NAO

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Report by the
Comptroller and
Auditor General

Staff Appraisal in the Civil Service

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This report has been prepared under Section 6 of the National Audit Act, 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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National Audit Office
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The Comptroller and Auditor General is the head of the National Audit Office employing some 900 staff. He, and the NAO, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies use their resources.

Contents

Summary and conclusions

1. Staff appraisal systems make an important contribution to the effective management of staff and are now widespread in the United Kingdom. Their use has increased substantially in recent years, especially in the public sector (although coverage in the public sector remains incomplete). Staff appraisal assesses past performance and future potential of staff, identifies personal development needs and work objectives and helps to get the right people in the right jobs. It can be a powerful management tool capable of motivating staff, improving organisational performance, and providing the main link between an organisation's strategic objectives and the rôle of individual members of staff. Yet it is only one aspect of an organisation's approach to the effective management of staff in order to meet performance targets.

2. This is the fourth report which I have presented on major aspects of human resource management in the Civil Service. The subjects of previous reports were Manpower Planning (HC 398 of 1988–89), the Training of Non-Industrial Civil Servants (HC 342 of 1989–90) and Clerical Recruitment (HC 487 of 1989–90).

3. For the purposes of this report the National Audit Office examined the staff appraisal systems in three departments:

    —   Department for National Savings: characterised by largely administrative and clerical work in geographically widespread locations and in competition with other savings media;

    —   Ordnance Survey: operates on a largely commercial basis using a skilled technical workforce and became an Executive Agency on 1 May 1990;

    —   Welsh Office: with a high policy and administrative content to the work and multi-functional.

The rôle of the Office of the Minister for the Civil Service (OMCS) was also examined. The NAO employed Kinsley Lord Management Consultants to obtain information about staff appraisal in the private sector, and to provide expert advice. Information on staff appraisal systems was also sought more widely from some executive agencies, international organisations and foreign governments. The views of the Council of Civil Service Unions and local departmental union branches were also obtained.

4. The present Civil Service staff appraisal system dates from 1985, although similar systems have been in use for many years, and requires an annual written appraisal to be made on all non-industrial staff up to and including Grade 5 (a somewhat different system applies to higher grades). The stated objectives of the scheme are to:

    —   enable managers to assess individual staff performance;

    —   show how that performance is judged;

— provide the means for managers and staff to agree the main elements of work for the year ahead;

— provide the basis for regular feedback on performance;

— assist career development and manpower management;

— inform selection for promotion.

5. The report addresses four main issues:

— the links between corporate and individual objectives;

— the extent to which individual objectives were performance orientated and set in such a way that individual performance could reasonably be monitored;

— the extent to which assessments were monitored and standards consistently and equitably applied;

— whether the systems were soundly structured and capable of being operated in an efficient and appropriate manner.

Main findings and recommendations

6. The National Audit Office's main findings in the Departments examined and recommendations on specific matters are:

On the establishment of performance-related objectives

(a) Departments have made considerable progress in the establishment of organisational and divisional objectives, although there were considerable variations between and within the departments in the relationship of corporate objectives to the work of branches and individuals. This is to be expected and departments accept that more effort needs to be made. Many organisations surveyed in the private sector also acknowledged problems in this key, but difficult area (paragraphs 4.2–4.8 and Appendix 2 paragraph 6).

(b) In each department, there were annual forward job plans for all staff, specifying tasks (and for many, performance targets) for the year ahead. The NAO analysed a small sample of individual objectives and found room for improvement to make them more precise, and hence measurable. However, again the process is a developing one which departments are approaching in a useful fashion (paragraphs 4.9–4.13).

(c) There is a particular problem with the establishment of individual objectives for clerical and other support staff where the contribution of the individual to the output of the team is the critical factor. Two of the departments audited had introduced simplified staff appraisal systems for support staff. The NAO welcome this development and suggest that departments should also consider establishing suitable performance objectives for teams whilst continuing to appraise the individual on the basis of the individual's contribution to getting the job done (paragraph 4.14).

(d) An important aspect of ensuring that individuals are enabled to meet their objectives is to provide appropriate training and

development opportunities. These should be discussed and the outcome and action taken subsequently by management noted within the staff appraisal. This was not always done in the cases examined. But departments do identify training needs in other ways (paragraphs 4.15–4.17).

On the monitoring of assessments

(e)   So far as performance is concerned, in the departments examined 4 per cent of staff were marked in the two performance boxes (4 and 5) covering the poorest performance, whilst around 40 per cent or more of staff were marked in the two highest performance levels (1 and 2). The departments stressed that they expected few staff would be marked in the two lowest categories both because staff have satisfactorily passed through probation and trial procedures and because of the transitional nature of category 4. Recent analysis across the Civil Service by the OMCS indicates over 40 per cent of staff performing significantly better than required of their grade. There is no correct distribution of marks between the five performance ratings. But departments should seek to bring about greater uniformity in standards among reporting officers by explaining and illustrating how the various levels are to be interpreted. As pay becomes linked with performance the assessments will take on more importance (paragraphs 4.18–4.21).

(f)   As recommended in the "Cassels" Report, further consideration should be given by departments to the need to continue to assess all staff for promotability every year (paragraphs 4.22–4.27).

(g)   Considerable efforts have been made by all departments to ensure consistency in marking within the organisation. Several recent reviews have been undertaken studying the matter in some detail and opportunities exist for reporting and countersigning officers to meet and consider marking standards. The NAO acknowledge these efforts which are a vital part of ensuring the efficacy of the staff appraisal system and its acceptability to staff (paragraphs 4.28–4.32).

On the operational aspects of staff appraisal procedures

(h)   Cost: OMCS have made no overall estimate of the cost of staff appraisal activities for the Civil Service as a whole because they consider it would be neither meaningful nor useful to make such an estimate. But on the evidence available to the NAO in the departments examined it must be substantial. Departments and agencies should undertake regular reviews of their staff appraisal systems to ensure that their approaches continue to secure their intended benefits, and to do so with economy of effort (paragraphs 4.33–4.35).

(i)   Openness: the staff appraisal system has become more open in recent years with staff being given feedback on performance achievement and aspects of promotability markings. The NAO

welcome this trend and the consideration currently being given to further openness in the case of promotability (paragraphs 4.36-4.39).

(j)   Rôle of personnel departments and line management: this can be a difficult area in staff appraisal which, to be successful, must be "owned" by line management. In general the departments had achieved a good and workable relationship in this matter (paragraphs 4.40-4.42).

(k)   Departments have been placing emphasis on training in staff appraisal. The NAO welcome this (paragraphs 4.43-4.44).

(l)   Collection of appraisal data: the OMCS had started to collect a significant amount of useful data. The audited departments were currently upgrading their capacity to analyse staff appraisal data through the further computerisation of personnel statistics. The NAO welcome these developments (paragraph 4.50).

(m)   Canvassing of staff opinion: the three departments had undertaken recent surveys of staff opinion on the staff appraisal system (as well as on other matters). The results had proved valuable for management. The NAO welcome these surveys as an important aspect of the two-way process which is an integral part of successful staff appraisal and commend them to all departments (paragraphs 4.51-4.54).

(n)   Links with performance pay: the Ordnance Survey had introduced a performance-related pay system for a substantial number of staff at the time of the NAO examination, and all three departments implemented a revised pay structure incorporating performance related pay in April 1990. This development should strengthen the rigour with which performance is established and monitored and thus place even greater demands upon the staff appraisal system (paragraph 4.55).

Need for effective monitoring

7.   Staff — or performance — appraisal systems are an established part of good personnel management in Britain, and the Civil Service has long had one of the best researched, most comprehensive and well-documented of these systems. Hard evidence of the effects on staff motivation, performance and development and consequently upon business and organisation success is in short supply. Information about the precise costs of staff appraisal is limited but the departments examined consider that they have sufficient information to meet their managerial requirements. It is important that all organisations establish as clearly as possible the aims and objectives of their staff and performance appraisal systems. This will apply especially in the next few years as executive agencies seek to introduce new, tailor-made systems often linking performance with pay. There is no one correct method. Nevertheless, the NAO believe that staff appraisal systems in the Civil Service should incorporate procedures for monitoring their success. These should include the following elements:

— an assessment of efficiency involving criteria of changes in the cost of staff appraisal, distribution of performance markings and (where appropriate) the cost of performance pay.

— an assessment of scheme <u>impact</u>, that is, the extent to which it has contributed to better management and higher performance to further the main aims of the Financial Management Initiative and the reasons for creating executive agencies. The criteria here would include whether staff are clear as to what is expected of them and why, and whether they feel accountable for their actions on the one hand and recognised for their contribution to the organisation's goals on the other. Success or failure may be measured through periodic staff attitude surveys. In organisations where service to the customer is important, appropriate surveys of customer satisfaction can be made to determine changes through time. Other relevant criteria are capable of objective measurement and include the extent to which specific aspects (identified beforehand) of the organisation's performance have improved, for example, staff turnover and absenteeism.

— departments could usefully assess their own achievements by judging their performance against criteria of good practice such as those provided by the NAO's consultants.

8.   The NAO conclude that the Civil Service staff appraisal system has largely been improved in the ways foreseen in the "Cassels" Report of 1983 and that individual performance is, rightly, now accorded greater priority. The departmental systems examined compare well with best practice elsewhere. At the same time departments and executive agencies, in common with every other organisation surveyed, have been developing their corporate identity and style of management and are attempting to establish sufficiently robust performance objectives to enable effective monitoring to take place. New systems, or improvements to the existing system, in departments and executive agencies should establish at the outset the criteria by which their effect is to be judged together with the means by which these effects are to be measured and monitored.

