

The problem with performance appraisals

Are staff performance appraisals a bane or a boon?

FEATURE ARTICLE

Dread and foreboding is the typical feeling anyone has whenever annual performance appraisals come around every year. Several things depend on a favourable assessment - promotions, pay increments and even retention. And much as it is difficult to give tough feedback about the year's work, it is even less enjoyable receiving it. In a worse case scenario, a bad performance appraisal can create unnecessary friction and conflict between manager and staff, inducing a negative working environment which would have very adverse effects on staff engagement and productivity.

So, if performance appraisals are so hard to sit through, why are we still doing it?

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NEWS FLASH

Foreigners, firms gear up for changes

Singapore - The new changes to the Employment Pass (EP), which will come into force from 1 January 2012, will see about 20% of some 142,000 EP holders affected. According to Ministry of Manpower, the changes are aimed to ensure salaries of young foreign graduates are kept in pace with the starting pay of Singaporean graduates which was about S\$2,900 last year. Josh Goh, assistant director, corporate service for The GMP Group, said EP renewals in support function jobs, particularly in finance or administration, are not coming in. "These candidates' salaries are usually near the cut-off mark. It is apparent that the Government wants to keep foreign manpower at a manageable level and improve the overall quality of foreigners in Singapore," he added.



S'pore best place in Asia for expats: study

Singapore - In a survey commissioned by HSBC Expat revealed that Singapore is the best place in Asia, and third best in the world for expats when it comes to wealth and finances. The *2011 Expat Explorer* survey also showed that Singapore came out tops in areas such as earning levels, disposable income, spending, saving, investing patterns, and the impact of the current global financial climate. According to those surveyed, half of them earn over US\$200,000 (S\$257,000) per annum, and a little more than half also said their income had increased since relocating to Singapore. However, these expats are faced with higher cost of living in Singapore, with 82% of them spending more on accommodation - compared to the global average of 50% - and food.

90% of employers plan to increase pay in 2012 but still struggle to retain talent: survey

Hong Kong - ORC International's *HR Reflections* survey revealed that companies in Hong Kong are more positive than their global counterparts. 90% of Hong Kong employers, compared to 55% globally, are considering pay hikes at or above previous years'. In contrast to a global 55%, 74% of Hong Kong employers said their organisation's performance was better than it was 12 months ago. Also, 41% of those in Hong Kong awarded bonuses to all employees, regardless of individual performance. However, feelings around staff turnover and retention are less positive. 44% of those polled in Hong Kong felt their ability to retain talent is worse than it was 12 months ago - a global 23% shared similar sentiments. And while a global 12% thought staff turnover is higher than in previous years and are concerned with their inability to retain staff, 30% of those in Hong Kong felt the same.

China's income gap widening fast

China - China's annual salary gap ration between industries was revealed to be 4.2:1 in 2010. The average ratio in most countries falls between 1.5:1 and 2.1:1. Statistics showed the finance industry had the highest annual salary of 70,146 yuan (S\$14,299.98) for that year, while the farming industry had the lowest annual salary at 16,717 yuan (S\$3,407.91). There is also a stark difference between people's pay in cities, rich regions and top positions. For example, in Shanghai, people working in banks had an average annual income of 357,500 yuan (S\$72,897.52), 10 times that of the average urban worker in China. Managers in listed companies drew an average annual salary of 668,000 yuan (S\$136,177.67), which is 18 times more than the average salary in China.



Workers hit hard by floods

Thailand - According to a survey on how the recent major flood had affected Thai workers by Jobstreet.com, 13% of respondents were laid off and another 21% had pay and other allowances cut. 59% of respondents were looking for new jobs as well as part-time work to increase their income to cope with additional expenses. "The major flooding that occurred during the past two months affected many different industries. There are thousands of factories that had closed down and have indefinitely shut down their production. Many companies in Bangkok and around Bangkok were closed temporarily. These had major impact on Thai workers," said Tanaporn Satitpunwaycha, Country Manager, JobStreet Recruitment (Thailand). 1,700 respondents aged 23 to 50 years old participated in the survey.

The case for performance appraisals

Performance appraisals are a crucial opportunity that offers employees access to their managers to discuss previously set goals and review performance, and discover new targets. Manager and employee can converse and agree upon individual training and development needs. Appraisal data that has been collected can also benefit the organisation by using it to track the effectiveness of changes in recruitment strategies.

The way appraisals are conducted have changed over the years. From rigid, one-way evaluation systems, today's performance appraisals involve more participation from staff and even internal as well as external stakeholders. And over the years, 360-degree feedback has gained popularity - managers seek feedback about a staff's performance from co-workers, other supervisors, internal and external vendors and direct reports. Ranking systems help to motivate and spur employees on to perform better.

Performance appraisals give plenty of room for managers to recognise staff for their work efforts while providing feedback, thus encouraging employee motivation and satisfaction. The existence of a performance appraisal programme demonstrates to employees that the organisation is involved in their personal and professional growth.

The problem with performance appraisals

Let's face it: performance appraisals are often retrospective.

A typical traditional appraisal usually occurs once or twice a year. There would be extended time gaps of months between establishing goals and reviewing them. Objectives that were set upon in the beginning of the year are usually only dragged out during appraisal time.

While performance appraisals provide the perfect opportunity for managers and staff to have one-to-one discussions, it is, however, open to biased ratings. For example, some managers tend to be more liberal or strict in their rating of staff. Managers may also fall into the trap of the "recent performance effect" where they generally only recall the recent actions of employees at the time of the appraisal - points are then awarded based on recent favourable or unfavourable events rather than the whole year's worth of activities.

What organisations do not realise is that skills gaps need to be addressed quickly as it would impact the bottom line - performance issues that have been put aside for months will become non-issues. And because performance feedback only occurs once or twice a year, there is hardly any other opportunity utilised to inform an employee what kind of skills he/she needs to develop. There is also a tendency to focus on the weaknesses instead of strengths, which creates a negative work environment and conflicts between manager and staff.

What managers should aim for is performance previews - they can happen as often as necessary for managers and staff to discuss work issues, and these need not be dependent on HR directives. However, open communication between managers and staff is crucial for such sessions to be successful. There should also be a focus on immediate feedback, and actual real-time tasks. Staff should be allowed to correct their behaviour.



Solving the problem

Rather than taking a cookie-cutter approach, a successful performance appraisal system must fit the organisation. Organisations need to assess the suitability of performance appraisal systems to their own workforce before implementing one that meets their needs.

The primary purpose of an appraisal system is to sieve out those who cannot, or would not do the job. It has to be communicated to all involved parties. Appropriate support and training should be provided, especially to managers conducting such sessions with their staff. Employers should also take note that performance evaluation is a continuous process and not one that happens only once a year. The best appraisals are a two-way discussion and focus on the employee assessing his own performance and setting goals for improvement.

And as best practice, organisations should ensure key performance indicators (KPIs) are well communicated to and clarified with staff, and there are proper benchmarks in place against which staff are assessed. Data collected from appraisals should be used to track the success of recruitment and induction practices.

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