

**WHY  
PERFORMANCE  
REVIEWS  
ARE IMPORTANT  
TO YOUR  
BOTTOM LINE**





Many companies conduct performance reviews with little fore- or afterthought and fail to get value out of their review processes. The companies that do invest time into their appraisal process have been shown to significantly increase employee productivity and retention, directly impacting their bottom lines.

“Companies that conduct **regular** performance reviews use the process to align employee **goals** with business strategy,” says Scott Fitch, division president of Performance and Organizational Planning at Insperity. “By **aligning** these goals, employees are **happier** at work, as they see how their work affects the company, and companies get more **productive** employees – it’s a win-win.”





# Performance Reviews Streamline Business Performance

Although you fully understand how each person on your team contributes to your organization, your employees may not share the same vision.

“Without structured goals and development plans, your employees may lose focus and perceive their work as detached from the ultimate success of the company,” says Fitch. “Without a sense of direction, employee morale and productivity suffer. Performance reviews can help change this.”

By using performance reviews to align employee goals with business strategy, employees are more likely to see how their individual work contributes to the overall success of the company. What was once considered busy-work can be tied into the bigger picture, and employees can feel like valuable team members working toward the company’s success.





# Reviews Increase Employee Productivity



Increased company size has been linked to reduced productivity as increasing bureaucracy adds layers of inefficiency. Larger organizations are also less likely to identify low-performing employees. Performance reviews are a top strategy for identifying unproductive employees and documenting performance improvement plans.

Furthermore, increasing the frequency of reviews from annual to biannual or quarterly has been shown to increase productivity. Some experts even advocate daily informal feedback if possible. By increasing review frequency, your employees are able to constantly learn how to improve their work quality or processes, contributing to a more successful organization. Better yet, frequent reviews become less awkward and more valuable to both employees and managers.

# Performance Reviews Increase Employee Retention

With recruiting costs for some positions reaching 200-300 percent of employees' annual salaries, reduced employee turnover directly impacts your bottom line. A Hay Group study found that 62 percent of public sector employees believe their organizations do not have fair systems for evaluating individual performance.

A University of Technology, Malaysia study further shows a direct correlation between unfair performance appraisals and increased employee turnover. "When employees perceived performance ratings to be manipulated because of the rater's personal bias, they expressed reduced job satisfaction, which led to greater intention to quit," the report states.

"Companies with structured performance evaluation tools start off on the right foot by offering a more objective standard for employees to be evaluated," says Fitch. "The more methodical your approach, the more amiable employees are to reviews and the more relevance reviews will hold in your organization."



An appraisal process is also a great way to get feedback from your employees about managerial style, business direction and other issues. When your workforce feels empowered to offer suggestions, they feel more invested in the organization and that they have a voice. Employees who feel comfortable openly discussing goals and development with their managers are also more likely to discuss workplace concerns and professional obstacles. This allows managers to take action before employees reach a critical breaking point or resign.



## **Is Your Performance Review Process Effective? You May Want to Re-examine Your Process.**

Although some believe performance reviews are generally ineffective, properly conducted reviews can be the best tool in your HR toolbox. Reviews align employee goals and company strategy so your employees remain motivated, productive members of your workforce. Frequent reviews have been shown to improve productivity and can help create a more open and receptive organization for your employees.

Performance reviews, much like any business venture, will be effective only if you invest in them. Perhaps it's time to re-examine your organization's appraisal process to help it yield more valuable results.

Look for more tips in our series to improve your performance evaluation systems.



## About Insperity

Insperity™, a trusted advisor to America's best businesses for more than 25 years, provides an array of human resource and business solutions designed to help improve business performance. Insperity Business Performance Advisors offer the most comprehensive Workforce Optimization™ solution in the marketplace that delivers administrative relief, better benefits, reduced liabilities and a systematic way to improve productivity. Additional offerings include MidMarket Solutions™, Performance Management, Expense Management, Time and Attendance, Organizational Planning, Recruiting Services, Employment Screening, Retirement Services and Insurance Services.

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