Part 1: Introduction

1.1 Staff appraisal systems make an important contribution to the effective management of staff and are now widespread in the United Kingdom. Their use has increased substantially in recent years, especially in the public sector, although there are areas where systems have not been used extensively. Staff appraisal assesses past performance and future potential of staff, identifies personal development needs and work objectives and helps to get the right people in the right jobs. It can be a powerful management tool capable of motivating staff, improving organisational performance, and providing the main link between an organisation's strategic objectives and the rôle of individual members of staff.

1.2 As organisations have become more concerned with outputs than inputs so the balance of emphasis in appraisal systems has moved from being primarily concerned with the personal traits and characteristics of employees to a greater concern with their performance in relation to certain stated objectives. In this, the Civil Service has been no exception.

1.3 The NAO examined the way the Civil Service centrally and in three individual departments have developed staff appraisal to meet the demands of a changing environment. For this purpose the examination addressed the development of central rules and guidance, and implementation in these departments, chosen to illustrate a range of functions in the Civil Service. Within this broad approach the examination concentrated on four issues:

(a) the links between corporate and individual objectives;

(b) the extent to which individual objectives were performance orientated and set in such a way that individual performance could reasonably be monitored;

(c) the extent to which assessments were monitored and standards consistently and equitably applied;

(d) whether the systems were soundly structured and capable of being operated in an effective manner.

1.4 The departments selected for detailed examination of the staff appraisal systems and their operation were:

(a) **The Department for National Savings** manages part of the Government's borrowing. The primary rôle of the Department is to secure funds, as required, from personal savers to meet and refinance Government debt. The amount invested in National Savings is over £36,000 million and the Department maintains the records of more than 50 million customer holdings. There is a small headquarters in London, but most of the Department's 7,000 staff are located in Blackpool, Durham and Glasgow. Payroll costs in 1989–90 were £60 million. At each of the three provincial offices staff appraisal is overseen by a personnel branch accountable to the local controller (Grade 5), although there is also some line responsibility on staff appraisal policy to the Establishment Officer and his staff at headquarters.

(b) **The Ordnance Survey** is the major supplier of topographical maps of Great Britain. It became an Executive Agency on 1 May 1990. In 1989–90 total expenditure amounted to £60.4 million, of which some 56 per cent were payroll costs, with revenues of £46.1 million. The balance was funded by the Exchequer through the Ordnance Survey Vote. The long-term goal is for Ordnance Survey to recover all of its costs directly from its users. The Ordnance Survey has some 2,600 staff mostly technical grades and including 750 cartographic staff and over 900 survey staff. Nearly 1,700 staff are based at headquarters in Southampton with the remainder spread nationwide. The headquarters' Personnel Division co-ordinates the staff appraisal process in the Department, but day to day aspects are largely left to line managers.

(c) **The Welsh Office** is a multi-functional department administering a wide range of Government policies in Wales. The Department's 2,300 staff are located mainly in Cardiff, and over 60 per cent are in the administrative grades. It oversees about £4,500 million of expenditure annually. Salary costs in 1989–90 were £31.8 million.

1.5 The NAO study obtained information about staff appraisal in major private sector companies in

Great Britain. This review was carried out on behalf of the NAO by consultants with specialist knowledge of human resource development matters, Kinsley Lord Management Consultants. The NAO have also received information about appraisal procedures used by certain overseas Governments and international organisations.

Structure of the report

1.6 Part 2 of this report describes the key features of staff appraisal; Part 3 describes the staff appraisal system in the Civil Service; Part 4 describes the implementation of staff appraisal in the audited departments with regard to the four main aspects set out in paragraph 1.3. Appendix 1 is an example of a sample Civil Service staff appraisal report form. Appendix 2 describes the main aspects of staff appraisal in the private sector organisations which provided information for this study, and in some public sector organisations abroad.

Part 2: Key features of Staff Appraisal

2.1 Staff appraisal is just one, albeit an important one, of the many activities encompassed by personnel management. The particular mix of these activities (such as training, development, recruitment and pay) will vary between organisations as each seeks to motivate its workforce to meet planned performance levels. Most organisations in Britain now recognise that their most important asset is their staff. Consequently, the internal personnel policies of these organisations seek not only to maximise the contribution made by each member of staff to achieving corporate objectives but also to do this in a way which motivates staff, improves morale and thus has a positive impact on performance overall.

2.2 The main vehicle for ensuring these various objectives are met is today usually a well-planned, regular and systematic system of staff appraisal. Whilst not a substitute for day to day management such a system provides a framework whereby both management and individual members of staff can discuss in a formal manner a series of interconnecting matters. These include:

— communicating corporate strategy and objectives;

— establishing and reviewing agreed objectives for the individual;

— improving individual and organisational performance;

— equipping the individuals with the necessary skills, and the ability to apply them to the benefit of the organisation and themselves.

These are shown in Figure 1.

2.3 There is no one "right" method. Each organisation must determine its own best way to proceed depending upon its particular culture, the nature of its work, its organisational objectives and the environment within which it is working. It has been said that:

"effective performance appraisal in organisations continues to be a compelling but unrealised goal".*

2.4 However, the cycle of staff appraisal is well established although there may be minor variations. This cycle, usually annual, is set out in Figure 2.

2.5 Systems vary depending on their precise purpose and the existence and nature of complementary procedures — such as separate systems for identifying staff training needs. Written assessments by the job holder's immediate line manager and countersigned by a more senior officer are the norm. The main uses of staff appraisal are:

— to set objectives for individual performance;

— to give job holders feedback on their performance;

— to monitor delivery against objectives throughout the year;

— to identify performers with above average potential;

— to identify poor performers;

— to determine individual development needs;

— to counsel job holders on career opportunities;

— to help with matching the right people to the right jobs;
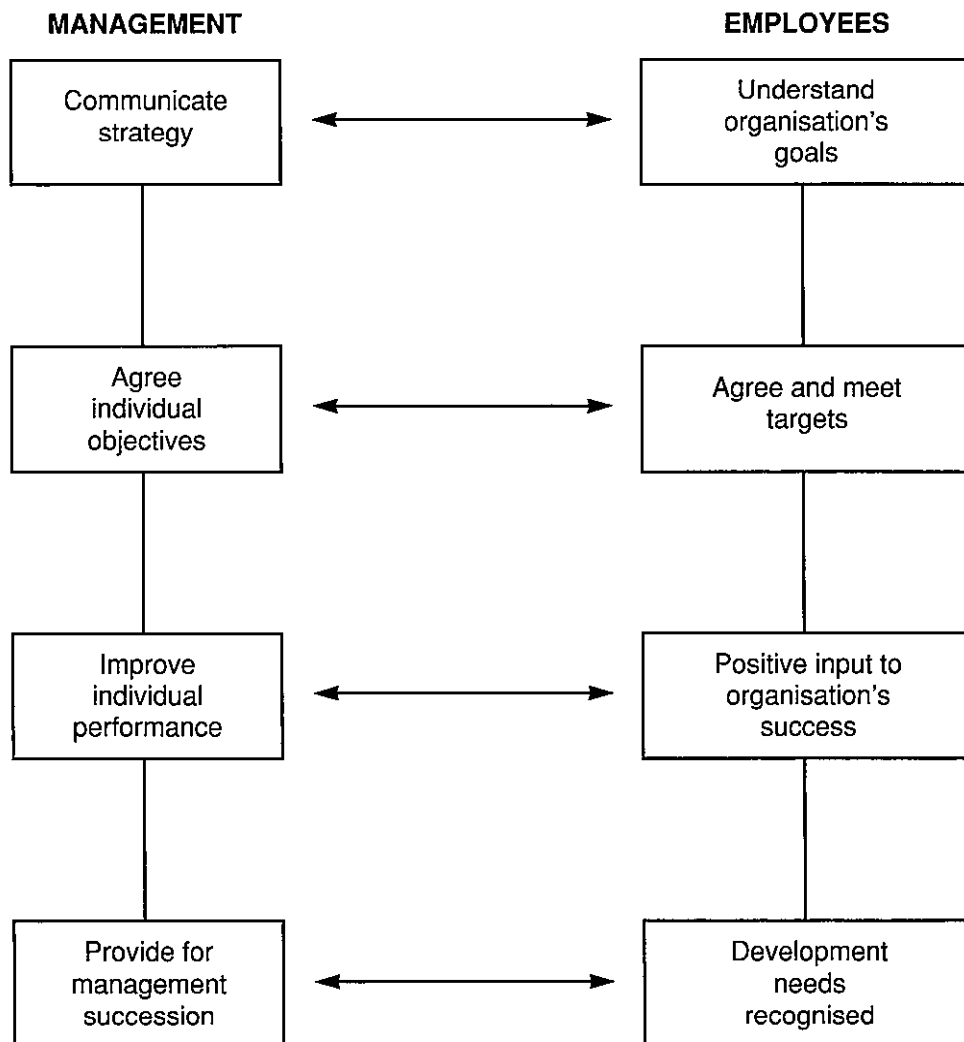
— to assess potential for promotion.

2.6 A robust appraisal system is a necessary condition for successfully linking pay to performance. But an appraisal system can be of considerable value without performance pay. The NAO's consultants found that in Great Britain the introduction of performance pay was often, though not always, the spur to creating or revamping appraisal procedures. Other evidence from the private sector suggests that the introduction of performance pay can dominate staff appraisal and possibly to the detriment of staff development considerations.

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* Banks and Murphy; Personnel Psychology Summer 1985.

Figure 1

Staff or Performance Appraisal

A diagrammatic representation of the two-way process of discussion and agreement between management and employees.

