Is There A Role For Performance Appraisal In SMEs?

Every manager is aware of differences in performance among their employees. Most would see it as only fair that the top performers should get a reward of some kind for their effort, dedication, productivity and overall contribution to the success of the enterprise. Likewise, managers would like to be able to point out to underperforming employees just what behaviours they need to alter or what skills they need to improve on and give them the opportunity to do so before having to go to the ultimate step of firing them. Performance appraisal has become the tool for achieving these objectives.

Performance appraisal may be defined as a structured formal dialogue between an employee and their supervisor, that usually takes the form of a periodic interview (annual or half yearly), in which the work performance of the employee is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development.

Note an important point about this definition - it omits reference to monetary reward. Appraisal is primarily about identifying and correcting substandard performance or encouraging good people to perform even better. Tying performance appraisal to monetary rewards and penalties is a very uncertain and contentious matter. Such schemes, known as ‘pay for performance’ schemes, do exist and can work successfully in some circumstances but that doesn’t alter the fact that appraisal itself is focused on performance improvement through the use of setting future objectives or goals.

Controversy

Many reputable researchers, management theorists and managers have expressed doubts about the validity, reliability and return on investment of the performance appraisal process.

At the same time, every manager would argue that there is value in being able to assess their employee’s performance so as to predict the level and type of work an employee will be capable of doing in the future and how they can be best developed for the sake of their own career and to maximise their contribution to the organisation. Indeed, every manager has a responsibility to provide their employees with feedback regarding their work performance on an ongoing basis as a matter of fairness.
Negative press on performance appraisal probably derives from looking at poorly structured schemes

In the conventional performance appraisal process a supervisor annually writes his opinions of the performance of the employee. Most of the time the appraisal reflects what the manager and employee can recall from events taking place over the previous 12 months - so it is usually only the most recent events. Almost always, the appraisal is based on opinion as real performance measurement takes time and follow-up to do well. The rating scale often consists of undefined and unquantifiable qualities such as ‘excellent’ performance, ‘enthusiasm’, and ‘achievement oriented’. Supervisors are uncomfortable with handing out subjective judgments and often hold back on doing performance appraisals. Subjective judgments are likely to breed questioning and conflict.

Smaller companies need to work out a system that excludes the major causes of failure. This means developing:

- A rating scale that addresses the key skill areas necessary to perform the essential functions of the job and a ranking scale that accurately reflects performance in them
- A system to gather information on employees’ performance ongoing through the year in order that they are able to view the appraisal process as fair and objective
- Regular provision of feedback to employees throughout the year so criticism is not dumped on them all at once at the interview

Is A Formal Appraisal System Suitable For Smaller Businesses?

SME’s are capable of developing effective performance appraisal systems that are not overly elaborate and don’t generate a lot of paper but do pay off in terms of improving employee performance. It will involve the investment of time and money to develop the system along with some training of the person/people who will carry out the appraisal interviews if they are to do them successfully. Creating a workable performance appraisal system may actually be easier in a small business where managers are more likely to know each employee well than in a larger one.