

10

Performance Management and Appraisal

After you have read this chapter, you should be able to:

- Identify the components of performance management systems.
- Distinguish between performance management and performance appraisal.
- Explain the differences between administrative and developmental uses of performance appraisal.
- Describe the advantages and disadvantages of multisource (360-degree) appraisals.
- Discuss the importance of training managers and employees about performance appraisal, and give examples of rater errors.
- Identify several concerns about appraisal feedback and ways to make it more effective.

Performance Management Does Not Focus Enough on Ethics



(Ryan McVay/Photodisc/Getty Images)

A recent study determined that many organizations do not focus enough on ethics when managing performance. For instance, only 43% of HR practitioners indicated that their employers included measures of ethics on performance evaluations. Making matters worse, professionals claimed that they were expected to take an active role in managing ethics, but many felt disconnected from the process. Further, many companies do not have a comprehensive program that raises awareness of ethics, and some companies have developed no ethics policies whatsoever. Such findings are troubling considering that problems are common.

Organizations need to develop standards governing how employees are expected to behave.¹

Given these realities, HR professionals should be involved in the development of those standards. Performance management practices such as evaluation forms should include measures that identify positive behaviors. HR professionals also need to create comprehensive programs that increase the motivation to take appropriate actions. Developing codes of conduct that outline company guidelines, offering training that teaches employees important workplace values, and increasing communication of important job standards can all work together to promote an ethical culture. In addition, reinforcement programs should be developed so that positive behaviors are rewarded and undesirable behaviors are punished. HR managers need to be in the “driver’s seat” when it comes to encouraging ethics.

Employers want employees who perform their jobs well and contribute to the mission and objectives of the organization, but managers have to provide the proper context for such high productivity. Performance management is the primary tool used to identify, communicate, measure, and reward employees so that they can make these contributions, and the process is one that supports a company's strategic direction. Properly designing the performance management system is therefore a key method for increasing overall organizational performance.

THE NATURE OF PERFORMANCE MANAGEMENT

The performance management process starts by identifying the strategic goals an organization needs to accomplish to remain competitive and profitable. After these ideas are crystallized, managers identify how they and their employees can help support organizational objectives by successfully completing work. In a sense, the sum of the work completed in all jobs should advance the strategic plan. By adopting a “big-picture” quantitative approach, managers can successfully combine individual efforts in a manner that provides practical measures of organizational effectiveness. Performance management can also provide a unified approach to dealing with individual career development.²

As Figure 10-1 shows, performance management links organizational strategy to ultimate results. Performance management enables a company to convert overall strategy into results that support the mission and objectives. However, just having a strategic plan does not guarantee that results will be achieved and objectives will be satisfied. When organizational strategies have been defined, they must be translated into department- or unit-level actions. Then these actions must be assigned to individuals who are held accountable for efficient and effective goal accomplishment.³

Often performance management is confused with one of its key components—performance appraisal. **Performance management** is a series of activities designed to ensure that the organization gets the performance it needs from its employees. **Performance appraisal** is the process of determining how well employees do their jobs relative to a standard and communicating that information to them.

An effective performance management system should do the following:

- Make clear what the organization expects
- Provide performance information to employees
- Identify areas of success and needed development
- Document performance for personnel records

Performance management starts with the development and understanding of organizational strategy, and then dovetails into a series of steps that involves identifying performance expectations, providing performance direction, encouraging employee participation, assessing job performance, and conducting the performance appraisal. As Figure 10-2 suggests, successful performance management is a circular process that requires a system of administrative tools that effectively structures the dialogue between managers and their employees, and the motivation to utilize the system in a productive way.⁴

A successful performance management system allows managers to better prepare employees to tackle their work responsibilities by focusing on

Performance management

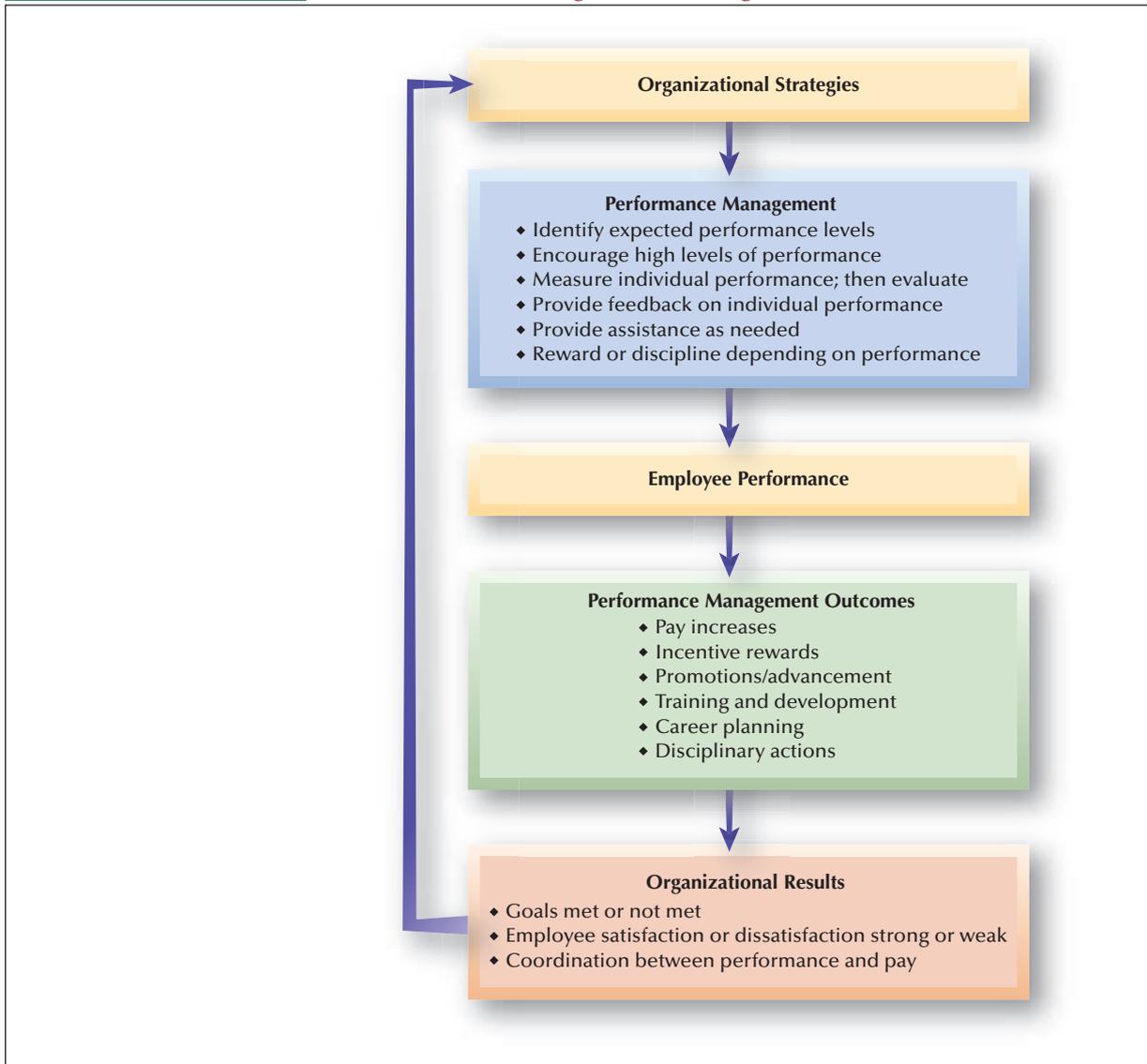
Series of activities designed to ensure that the organization gets the performance it needs from its employees.