MANAGEMENT	EMPLOYEES
Communicate strategy	◄──► Understand organisation's goals
Agree individual objectives	◄──► Agree and meet targets
Improve individual performance	◄──► Positive input to organisation's success
Provide for management succession	◄──► Development needs recognised

Source: NAO.

Figure 2

Performance Appraisal: an example of the annual cycle of planning and review

1) PERFORMANCE PLANNING
Job holder and appraising manager agree Role, Responsibilities and Objectives for the forthcoming period including relevant skills emphasis.

(4) Personal Development Plan

3) FULL YEAR APPRAISAL REVIEW
Job holder and appraising manager review full year performance

Agree improvement areas and personal development/training plan

Role, Responsibilities & Objectives

Job Holder
Appraising Manager

Preparation for Full Year Review

2) MID-YEAR REVIEW
Job holder and appraising manager conduct review of performance to mid year and agree improvement actions.

Source: Rank Xerox.

Part 3: Staff Appraisal in the Civil Service

3.1 The annual appraisal of staff has been a feature of Civil Service personnel management for many years. There are at present two appraisal schemes for non-industrial staff. The main scheme covers all those of Grade 5 and below. Higher graded staff have separate but similar arrangements. The sample Civil Service staff appraisal report form is shown at Appendix 1.

Main scheme

3.2 The "Review of Personnel Work in the Civil Service" (the "Cassels" Report) of July 1983 included a review of the existing staff appraisal system. The major conclusions were that:

— the existing report forms were too elaborate and costly of management time and should be simplified and tailored more to the needs of individual departments;

— staff appraisal should be geared more to assessing current performance in the job than to promotability;

— there should be more emphasis on assessing management ability and actual achievements;

— reporting standards needed to be improved generally and particularly in some departments;

— staff should be given more feedback about their performance.

3.3 These conclusions were generally accepted and embodied partly in mandatory conditions and also in guidance to departments from the Cabinet Office (Management and Personnel Office) in August 1985. Within this broad framework departments were free to establish their own detailed arrangements. The changes introduced were designed to give greater emphasis to performance achieved, rather than promotion potential, thus complementing the general thrust of internal management reforms embodied in the Financial Management Initiative. Greater openness was also introduced into the appraisal process to strengthen the dialogue between line managers and staff about performance and development needs.

3.4 The key mandatory features of the main scheme include:

— a forward job plan for each job holder, with specific objectives for the year ahead;

— an annual assessment of performance, made open to the job holder, based on specific objectives and an agreed job description;

— regular assessment of promotability and potential;

— rating scales for performance (five boxes) and promotability (four boxes) which make clear the assessment criteria;

— the opportunity for an appraisal interview.

Figure 3 sets out the performance rating scale together with the criteria proposed initially and which are generally applied, and Figure 4 sets out the promotability rating scale also with the relevant criteria.

3.5 The main features of the non-mandatory guidance include:

— Notes for Staff in Personnel Divisions dealing with aims, standards, forms design, equal opportunities, training, completion, openness, appraisal interviews and other arrangements;

— Model Notes for guidance for staff and managers;

— Cabinet Office "Model" forms;

— Forward Job Plans and Objectives including advice on their definition and Jobholder and Reporting Officer action lists.

3.6 The main stages in the scheme are set out in Figure 5.

Rôle of OMCS

3.7 The Office of the Minister for the Civil Service (OMCS) took over the former Management and Personnel Office's responsibilities for staff appraisal in 1987. The OMCS do not have a prescriptive rôle in staff appraisal matters, but act as a catalyst for progress, change, the establishment of best practice and as a source of advice. Since the introduction of the main appraisal scheme, the OMCS have been active in reviewing its working and effectiveness and in providing additional written guidance. A

Figure 3

Performance scale ratings in the Civil Service

| 1. "Outstanding" | An extremely effective performance well above the standard required in the grade and maintained throughout the year. |

| 2. "Performance significantly above requirements" | Duties regularly performed to a standard above that required in the grade. |

| 3. "Performance fully meets normal requirements of the grade" | An adequate performance meeting the needs of the grade but not surpassing them. |

| 4. "Performance not fully up to requirements, some improvement necessary" | Performance is not up to the standard required in the grade; definite weaknesses are apparent and action needs to be taken by the Reporting Officer and the individual. (This is normally expected to be a transitional marking and may be appropriate where an officer is new to a grade or post). |

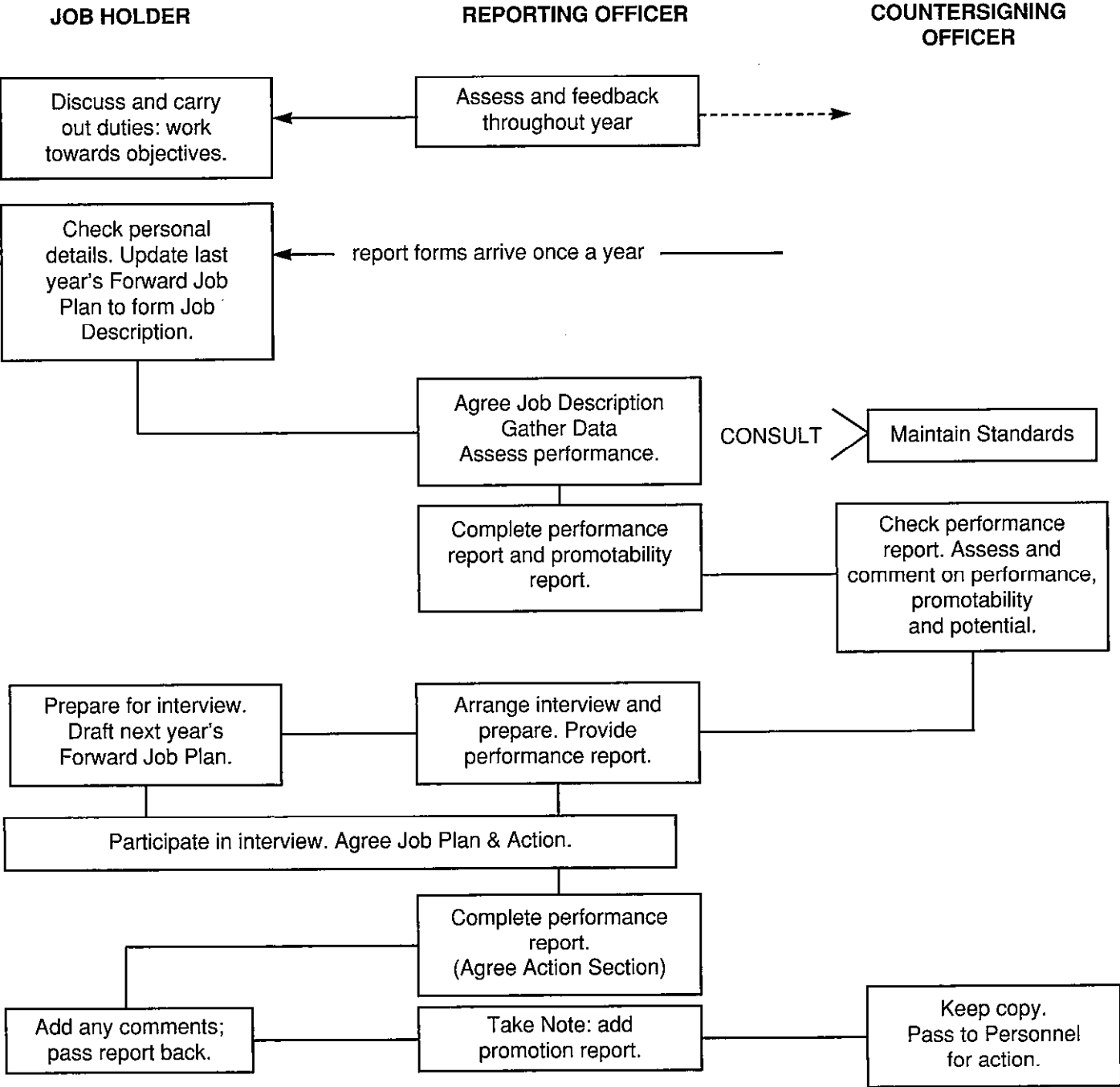| 5. "Unacceptable" | Performance is consistently well below the standard required from the grade: the first step in inefficiency retirement procedures must be taken and the individual told in writing. |

Figure 4

Promotability scale markings in the Civil Service

| 1. "Exceptionally fitted" | Individual is expected to give a good account immediately in most jobs in the higher grade and after one or two years' experience be well in the middle of the ability range of that grade. |

| 2. "Fitted" | Confident now that the individual will, if promoted now, come to perform well in a fair range of jobs in the next grade. If there is any doubt this rating should not be used. |

| 3. "Likely to become fitted in the next 2 years" | Individual shows potential but is not promotable now. "Two years" is not to be interpreted too strictly and further experience and/or training to help the individual become "fitted" should be specified. |

| 4. "Not fitted" | The individual has not yet shown the potential for promotion. This rating does not rule out the possibility of becoming promotable. |

Source: OMCS guidance.

Figure 5

Staff Reporting and Appraisal: the main stages in the annual cycle

| JOB HOLDER | REPORTING OFFICER | COUNTERSIGNING OFFICER |

Discuss and carry out duties: work towards objectives.

Assess and feedback throughout year

Check personal details. Update last year's Forward Job Plan to form Job Description.

report forms arrive once a year

Agree Job Description Gather Data Assess performance.

CONSULT

Maintain Standards

Complete performance report and promotability report.

Check performance report. Assess and comment on performance, promotability and potential.

