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People Feature

Should the annual appraisal ritual be overhauled?

By Lin Jing March 23, 2016

Any investment company is defined by the talent in the business, and keeping employees motivated and working in line with the company's strategy is a priority in all fund houses.

Many asset management companies use the annual appraisal to review performance and set goals for their employees and often as a basis to calculate a salary raise.

However, amid concerns that this yearly ritual can demotivate staff and jeopardise relationships with their managers, some believe it should be revised to create a more constructive process.

Forced distribution system under fire

Anna Tsui, assistant dean and senior lecturer at the department of management of the Chinese University of Hong Kong Business School, says linking the results of an annual appraisal with salary decisions via a "forced distribution" performance evaluation method can be problematic and sometimes even political.

Assessment by forced distribution requires managers to assign ratings to their employees. Typically, managers will rank their staff into three categories, the top 20% get A ratings and raises; the middle 70% receive B ratings and get a lower pay raise; while the bottom 10% get a C grade with no raises or bonus.

Tsui says the emphasis during the annual appraisal should be to seek how to improve employee performance and identify their training and development needs rather than salary discussions. But instead, companies very often link the result of the annual appraisal to a future increment in salaries, so discussion becomes more about employees proving their superior performance compared to their colleagues.

In some cases, employees will argue they have met the goals set out for the past year and deserve an incremental increase, but managers, subject to a limited budget, are not able to offer pay increases to all who are deserving and can be forced to give lower ratings to some employees.

Tsui says this often changes the whole context of the appraisal from evaluating and incentivising improved performance to negotiations over a pay raise, where some employees inevitably end up feeling dissatisfied rather than incentivised.

She suggests companies delink the annual appraisal from salary or rewards and instead adopt two different review systems.

Tsui says the annual appraisal should focus on giving feedback and identifying areas for performance improvement, while a second system should be used for the purpose of negotiating salary increases based on budgets, profit and individual sales results if appropriate.

Ben Whitter, University of Nottingham Ningbo China

Ben Whitter, Zhejiang-based director of organisation and people development at the University of Nottingham Ningbo China, says the annual appraisal is designed to strengthen trust between employees and managers and provide clarity on responsibilities and accountability but in fact can end up doing more harm than good.

An appraisal presents a crucial setting to exchange feedback, improve working relationships while also developing solutions to remove any barriers preventing staff from fulfilling their potential, says Whitter.

But in reality, the execution is the primary issue. Sometimes managers feel that the annual appraisal should be more of a matter for the human resources department and is outside their daily responsibilities. They might often simply run through the motions, which could turn the annual review into a tick-box exercise, disengage staff, and at worst, make for a dreaded meeting that inspires fear or apathy, he says.

The rating system that ranks employees against their peers and rewards based on the judgment of management can be hugely motivating for some but extremely demotivating for others, he adds.

The use of a bell curve to evaluate performance which singles out the top and bottom 10% of performers has also been under fire in recent times.

Organisations often find themselves in predictable performance patterns with the majority of staff – the middle 80% – simply rated as normal performers and placed somewhere in the middle, Whitter says.

Best practice

Paul Smith, CFA Institute

Paul Smith, Hong Kong-based CEO and president at the CFA Institute, advocates the annual appraisal, saying it remains the best way to ensure employees know how they are doing, what they need to accomplish and if they are in line with business objectives.

He emphasises the best practice of the annual appraisal should be a two-way conversation, where employees contribute in the process of goal setting and reviewing just as much as the employer does.

Employees should write a comprehensive self-appraisal as the basis for discussion with managers, says Smith. The manager should critique and modify the self-appraisal, then both parties should sign off on the appraisal as a balanced and fair reflection.

There are plenty of worst cases where managers simply dictate an appraisal to employees who have no chance to offer their input or react to the assessment. If it is not a conversation, it is unlikely to accomplish anything, Smith says.

Should not be an annual thing

Smith says there is nothing wrong with the concept of an annual appraisal except that many companies undertake the process just once a year rather than continuing to follow up on and assess employees all year round.

The annual appraisal result should not be a surprise for employees at the end of the year; they should know exactly what the manager thinks about them all through the year via frequent formal or informal conversations, he says.

Ideally supervisors should sit down with employees on a frequent basis and refresh their goals and how they fit into the business objectives of the company.

Whitter agrees that any stand-alone annual review offers little incentive for employees to fully connect to a business. To achieve more, performance conversations should be happening all the time.

He suggests companies try to develop a more personalised process whereby staff receive real-time feedback, performance coaching and more regular performance support all year round.

Whitter says encouraging and managing a strong performance among employees is not achieved simply through the annual review but rather via a culture of talking openly and candidly about performance and the day-to-day experience of employees who can feel connected to the success of the business.

Employees need to feel that they are part of something bigger and their strong contributions are valued or expected throughout the year, he adds.