system. When companies have different systems, they differ by function in some cases (37%) but more likely by management level (74%) and by the country where they exist (55%). Thus, there is an effort to match performance management systems to some characteristics of the work in a minority of companies. These attempts are relatively crude, since work within a particular country is likely to vary greatly as is work in different functions. For example, creating a different system for the accounting function is only a small step toward designing a system that fits the accounting work individuals do. Perhaps the most effective approach is varying the performance management system by level of the organization. Position in the hierarchy is a huge determinant in the kind of work individuals do; thus, it usually makes sense to vary the type of appraisal that is done by level in the organization.

An interesting alternative to having different systems for different types of jobs is to allow appraisers to design the systems that they use with their direct reports. After all, they are the ones that have the best knowledge of the work being done. They also "should" have the most information with respect to how it should be evaluated, appraised and rewarded. A performance management system that is designed to allow the appraiser to customize the process will require training of the appraiser. They need expertise with respect to what should influence how appraisals are structured.

To determine whether organizations have moved in the direction of allowing appraisers to at least partially customize the appraisal process that they use, we asked a series of questions about the decisions that the appraisers

Table 6. Appraiser Decisions

	Utilization		Effectiveness[a] Utilization	
Performance management system	Yes, %	No, %	Yes	No
Whether they do appraisals	5.0	95.0	3.06	4.45*
How often they do appraisals	13.9	86.1	4.18	4.41
Who among their reports is appraised	5.9	94.1	3.68	4.43
What appraisal form they use	3.0	97.0	3.52	4.41
What their reports are appraised on	48.5	51.5	4.37	4.39
Whether they have face-to-face appraisal meetings	22.8	77.2	4.11	4.46

a. Mean rating, response scale: 1 = *not effective at all* to 7 = *very effective*.
*$p < .05$ in the two-sided test of equality for column means.

can make. Table 6 presents the results as well as the data about the effectiveness of having appraisers make these decisions. In this case, effectiveness is measured by the rating of the effectiveness of the performance management system.

The results in Table 6 show that there is relatively little opportunity for appraisers to make decisions about how appraisals are structured and carried out. Not surprisingly, the place where they have the most say is with respect to what their direct reports are appraised on, 48.5% can determine what outcomes their reports are appraised on. This makes good sense since they are in the best position to know what their reports should be doing and how they can be measured. If anything, it is surprising that only this percentage of managers can actually make this decision.

A bit more surprising is that 22.8% can make decisions concerning whether they have a face-to-face appraisal meeting with their direct reports. This is higher than might be expected since most "how to do it" writing on performance appraisals say face-to-face meetings should always take place.

Only 13.9% say that they can decide how often they do appraisals. In some ways, it is understandable why this number is so low since there is a certain convenience, accountability and efficiency that exist when appraisals are done at a specified time. On the other hand, this is one area where customizing the individual appraisal process makes a great deal of sense. Jobs differ tremendously in how quickly they can be appraised and how often they can be appraised. It is often the appraiser who is in the best position to determine what the right timing is for the appraisal process.

A few organizations do give their managers a great deal of discretion on some critical issues—for example, whether they do appraisals at all, who is appraised and what form is used. It is interesting that some organizations are granting this amount of customization power to their managers. It makes a great deal of sense if the

managers are knowledgeable enough to make good decisions and the information system of the organization is able to absorb, analyze and handle the complexity that ultimately will result from a high level of individualization. One way to potentially handle this level of customization is to develop an expert system that gathers data about the characteristics of the work and relationships with other members of the organization and then creates a customized appraisal process for each individual based on his or her situation in the organization.

The results on performance appraisal effectiveness are not favorable as far as customization is concerned. Only one of the effectiveness differences between standardized and customized is statistically significant: that is, whether appraisals are done. Those systems that do not give this decision to individual managers are rated as more effective than those that do. All the other decisions show higher effectiveness scores when managers are not allowed to customize the appraisal process, although none of these differences reaches statistical significance.

Overall, the idea of customizing the appraisal process and practice has not achieved a high level of popularity, nor does it lead to more effective appraisals. However, it may be too early to write it off as a bad idea. Given the way organizations and work are evolving, it makes sense. If technology can be developed so that managers can make good decisions and organizations can develop information systems that are able to manage the resulting complexity, there is a good chance that it can lead to more effective performance appraisals.

Conclusions

There are definitely better and worse ways to do performance management in large, complex organizations. Some of the best ways are used by corporations at a relatively high level, but some are not. Interestingly, many of the highest impact items involve process and management leadership, not the technical structure of appraisal

forms and systems. For example, jointly set goals that are strategy driven appear to be a large winner.

Another key to successful performance management is the ownership and leadership of senior management. When management owns the system instead of HR, and when senior leaders support it, performance management systems are much more effective. This is particularly true if they are committed to systems that measure the effectiveness of the performance appraisal process. In other words, when management puts its metrics behind the behavior that it advocates, the appraisal process is much more likely to be successful than when it does not. This is in line with the saying that what is measured gets done; the point here is that what gets measured for effectiveness gets done effectively.

There are some practices that have a positive impact. One of these is separating the development discussion from the appraisal discussion. It is hardly surprising that this appears as a positive practice since it is hard for individuals to hear about the effectiveness of their performance and at the same time to think about what skills they need to develop in the future and how they can develop them. Clearly, the evaluation of performance should take place first, and then a separate meeting should take place about development. Despite the obvious nature of this point, organizations often do combine the two discussions.

It is also interesting that often organizations do not train individuals who do appraisals or the individuals who are appraised. Appraisal discussions usually are uncomfortable for individuals to participate in and to conduct, and in the absence of training, they lack an understanding of what is supposed to happen and how the overall system works. This should be a relatively easy fix for performance appraisal system designers, but they seem to overlook the importance of providing the appraiser and the appraisee with training.

There is a relatively low use of performance management system effectiveness measures. This should be an easy practice to add to any performance appraisal process. "All" that is needed is an audit of how well the appraisal activities are carried out. This audit should include survey data as well as an analysis of the quality of the materials produced by the appraisal process. Are they complete? Do they cover the right materials? Are they produced in a timely manner? All of these questions need to be answered to have an effective performance management process in an organization.

There are some processes and practices that have a positive impact but are less frequently utilized in 2012 than they were in 2002. Perhaps the most important feature, which falls into this category, is senior leadership. There is a significant decline from 2002 to 2012, in the degree to which senior leadership exists with respect to performance management. This is clearly unacceptable. It is hard to imagine any organization having an effective performance management system without strong senior leadership. The reason for the senior leadership decline in support may well be "fatigue" and the constant criticism of performance management systems in magazines, journals and the popular press. The irony is that by pulling back from supporting the system, they are responsible for the decline of the system; thus they are sabotaging a critical part of their organization's talent and performance management infrastructure.

Finally, there is a decrease in the degree to which performance management is integrated with other talent management practices and processes. This is a major step backward for performance management. Integration with the overall human resources strategy is a critical enabler of not just the performance management processes but also the overall talent management system in an organization. This decline likely reflects the human resources function's lack of commitment to performance management because of the high level of criticism it receives. Separating it from the other human resources management systems is exactly the wrong approach, however.

What organizations need to do is create performance management systems that are integrated with the other human resources management systems they have and the overall talent management strategy of the organization.[8] Indeed, they need to go beyond just integrating it with the talent management practices of the organization; they need to make sure it is integrated with the strategy of the organization. There has always been, and our data say there continues to be, a strong correlation between the effectiveness of performance management systems and the degree to which they are driven by the business strategy of an organization.

Declaration of Conflicting Interests

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Notes

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