Prepare for interview. Draft next year's Forward Job Plan.

Arrange interview and prepare. Provide performance report.

Participate in interview. Agree Job Plan & Action.

Complete performance report. (Agree Action Section)

Add any comments; pass report back.

Take Note: add promotion report.

Keep copy. Pass to Personnel for action.

Source: OMCS.

progress report in November 1987 found that the new appraisal system had been well received by staff and had been introduced without major difficulty. Nevertheless, several desirable improvements in approach were identified, such as more consistent support from senior managers, and in the detailed procedures to be followed.

3.8 One recent example of the rôle performed by the OMCS in providing information and advice for departments is the discussion paper prepared in May 1990 on the monitoring of the results of Staff Appraisal in 28 departments. The paper pointed out that departments were increasingly looking to use personnel statistics as an integral part of their management strategies. It used data covering six years to examine five areas:

— current overall distribution of marks;

— the trends in overall distribution over the last six years;

— the effect of departmental size on the overall picture;

— breakdown according to grade;

— gender comparisons.

3.9 The paper highlighted problems encountered by the OMCS in trying to process staff appraisal data, including:

— the examination of trends was difficult due to departments changing marking procedures which distorted the overall picture;

— comparisons between the "old" and the "new" (1985 onwards) staff appraisal systems were complicated by departments changing over at different times during the six year period.

3.10 The NAO support moves by departments and executive agencies to establish their own staff appraisal systems, provided that the criteria by which their effectiveness is to be judged are established at the outset and regularly monitored and that they meet the essential minimum features established by OMCS. In the course of a future review, the OMCS intend to look at the need to retain the mandatory elements of the system.

3.11 There has undoubtedly been much development and useful progress in the Civil Service in improving staff appraisal procedures since the "Cassels" Report. For example, the Report "Improving Management in Government: The Next Steps" published in 1988 acknowledged that:

"Appraisal systems are now based on performance, not on the possession of particular intellectual qualities. Everybody we spoke to welcomed this. Most people like having a clear set of objectives which tells them what they are there to do and having performance judged against whether they achieved these objectives — not against some hidden agenda in their manager's bottom drawer. Open reporting encourages managers to talk about an individual's performance face-to-face."

Part 4: The operation of Staff Appraisal in the Audited Departments

4.1 The NAO examined in the three audited departments the four key aspects of the operation of staff appraisal outlined in paragraph 1.3.

The links between corporate and individual objectives

4.2 The NAO examined the corporate objectives in the three departments to determine whether they were sufficiently detailed and robust to provide clear links with the individual objectives of staff.

4.3 In the Department for National Savings the Director is charged with the efficient and effective management of manpower and financial resources of the Department to meet the Government borrowing needs. Linked with this responsibility are objectives to encourage staff to seek improvements in efficiency, to ensure that the corporate approach to managing National Savings and allocating resources is followed at all management levels, to achieve major improvements in communication with staff and to ensure that succession planning arrangements meet the needs of top management in future. The Department's Resource Management Budget document for 1989–90 sets out resource requirements, general objectives, main tasks and expected activity levels for senior management commands down to and including Grade 7.

4.4 The NAO have separately reviewed corporate objectives in the Ordnance Survey: "Objectives and Management of the Ordnance Survey" (HC 177 of 1987–88). The report acknowledged many of the underlying strengths of the Ordnance Survey but drew attention to the need for senior management to develop their strategic planning and review arrangements, with the support of an enhanced financial function and better financial information. The new approach is embodied in the Ordnance Survey Corporate Plan for 1990–93 which sets out departmental policy, operational objectives for the major elements of business and the use of resources. It also states that attention should be paid to the refinement of appraisal systems. This plan in turn augments a Mission Statement containing a set of key corporate objectives to assist the Department's managers in setting priorities and channeling developments and to inform customers

also of the way in which the Department was expected to develop.

4.5 The NAO have also reported on corporate objective setting in the Welsh Office: "Welsh Office: Financial Management" (HC 248 of 1988–89). In this report the NAO drew attention to the creation of a multi-disciplinary working group in September 1987 to review, co-ordinate and oversee the development of the Financial Management Initiative and related systems in the Welsh Office. In March 1988, the working party report concluded that the Department needed to develop sharper objectives and performance measures and develop budgeting and value for money reviews. The Welsh Office have taken action to implement these recommendations. They have introduced a planning system which specifies and links the objectives and resource requirements of individual divisions. As part of this continuing process lower level objectives and targets linked to individual staff have been developed, so strengthening the connection between divisional objectives and the staff reporting system.

4.6 In all three departments the development of organisational objectives is a continuing and important process. The NAO assessed the extent to which performance objectives of individuals were directly linked to their organisation's corporate strategy. At the Welsh Office the examination was based on a sample of staff reports mostly related to the 1987–88 reporting years, covering three branches in three separate divisions. The divisions chosen were considered by the Department to be reasonably representative. The NAO examination showed strong links in one case, but less clear relationships in the others. The translation of divisional objectives into individual tasks is the responsibility of line management, and central guidance within the Welsh Office emphasises the importance of this. The task is complicated by the policy-making aspect of much of the Department's task in which the determination of adequate performance indicators is difficult.

4.7 At the Ordnance Survey matters were complicated by the exclusion of the agreed forward job plan from the staff appraisal reports, but the

NAO did note some recent examples of forward job plan objectives being explicitly cross referenced to the organisation's corporate strategy. At the Department for National Savings the system was sound for senior staff but it was increasingly difficult to demonstrate effective links between the individual's work and that of the Department's objectives in the large areas of clerical work.

4.8 The NAO therefore found considerable variations between and within departments in the relationship of corporate objectives to the work of branches and individuals. This is to be expected and the NAO acknowledge the considerable effort which departments have made and the improvements they have achieved. The departments accept that they need to continue their efforts.

The establishment of performance-related objectives

4.9 In each department, the NAO found that annual forward job plans were prepared for all staff, specifying tasks (and for many, performance targets) for the year ahead. The processes involved in drawing up plans are broadly the same in each of the three departments, involving the job holder agreeing with his reporting officer a combination of performance and personal objectives to be achieved and resources to be managed during the forthcoming year. At the Department for National Savings, many job holders perform the same type of work in teams and standard or composite work objectives for each team are currently being implemented where appropriate. The local trade unions have an opportunity to discuss these with management as they consider necessary. Otherwise, job holders are encouraged to take the initiative in drafting plans for agreement with the reporting officer.

4.10 In August 1989, the Department for National Savings issued detailed guidance on the setting of objectives to line managers. It emphasised the following characteristics of good objectives:

— how achievement will be measured (eg numerically);

— when work should be done;

— what resources should be available to achieve them;

— the conditions under which they are to be achieved.

At the time of the NAO's examination, objective setting at the Department for National Savings was not firmly established across all grades and it was

too early to gauge whether the guidance was being strictly applied. Nevertheless, the NAO noted that the guidance was more detailed than that found at the other two departments.

4.11 In the Department for National Savings and the Welsh Office, the forward job plan became an integral part of the annual staff performance appraisal report. This enabled reporting officers to establish clearly if the goals and objectives had been achieved. At the Ordnance Survey only a summary of the objectives is included in the performance appraisal form.

4.12 The NAO reviewed the objectives on a sample of appraisal forms provided by departments to assess their precision and measurability. Because of the nature of the annual reporting cycle many reports related to the 1987–88 reporting year. The NAO examined the relationship between an individual's job and the overall objectives of the organisation. The NAO believe the establishment of an effective and measurable goal for any individual is important to assess performance and is likely to require:

— the establishment of separate key areas of responsibility;

— a measurable job result indicator;

— a suitable timeframe for achievement;

— a clear and specific description of the action required (action verb).

4.13 The results using this framework, which draws upon the useful approach considered in more detail in Appendix 2, are set out in Table 1. The NAO acknowledge that the definition of individual objectives is a difficult process and one which must be developed over time. These results, whilst showing inevitable room for improvement, do suggest that departments are approaching the subject properly and that useful and meaningful objectives are being established. Departments consider that the latest reports would show further improvements in terms of precision and measurability of objectives.

4.14 There is a particular problem, however, with the establishment of individual objectives for clerical and other support staff where the contribution of the individual to the output of the team is the critical factor. In these cases the NAO suggest that departments consider establishing suitable performance objectives for the team, whilst continuing to appraise the individual on the basis of his/her individual contribution to getting the job done using the traditional "trait based" approach of the Civil Service Staff Appraisal Scheme. The NAO

Table 1

NAO analysis of precise and measurable objectives for individual performance in the audited departments

	Department for National Savings	Ordnance Survey	Welsh Office
Use of suitable Action Verb (1)	20%	42%	58%
+			
Definition of Key Responsibility	80%	54%	83%
+			
Result Indicators			
— quantitative (2)	17%	25%	23%
— qualitative (3)	10%	26%	15%
+			
Specific time frame (4)	20%	14%	17%
=			
A measurable and effective GOAL			

Notes

(1) Examples of suitable action verbs are:

calculate, provide, recommend, design, delegate, complete.

Examples of action verbs which are less clear and specific:

collaborate, discuss, observe.

(2) Examples of quantitative indicators are:

increase the number of cases reviewed per day by 10 per cent, reduce the number of complaints by 50 per cent, process 20 claims per day.

(3) Examples of qualitative indicators are:

thoroughness and appropriateness of documentation, well written reports — clear, concise, complete, accurate.

(4) Examples of a specific timeframe:

monthly statistical reports to be rendered by 5th of the next month, report completed by 30 November.

Table 1 shows departments were at various stages of using precise and measurable objectives. For example 80 per cent of the sample analysed by the NAO from the Department for National Savings contained Key Responsibilities in their objectives. Although not explicitly stated the time frame for many objectives was the reporting year.

noted with interest that both the Ordnance Survey and the Welsh Office had introduced a simplified staff appraisal system for support staff.

4.15 To enable individuals to meet their objectives they should receive appropriate training and development opportunities which should be discussed and noted during the annual appraisal, with action taken subsequently by management. All reporting and/or countersigning officers in the audited departments were required to detail the job holders' training and staff development needs in the annual report. The NAO review of a small sample of staff reports showed that there were no recommendations in 40 per cent at the Ordnance Survey, 27 per cent at the Welsh Office and 80 per cent at the Department for National Savings.

4.16 The Department for National Savings pointed out, however, that recent changes in the structure of the report forms provide more specifically for staff development needs to be recorded. Moreover, the departments do have separate procedures operating throughout the year to identify staff development needs and there will be a proportion of staff for whom additional training may not be required or appropriate. In each of the three product divisions of the Department for National Savings there are staff development officers and training organisations who liaise with line managers throughout the year. At the Ordnance Survey much technical training is to a pre-arranged pattern and if extra training is not required then they would not expect comment on the report form.

4.17 The NAO found that recommendations for training and other career development needs were taken seriously with appropriate action. But the report form provides an annual opportunity to agree and record formally the job holders' and reporting officers' views in the light of the performance assessments. This opportunity should be used to ensure that development needs are addressed, and those identified are effectively recorded and acted upon.

The monitoring of assessments

4.18 The NAO examined whether the standard five box system for performance marking set out in Figure 3, which all three departments had adopted, was sufficiently flexible to enable all shades of view to be expressed. The Welsh Office considered that despite its relatively recent introduction, it has proved sufficient to meet the needs of both management and staff, and that further changes

should not be contemplated until it can be fully evaluated. Likewise, the Ordnance Survey consider that the five box system enabled staff performance to be described adequately. The Department for National Savings considered the five box system was acceptable. In discussion with reporting and countersigning officers, the NAO noted some disquiet about the restrictive nature of the five box system, particularly with the wide scope of staff performance encompassed by box 3. The NAO noted that the system used in the Government Services in the Federal Republic of Germany, allows marks within a specific box to be shaded up or down, to reflect different levels of performance.

4.19 The Council of Civil Service Unions told the NAO that they favour a return to a six box performance scale, largely due to confusion surrounding the transitional nature of the box 4 marking in the current scale (see Figure 3).

4.20 Table 2 contains an analysis of performance markings which the three departments supplied to the NAO. This shows that a very small proportion of the marks fell into the two lowest performance categories (4 and 5) while around 40 per cent or more were marked in the two highest performance levels (1 and 2). A recent analysis carried out across the Civil Service by the OMCS produced a broadly similar pattern. These figures are capable of a number of differing interpretations. But they do indicate that over 40 per cent of all Civil Servants were deemed to have performed at a level significantly above the requirements of their grade. This may have been due to experienced staff remaining for some time in their grade as a result of limited promotion opportunities or there may have been over-marking. However, there is no "correct" distribution between these categories; it will vary according to the definition of performance being used.

4.21 The NAO considered the appropriateness of using conventional statistical models to provide departments with some pattern of performance marking that they should expect to see achieved. One by-product of this approach might be a significant number of staff being shown as performing inadequately. The departments stressed that they expected few staff would be marked in the lowest two categories both because staff have satisfactorily passed through probation and trial procedures and because of the transitional nature of category 4. The NAO acknowledge that such factors can make theoretical models misleading and unhelpful. But they believe that departments should seek to bring about greater uniformity in standards among reporting officers by explaining

Table 2

Performance markings, 1987–88 (percentages)

Performance Scale Ratings†	Department for National Savings %	Ordnance Survey %	Welsh Office %	OMCS* Analysis (Average of 28 departments) %
1 "outstanding"	3	2	4	4
2 "significantly above requirements"	35	39	48	42
3 "fully meets normal requirements"	57	55	44	50
4 "not fully up to requirements"	4	3	3	3
5 "unacceptable"	<1	<1	<1	<1
Total	100	100	100	100

† Performance Scale Ratings are explained more fully in Figure 3.
* Analysis does not include the Welsh Office.
Source: Individual Departments and OMCS analysis.

and illustrating how the various levels are to be interpreted. These matters will take on increasing importance as pay is linked to performance.

Promotion potential

4.22 All three departments used the four box promotability scale (Figure 4) put forward in the 1985 review with categories amended to suit departmental circumstances. For example the Welsh Office are considering how best to assess ability to manage change as part of their overall review of the reporting forms, and marking officers are required to note any special skills and aptitudes of the job holder. In all departments the job holder's long term potential is separately assessed.

4.23 Two departments have attempted to assess the importance staff place on promotion issues. The Welsh Office told the NAO that feedback from internal training courses and career interviews had shown that promotion was very important to the majority of staff, and that training is given to reporting officers to make clear the distinction between performance and promotability assessments. The Ordnance Survey have noted that the majority of their staff ask for information on promotion at appraisal interviews, again indicating the strength of interest. The Department for National Savings have not attempted to assess the importance their staff attach to promotion potential. They told the NAO that with the considerable decline in promotion opportunities in recent years such an exercise would be insensitive to staff and

of little value to management. But they also confirmed that feedback from training courses and appraisal interviews indicated that the promotion issue continued to be a source of great interest and concern to staff.

4.24 The performance and promotion assessments are usually completed in tandem, but they are quite separate in purpose. Although there is often a clear relationship between these assessments, departments are aware of the risk of confusion. For example, the Guidance Notes isued by the Ordnance Survey warn "do not confuse high performance at the present grade with the ability to perform well at the next level. Some individuals may be outstanding performers, but at the same time reached their limit".

4.25 The "Cassels" Report (paragraph 3.2 above) suggested that not all staff needed to be or should be assessed for promotability every year. During discussion, with a limited number of reporting officers at the Department for National Savings and the Ordnance Survey, the NAO noted conflicting views about the value of completing promotion reports for all staff. Some staff did not want promotion, and others were clearly not fitted; in both instances, the completion of the forms was considered by some reporting/countersigning officers as unnecessary.

4.26 The NAO believe that there is a sufficiently strong relationship between performance in the job and promotability to justify line managers

concentrating resources on the preparation of promotion reports only for staff achieving box 1 and 2 performance marks. Managers could still identify high ability recently recruited staff who, although not marked within the box 1-2 range of performance, demonstrate the potential for promotion within two years.

4.27 Although selective assessments offer potential savings in staff time, there is a risk that not all talented staff will be developed at an early stage. Departments also consider the appraisal process is used for many different purposes and prefer to have a total picture of the individual. Nevertheless, the NAO suggest that further consideration should be given by departments to the need for annual promotability assessments in all cases as recommended in the "Cassels" Report.

Standards and fairness

4.28 One Trade Union told the NAO that in their view staff appraisal systems must be felt by staff to be fair otherwise the system would not meet its objectives and would fall into disrepute. All departments examined used broadly similar methods of pursuing equality and fairness of staff appraisal. The principal measures are the use of countersigning officers (or Heads of Division) and third signatories who were able to take a broader perspective of the assessment system. In addition, as noted in paragraphs 4.43 and 4.47, all departments provided training courses and staff appraisal guidance notes. Each of the audited departments had taken recent action to improve consistency in standards across the organisation.

4.29 An internal paper on reporting standards at the Welsh Office was produced in July 1989. While this did not find evidence that reporting standards in the Welsh Office were seriously out of line with experience in other Departments, the paper did identify a need for a greater level of consistency in internal reporting standards, within both certain grades and individual groups. The Welsh Office told the NAO that the paper has been carefully considered by senior management and follow-up action has been undertaken.

4.30 The Ordnance Survey have produced two recent reports on their staff appraisal system. In July 1987, they reviewed the first year of operation of the revised system. They noted that all principal features had been adopted, and compared performance and promotion marks under the new and the old systems. Overall, the report concluded that the new appraisal system was an improvement on the old, but that close attention had to be paid to

achieving uniform grading standards. The second report, in April 1989, was a comparison of performance marks by grade, marking category and function, without comment or recommendation but was the basis of a seminar for all Grade 7s and above where reporting standards and detailed guidance were considered. Overall, this report showed that there was a clear upwards shift in marking profiles between 1987 and 1988.

4.31 The Department for National Savings reviewed annual staff reporting procedures in 1987. The review identified areas such as objective setting, marking against the grade and grading standards as presenting the most common difficulties experienced by managers. On an annual basis aggregate performance mark reports were produced for the Headquarters and the three divisional offices. At two of these offices, the data were broken down by branch. The NAO noted significant variations in performance marks but were told by the Department that they expected to find some variation in markings as between different branches. The quality of staff in post would be one factor in such variations. Another would be the different type of work performed in the different branches which made cross-branch comparisons difficult. The Department were also aware that junior managers had been experiencing difficulty in marking job performance against a theoretical grade norm. This factor had led to the issue of new guidance to help inexperienced managers.

4.32 The NAO acknowledge the considerable efforts which have been made by departments to ensure that consistency of standards which is vital in ensuring the efficacy of the staff appraisal system and its acceptability to staff.

Operational aspects

Cost of staff appraisal

4.33 The Ordnance Survey estimated that, on the basis of 6 hours managerial effort per report, staff appraisal cost £407,000 in 1988-89, plus some £65,000 for Personnel Division resources. This represents approximately one per cent of total staff costs. The Welsh Office considered that staff appraisal costs represented between a half and one per cent of the total salary bill.

4.34 On the basis of the available information on the time spent on staff appraisal, the NAO estimate that the total cost is £280,000 a year at the Welsh Office and £800,000 at the Department for National Savings. The cost in the Civil Service as a whole,

therefore must be substantial. OMCS have made no overall estimate of the cost of staff appraisal activities in the Civil Service because they do not consider it would be meaningful or useful to make such an estimate.

4.35 The departments considered that staff appraisal was a continuous process and one of several important and integral responsibilities of a manager's job. They therefore questioned the value and practicability of collecting more precise data on the costs of staff appraisal in isolation and considered that the information available was sufficient to meet their needs. They recognised, however, the importance of reviewing the components of their appraisal systems from time to time to ensure that costs were kept in sensible balance with the benefits they obtained from the system.

Communication of assessments to job holders
4.36 In all departments job holders have the right to be informed of their performance assessment, to see the supporting written remarks and to make representations through agreed procedures if they disagree with the report. However, the degree of openness of reporting promotability marks and comments was more limited. At the Welsh Office an individual's overall promotion marking is made available on request. Other aspects of the promotion report can be disclosed at the discretion of the countersigning officer at an appraisal interview. At the Ordnance Survey all aspects of the promotion assessment other than long term potential can be orally disclosed at the reporting officer's discretion. Likewise, in the Department for National Savings, reporting officers were in general prepared to disclose orally most comments on promotion potential unless they considered it would adversely affect the job holder's morale or performance. The Council of Civil Service Unions told the NAO that they felt there should be full and open disclosure on promotion as well as performance reports. They also considered that there should be an agreed appeals procedure covering both performance and promotability marks.

4.37 Attending an appraisal interview is not compulsory, unless the job holder's performance is deemed unsatisfactory. There were variations between departments but performance appraisals were given by either the reporting officer or the countersigning officer.

4.38 The Ordnance Survey management told the NAO that full disclosure of promotion prospects had been considered but senior management felt

there was a danger of some staff becoming discouraged and their performance undermined unnecessarily. The Department for National Savings have not sought managers' and job holders' views on full open reporting of promotion assessments. The Welsh Office are currently examining whether they should adopt more open reporting procedures for promotability. In addition, the OMCS are currently monitoring pilot exercises in full openness in three other departments.

4.39 The "Cassels" Report, whilst recommending open reporting on performance was against full disclosure on promotability assessments. The NAO recognise that full disclosure of promotability may bring some disadvantages, such as the risk of lowering reporting standards. But they welcome the consideration being given to greater openness mentioned in paragraph 4.38, in view of the potential long term benefits which could include:

— job holders' greater confidence in the fairness of the system;

— elimination of mistrust that promotability comments contained the true views of reporting officers;

— job holders being better informed about their career prospects;

— job holders being better placed to improve their performance.

Rôle of line manager and specialist branches
4.40 The NAO found that the rôle of the line manager was relatively consistent between departments; acting as reporting officers, countersigning officers and third signatories, each with discrete functions in the staff appraisal process:

— the reporting officer agrees the forward job plan, makes the initial assessment of the job holder's performance and potential for promotion, and is usually the job holder's immediate supervisor;

— the counersigning officer usually provides a second written, but briefer assessment of the job holder, and is able to agree to confirm or qualify the reporting officer's assessment. He is also able to monitor reporting standards;

— the third signatory's principal function is to maintain the reporting standards.

4.41 The rôle of the personnel department in each of the three departments varied, but in all cases

included co-ordinating the efforts of the line managers involved in staff appraisal. For example, in 1989 the Welsh Office Personnel Management Division introduced a monitoring system to ensure timely completion of performance reports, and Ordnance Survey Personnel Division have provided briefings to managers in order to promote uniform marking standards. All three departments, had issued comprehensive staff appraisal guidance notes to staff (see paragraphs 4.47–4.49). If successful, staff appraisal must be owned by line management. Departments had managed to achieve a good and workable relationship between line management and personnel departments.

4.42 Grade management systems were operating in all three departments. At the Welsh Office, staff in Personnel Management Division are designated as Grade Managers, and are responsible for a range of duties from manpower planning to job placements. They also scrutinise completed appraisal reports and refer inconsistencies back to reporting officers. The Ordnance Survey operate a system of Grade Management Panels, which are charged with making the best use of staff resources and identifying potential problem areas, such as staff wastage and promotion blockages. Although they do have access to annual staff reports and monitor areas such as reporting standards and promotion fields, they have little direct impact on the overall staff appraisal process. The Department for National Savings have a network of Staff Development Officers who encourage and promote self-development training and further education and act as counsellors and agents for faciliating job moves.

4.43 In all three departments, the NAO found internal staff training divisions putting significant resources into training in staff appraisal which was manadatory for all managers supervising staff. At the Department for National Savings each reporting officer attends a two day course on staff appraisal, with a further two day course given to countersigning officers. At the Ordnance Survey line managers receive a one day course on writing staff reports, and a one and a half day course on appraisal interviewing; at the Welsh Office the length of courses is two and a half days.

4.44 Reviews of the training provision have been completed in the Welsh Office and are planned for the Department for National Savings, the former to reassess training needs, and the latter as the result of introducing new forms and guidance material and the efforts made to emphasise the importance of forward job plans and objective setting. The NAO welcome the emphasis being placed by departments upon the training needs associated with staff appraisal.

Appraisal criteria

4.45 The appraisal criteria for both performance and promotion in all three departments were largely those outlined by the Management and Personnel Office in 1985, although minor changes had been made to suit departmental circumstances. For example, the Ordnance Survey had included a category in their promotion assessment for "penetration"whilst the Department for National Savings have included categories for "drive and determination" and "judgement" in the appraisal forms for Administrative Assistants and Administrative Officers respectively.

4.46 The NAO were concerned that, with the wide range of professional, technical and administrative skills employed by the three departments, the standardised marking categories might be insufficient. The departments, however, were satisfied that this was not the case; the Ordnance Survey who had the most specialised work force and operational objectives, told the NAO that when combined with performance objectives, the performance and promotion assessment criteria were more than adequate for their needs.

Guidance

4.47 Guidance provided to staff on staff appraisal procedures varied from department to department. The Welsh Office issued comprehensive Notes for Guidance in 1986, setting out the main elements of the system and providing detailed guidance for both job holders and reporting officers. This guidance was revised in June 1988 to clarify points in the performance scale; to emphasise to managers the .importance of telling job holders about comments on performance made by heads of division; and to ensure that the distinction between job descriptions and forward job plans was properly understood.

4.48 The Ordnance Survey also issued Notes for Guidance in 1987 covering:

— overall principles and procedures;

— the rôles of reporting, countersigning and third signatory officers;

— performance appraisal interviews;

— below standard performances; and

— forward job plans.

In addition, the Ordnance Survey use formal briefing meetings of reporting and countersigning

officers to discuss reporting standards and procedures, as well as local briefings provided by the personnel division. In 1989, the Ordnance Survey management issued detailed performance standards for specific grades to ensure consistency of marking.

4.49 In 1989–90, the Department for National Savings issued revised Notes for Guidance after consultation with the Trades Unions. At the time of the NAO review, this guidance had only been implemented for Administrative Assistants and Administrative Officers, who featured in the early part of the reporting cycle. This covered

— the background of staff appraisal for job holders;

— the completion of the forward job plan;

— reporting officers' responsibilities;

— the rôle of the countersigning officers;

— enhancing the profile of objective setting among line managers.

Collection of appraisal data

4.50 All three departments are upgrading their capacity to analyse staff appraisal data. At the Welsh Office further computerisation of personnel records has been put in hand, enabling more detailed staff appraisal reports including comparisons of performance by division to be produced with minimal additional effort. The system came into operation in the Summer of 1990. The Ordnance Survey have recently completed updating personnel data for the last six years on the Chessington Computer Centre Departmental Staff Record System. At the time of the NAO's review, however, they were still awaiting the development of the necessary software to provide detailed analyses of staff appraisal data by division and over time. The Department for National Savings told the NAO that their computerisation programme would provide a firm basis with which to administer performance related pay and to improve facilities for statistical analysis of appraisal data. This in turn would help:

— inform future promotion, training, staff development and equal opportunities policies throughout the year;

— assess performance at the year end; and

— improve communications between managers and the people they manage.

Staff opinion

4.51 As staff appraisal, properly conducted, is a two-way process between management and staff it

is important that management conducts regular reviews of staff opinions about the system. The Welsh Office told the NAO that staff who received diligently prepared reports generally perceived staff appraisal procedures as equitable; the limited number of complaints that arose usually stemmed from inadequately prepared assessments and interviews. They also told NAO that their 1987–88 review of staff appraisal indicated that the staff generally welcomed the greater openness of the revised system, and the opportunity to comment in writing in the report itself. The Department canvassed the views of their staff on general personnel management issues including staff appraisal, in June 1990.

4.52 At the Ordnance Survey the introduction of performance related pay had heightened the staff's awareness of, and interest in, the appraisal system. The local trades unions expressed some concern that recent detailed performance standards would be seen as a means of artificially depressing performance marks and hence performance pay. The Ordnance Survey management acknowledged that these detailed standards have brought mixed views from staff but feel that they contribute to the objectivity and credibility of the system. In 1987, the Ordnance Survey conducted a detailed staff opinion survey on the introduction of the revised appraisal procedures in the Department. Notable among the results were:

— 74 per cent of all staff thought the new system was an improvement over the old;

— 92 per cent of staff had prepared a forward job plan, and 80 per cent considered the inclusion of personal objectives beneficial;

— 70 per cent of job holders favoured countersigning officers conducting appraisal interviews.

4.53 In August 1989, the Department for National Savings commissioned the Industrial Society to undertake a communications survey amongst staff. The results indicated that:

— 37 per cent thought that the annual staff report was motivating, whilst 34 per cent disagreed;

— 42 per cent said the annual report sometimes contained some "nasty surprises";

— 65 per cent thought the staff appraisal process was useful for getting feedback on performance;

— only 30 per cent thought that it set challenging but achievable objectives;

— only 35 per cent of staff thought that the staff appraisal system provided a useful method of planning ahead for the coming year.

4.54 All departments have undertaken surveys of staff opinion on the staff appraisal system (as well as on other matters). The results had proved valuable for management. The NAO welcome these surveys as an important aspect of the two-way process which is an integral part of successful staff appraisal and commend them to all departments.

Performance related pay

4.55 All three departments have introduced performance related pay for senior and professional staff. But at the time of the NAO's examination only the Ordnance Survey had introduced a performance related pay system for a substantial number of staff. This is the flexible pay agreement for technical staff negotiated between the Treasury and the Institution of Professionals, Managers and Specialists. To be eligible for consideration, staff must have been on the pay scale maximum for at least one year and had to have achieved either one box 1 marking, three consecutive box 2s or five consecutive box 3s. Moreover, not more than 25 per cent of staff in each grade could receive additional range points. The Ordnance Survey set a performance pay budget for 1989–90 of £100,000. Although this was exceeded to achieve a more equitable distribution of range point awards, not all those staff eligible for consideration received payment.

4.56 All Civil Service departments implemented a revised pay structure incorporating performance related pay at 1 April 1990. The NAO welcome the introduction of performance related pay on a broad basis and observe that it should strengthen the rigour with which performance is established and monitored and thus place even greater demands upon the Staff Appraisal system. The NAO also welcome OMCS's intention to examine specifically the interaction of staff appraisal and performance pay.

Comparison with good practice

4.57 Paragraph 2 of Appendix 2 sets out fifteen attributes of an effective appraisal system identified by the NAO's consultants. The NAO endorse these findings and believe that departmental systems compare well with best practice. These attributes provide a useful bench-mark against which departments can assess their performance.

Appendix 1: Sample of Staff Appraisal Report Form

Department of XYZ   The Civil Service is an equal opportunity employer
Staff in confidence

Staff Report part 1   PERFORMANCE APPRAISAL

This form will be photocopied; please use black ink

1 Personal Information

Surname _____ Mr/Mrs/Miss/Ms

Forenames _____

Date of birth _____ Grade _____ Date entered grade _____

Date started present job _____   Period of report from _____ to _____

Seniority date _____ Periods of temporary promotion from _____ to _____

Qualifications:

The sections below on this page are to be completed during or after the interview

Interviewer's Action Record
Record what you have agreed in the interview. This should include comments on training needs and the Job Holder's views and preferences. Where performance did not meet normal requirements you must set out what action is proposed.

Signature _____ Grade _____ Date _____

Job-holder's comments
Please sign below to show that you have had the opportunity to read this performance report and discuss it with your interviewing officer and that you have agreed and recorded your job description for the next reporting period.
Comment below if you wish

Signature _____ Date _____

2 Job Description

Job title if any _____

Refer to the forward job plan agreed at the start of the reporting period in writing this description. It should be agreed between the Reporting Officer and the Job Holder and reflect any changes during the period.

Rough percentage of time spent on each duty

a. Set out the purpose and main duties of the job.

b. List specific objectives.

c. Give a broad indication of the resources managed, eg how many staff are in the Job Holder's command? How much expenditure is directly controlled or advised upon? Other resources?

Job holder interview preparation — *Set aside some time to prepare for the appraisal interview. Think about what you have done best, what you have done less well and why. How well have you done on the aspects of performance listed in section 3?*

3 Performance Assessment by the Reporting Officer
Definition of ratings

1 Outstanding	4 Performance not fully up to requirements, some improvement necessary
2 Performance significantly above requirements	
3 Performance fully meets normal requirements of the grade	5 Unacceptable

a. Give a rating 1-5 for each relevant aspect of performance making full use of the space for your comments.

Work activity	
☐ Quality of work	
☐ Output of work	
☐ Planning of work	
Management	
☐ Management of staff	
☐ Effective use of other resources	
Communication	
☐ Oral communication	
☐ Written communication	
Working relationships	
☐ Relations with other staff	
☐ Relations with the public	
Knowledge/skills	
☐ Professional and technical knowledge	
☐ Application of knowledge and skills	
☐ Numerical ability	

b. How effectively have each of the main duties been carried out and specific objectives achieved? Give examples of work done well and areas where performance could be bettered.

3c Rating of overall performance

1-5 ☐ **complete using definitions on page 3**

Your rating should not make allowances for any special factors such as age, inexperience, ill health, and unusually high turnover of staff, but they should be stated below. Also use this space to complete the picture of the individual so that the report presents a fully balanced and informative assessment.

The job holder has worked for me for ————————— months/years.

Signature ——————————————————————— Grade ————————————

Name in capitals ——————————————————— Date ————————————

4 Countersigning Officer's comments

Indicate how much you see of the person's work and how far you can confirm the comments and ratings given. Record any areas of disagreement which may remain after discussion with the Reporting Officer. Add any further relevant comments.

Signature ——————————————————————— Grade ————————————

Name in capitals ——————————————————— Date ————————————

Department of XYZ

Staff in confidence

For oral disclosure only

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Staff Report part 2   PROMOTION APPRAISAL

This form will be photocopied; please use black ink

1 Personal Information

Surname _____ Mr/Mrs/Miss/Ms (delete as appropriate)

Forenames _____

Date of birth _____ Grade _____ Date of this report _____

2 Assessment of personal qualities and abilities by the Reporting Officer

Tick a box for each quality or ability; make full use of the space for your comments

X	X applies	Y applies	Y	Comments
Acceptance of responsibility				
Seeks and accepts responsibility at all times	☐☐☐☐		Avoids responsibility wherever possible	
Judgement				
Fully thought out sound decisions	☐☐☐☐		Takes superficial or unsound decisions	
Ability to produce constructive ideas				
Full of ideas which provide fresh insight	☐☐☐☐		Few ideas, does not innovate	
Drive and determination				
Wholehearted application to tasks: determined to carry them through	☐☐☐☐		Lacks energy; easily discouraged; wastes time	
Reliability under pressure				
Completely reliable at all times	☐☐☐☐		Easily thrown off balance, not reliable	
Ability to handle change				
Responds readily to new situations and deals with them effectively	☐☐☐☐		Inflexible: unable to cope with change	

3 Promotion assessments

Assess potential to perform the duties of the next grade. Look back at the rating of aspects of performance in part 1 as well as the ratings above and ensure any fitted assessment is justified.

		Not fitted	Likely to become fitted in the next 2 years	Fitted	Exceptionally fitted
a. Reporting Officer's Assessment	*Please tick*	☐	☐	☐	☐
b. Countersigning Officer's Assessment	*Please tick*	☐	☐	☐	☐

4 Comments on Promotion Assessment

a Reporting Officer's Comments

Justify your assessment. If relevant, show how the candidate has demonstrated the ability for the higher grade.

Signature _____ Grade _____

Name in capitals _____ Date _____

b Countersigning Officer's comments

Justify your assessment and confirm whether the candidate has demonstrated the potential for the higher grade, including management potential. You should indicate any areas of disagreement with the Reporting Officer's assessment. Please comment on further potential and say if you think the candidate has exceptional potential, explaining why.

Could you accept the candidate in the higher grade?   Yes ☐   No ☐
(If not please explain)

Signature _____ Grade _____

Name in capitals _____ Date _____

Department of XYZ
Staff in confidence

| *Forward Job Plan* |

Name .... Grade .... Division ....

Set out below the purpose and main duties of your job.

Try to set the duties out in order of importance under a number of headings. Do not forget staff management and training responsibilities.

Job title .... Percentage

List specific objectives.

These should show what you are expected to do and how well. For some parts of your job this may be in clear cut terms, eg quantity, cost, target dates. But other objectives could be about how the job is done or the effect on other people. Be as specific as possible, so everyone is clear how you are to be assessed. Do not set too many objectives – 4 or 5 may be enough. Be realistic: they should be possible but a challenge.

Give a broad indication of the resources you manage and any changes you plan.

Only a broad indication is required. Examples include the total number of staff you are responsible for and how much expenditure you advise upon and control directly. Are you planning changes to get better value for money?

Timescale of FJP ....

Note changes agreed through the year on the back of this form.

Appendix 2: Staff Appraisal outside the Civil Service

The private sector experience

1. The NAO commissioned Kinsley Lord Management Consultants to contact a range of private sector organisations and describe and assess the effectiveness of their staff appraisal procedures. They reviewed 20 organisations in all, varying in size from 600 to 300,000 staff, operating in the leisure, financial services, foodstuffs, chemicals and retailing sectors. Some main results of the review were as follows:

(a) All but one company had an appraisal scheme in place.

(b) Most companies had, within the last five years, either introduced a new scheme or considerably modernised an existing scheme. The impetus for change included competitive commercial pressures, structural change in the organisation, and recognition that the company was falling behind best practice.

(c) Nearly all the organisations had a performance related pay system. The Consultants concluded that paying for performance on results, rather than for activity or long service, is now a fundamental concept in British business.

(d) There are clear links between staff appraisal and areas such as personal development, training, and assessment of potential. To avoid confusion, however, a number of companies deliberately separate performance appraisal from assessment of potential.

The attributes of best practice

2. Whilst no scheme was found to be free of problems, certain attributes of an effective appraisal system were identified. The best staff appraisal system:

— is an integral part of how the business is managed, a tool for management to help deliver the business plan;

— is a powerful and positive form of communication to staff about the mission, values and expectations of the organisation;

— clarifies the rôle of individual jobs and makes it easier for staff to understand and to deliver what business requires from them;

— provides an objective and balanced framework within which to judge performance;

— focuses upon outputs and results rather than personal traits or activities;

— is "owned" and operated by the line management rather than by the central personnel function;

— focuses not only on "hard" short-term objectives but also on "soft" objectives (for example, relating to business development, quality of service and standard of staff management) which influence the business's ability to succeed in the medium-term;

— is easy to use and not excessively bureaucratic or paper intensive;

— provides for the appraisal itself to be done by the job holder's immediate line manager: 'grandparenting', if any, is not used to second-guess the manager;

— is a dialogue designed to encourage self assessment;

— whilst providing a formal element (usually an annual or twice-yearly meeting) is a continuing management process which should deliver no surprises to either party at the year end;

— operates primarily on the basis of trust and respect between managers and subordinates, and helps to build that relationship;

— is a way to develop people, to give them greater job satisfaction and to make them more valuable to the business;

— is carefully monitored for effectiveness and is flexible and open to change as the needs of the business change;

— provides an effective basis for linking pay to performance.

How schemes operate

3.   Although no scheme in the private sector had all the attributes in paragraph 2 the most successful schemes investigated by the Consultants, while differing in the details of their operations, had a number of critical, common attributes to their operation:

(a)   Objective-setting and appraisal is carried out at the very top of the organisation and cascaded downwards. A small number of organisations are using the same, or a similar scheme throughout the whole organisation. Others had one scheme for managers and a different scheme for sales and/or clerical staff or were trying to set one up. Many companies say that performance at senior level is far more important to organisational success and so more attention is paid to managers' schemes. It is also easier to design and use a scheme which focuses on more skilled people who regard themselves as having a career rather than a short-term job. The success of the scheme is influenced more by the attitudes of those who use it than by the design of the scheme itself.

(b)   The objective setting process is iterative. Often this is the ideal rather than the reality, but several companies are trying to achieve a balance between the needs of both a top-down and bottom-up approach to objective setting.

(c)   Schemes are owned and operated by the line. Once a scheme is in place and policies are clear, the personnel department stands back, providing training and support, offering guidance where needed and monitoring the effectiveness of the scheme. Personnel departments do not play a rôle in objective setting for the line or participate in individual assessment except, in some organisations, in disputes.

(d)   The schemes are open. Appraisal judgements are shared with the staff concerned and the appraisal interview is regarded as a checkpoint in an ongoing discussion which takes place throughout the year.

(e)   The rating system makes it as simple as possible for managers to know and say if expected standards of performance have been met.

Monitoring effectiveness

4.   All companies are aware of the need to monitor the effectiveness of appraisal schemes and to modify them when necessary (because of changing business needs), although relatively few do this in a systematic way. Four

companies have surveyed staff about the use and usefulness of appraisal, have taken the (sometimes very negative) results seriously and have acted on them. In some cases the seeking of "bad news" causes internal tensions among senior management. There is a growing recognition that any given appraisal scheme is likely to have a relatively short life. As the demands on a business change and management styles develop the appraisal system, as an integral part of the business process, also needs to adapt and develop.

Does appraisal "Pay"?

5. Most organisations cannot say for certain that appraisal is "cost effective" and prove a direct correlation between the cost of carrying it out and the benefits it brings. However, all have no doubt that appraisal done well is an integral and necessary part of running a business and contributes substantially to its success. Improvements in areas such as staff turnover, profit ratios and customer service are believed to be due, at least in part, to more effective appraisal procedures which give employees greater clarity of purpose and positive feedback. Performance related pay often also plays a significant rôle here.

Problems with appraisal

6. The Consultants noted the most common problems being experienced by even the most committed companies in operating their appraisal systems.

The Quality of Objectives

Many managers are still not good at setting meaningful objectives. Common criticisms include objectives which were "not relevant" and "don't drive the business". Also some schemes encourage managers to focus on the short term at the expense of the long term and do not cover areas such as business and staff development. Some financial institutions, for example, also report problems with conflicting targets and difficulties over determining individual contributions to profit.

Confusion Over the Rôle of Appraisal

The majority of companies are not clear about how appraisal fits into decisions about career development, potential, training and pay decisions. The Consultants found strong signs of management development being taken much more seriously, and driven by the appraisal process. There is also confusion in some senior managers' minds about whether appraisal is properly used as a carrot — to encourage people — or a stick — to coerce people to perform — and what the right balance might be.

The Rôle of Line Management

While nearly every company in the survey accepts the need for the line to "own" an appraisal scheme, many report difficulties with this. Some managers pay only lip service to the process (as some internal surveys have revealed) and the poverty of some of the objectives written and accepted shows a lack of effort. This improves with time, provided the right messages are sent out by senior management.

Bureaucracy

Nearly every scheme reviewed involves considerable bureaucracy and form-filling. There is a preponderance of "guidance" attempting (and sometimes failing) to explain how to use the scheme and many forms, some of which fail to ask the right questions and leave little space to answer the right ones. Often the problem is recognised but little is being done to remedy it. A small number

are attempting to tackle it by introducing "performance contracts" or brief agreements between a manager and a subordinate which state objectives and how they are to be met. This document forms the basis of the appraisal itself and few other forms are needed.

Rating Systems

Most companies surveyed use a rating scale that involves at least five boxes; some use more. One organisation uses a scale with 40 points. Most report difficulties with five or more boxes as the middle box is regarded as "bad news" by most managers and staff no matter how it is labelled.

The Appraisal Interview

Several companies report that their managers do not seem to handle appraisal interviews well enough and have particular difficulty with the discussion about an individual's strengths and weaknesses. Internal surveys have revealed this in some cases. Despite reasonably robust objectives and despite training in appraisal, managers often find it embarrassing to confront weaknesses in performance. Thus the official written appraisal and the unofficial appraisal by which an individual's future is really determined may be very different.

Consultation and Piloting

While a number of organisations have taken great care and invested time and resources in consulting staff when designing schemes and piloting them before they go live, some have not. Several companies say they regret not having gone through this process, particularly when a link to pay was being introduced, and believe that the resulting damage to goodwill and morale outweighs any benefits of introducing the scheme more quickly.

Consultants' Conclusions

7. The Consultants concluded that the success or failure of performance appraisal depends critically upon the degree to which it fits within the culture of the organisation. If the mission of the organisation is clear, line management is trusted and internal communications are good, then anxieties about appraisal schemes are low. In poorly managed organisations with inadequate sense of direction, all the anxieties about the technical difficulty of setting objectives and about whether individuals will be treated fairly surface at once. Thus appraisal systems evolve and develop as the quality of management improves, and as an integral part of the successful development of the business.

Overseas Governments

8. Information was also obtained by the NAO from the governments of Australia, Canada, Denmark, the Federal Republic of Germany, Japan and the Netherlands. In the Ministry of Interior of the Federal Republic of Germany formal staff appraisal takes place every three years but with annual discussions. Officials in the personnel department monitored provisional but anonymous marking schedules, raised in writing with other directorates any comments about disparities in the marking profiles and if necessary followed up written exchanges with discussions. However, the views of the heads of other divisions prevailed. The Ministry have been concerned by what they believe is a tendency to overmark and have tried to introduce procedures to tighten up the marking profile.

9. Of particular interest is the approach of the Canadian Government. The Canadian Civil Service departments have detailed procedures and have been particularly concerned to relate the individual's job to the overall objectives of the organisation. The policy of one department defines an objective as:

> "a statement identifying significant — or broad-ranging results to be achieved by organisations over given timeframes in the process of fulfilling their mandate. Every organisation and each position in that organisation has a purpose for existence. This purpose is the objective. The objective is expressed in global terms and is long term or continuing."
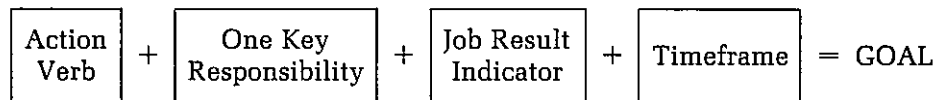
The Canadians have defined an individual's objective (which they term a "goal") as:

> "a concise statement of a desired work result to be achieved by an individual within a predetermined timeframe. A goal describes the result expected — the end product, not the activity leading to the result. A goal is normally set according to the key responsibilities of the position, the skills of an employee and the unit's work plan, all supporting continuing objectives of the organisation."

Their guidance emphasises the importance of consultation, discussion and good communication and sets out the main characteristics of a goal as being:

— specific
— measurable
— result orientated
— realistic
— controllable (by the employee)
— job related

Detailed advice has been given on how goals should be determined. It suggests a basic formula for developing effective goals as follows:

$$\boxed{\text{Action Verb}} + \boxed{\text{One Key Responsibility}} + \boxed{\text{Job Result Indicator}} + \boxed{\text{Timeframe}} = \text{GOAL}$$

In addition there is detailed comment on numeric (production) indicators and stress on the quality of service.

10. The Public Management Service of the Organisation for Economic Co-operation and Development (OECD) published a review on Performance Appraisal and Flexible Pay arrangements in 1988. Member states have asked that OECD's Management of Human Resources branch should undertake further research in this area. The organisation therefore provides a useful umbrella to explore issues and learn of good practice being developed in other countries on staff appraisal systems. OECD's work in this area has been fully supported by UK departments.