Performance appraisal

Process of determining how well employees do their jobs relative to a standard and communicating that information to them.

FIGURE 10-1

Performance Management Linkage



these activities. For example, the software company CA recently revised its performance review procedures so that the process would better facilitate individual motivation and growth. Employees are rated on standardized job criteria, complete self-evaluations, and are given completed evaluation forms several days ahead of appraisal meetings to consider ratings. “Performance agreements” explicitly connect individual actions to corporate goals, and the whole process of performance management is strengthened through positive communication.⁵

Even well-intentioned employees do not always know what is expected or how to improve their performance, which also makes performance management necessary. Additionally, dismissal of an employee may become necessary, and without evidence that the employee has been advised of performance issues, legal problems may result.

FIGURE 10-2

Components of Performance Management



Global Cultural Differences in Performance Management

Performance management systems and appraisals are very common in the United States and some other countries. However, challenges can be experienced when performance management approaches are used in other countries where multinational organizations have operations, or when they are used with employees who have diverse cultural backgrounds with characteristics very different from those of an American background.

In some countries and cultures, it is uncommon for managers to rate employees or to give direct feedback, particularly if some points are negative. For instance, in several countries, including China and Japan, there is a high respect for authority and age. Consequently, expecting younger subordinates to engage in joint discussions with their managers through a performance appraisal process is uncommon. Use of such programs as multisource/360-degree feedback (discussed later in this chapter) would be culturally inappropriate.

In various other cultures, employees may view criticism from superiors as personally devastating rather than as useful feedback that highlights individual training and development needs. Therefore, many managers do not provide feedback, nor do employees expect it.

Even in the physical settings for appraisal discussions, “cultural customs” associated with formal meetings may need to be observed. For example, in some Eastern European countries, it is common to have coffee and pastries

or an alcoholic drink before beginning any formal discussion. These examples illustrate that performance management processes may need to be adapted or even dropped in certain global settings.

Performance-Focused Organizational Cultures

Organizational cultures vary on many dimensions, and one of these differences involves the degree to which performance is emphasized. Some corporate cultures are based on an *entitlement* approach, meaning that *adequate* performance and stability dominate the organization. Employee rewards vary little from person to person and are not based on individual performance differences. As a result, performance appraisal activities are seen as having few ties to performance and as being primarily a “bureaucratic exercise.”

At the other end of the spectrum is a *performance-driven* organizational culture focused on results and contributions. In this context, performance appraisals link results to employee compensation and development. This approach is particularly important when evaluating CEO performance because companies want to hold top leaders accountable for corporate outcomes and motivate them to improve operational and financial results. CEO performance evaluations should therefore provide structure to the performance appraisal process (i.e., descriptions and dates), establish CEO roles and responsibilities, and identify important performance objectives.⁶

Studies have shown the benefits of developing a performance-focused culture throughout the organization. One longitudinal study of 207 companies in 22 industries found that firms with performance-focused cultures had significantly higher growth in company revenue, employment, net income, and stock prices than did companies with different cultures. Another study also found that firms with strong performance cultures had dramatically better results.⁷ Figure 10-3 shows the components of a successful performance-focused culture.

However, a pay-for-performance approach can present several challenges to organizations, particularly in educational institutions. The teacher pay-for-performance plan recently implemented in the Houston school district has increased perceptions that the system creates inequity, with some teachers getting bonuses and others receiving no extra compensation.⁸ Denver Public Schools implemented a similar plan several years ago that ties bonuses to criteria such as students’ performance on tests/achievement, teaching evaluations, and professional growth/education, but the plan is being met with harsh criticism because it allegedly favors less senior teachers who accept challenging teaching assignments.⁹

Despite these setbacks, it appears that where possible, a performance-based-pay culture is desirable. One study found that 33% of managers and 43% of nonmanagers felt their company was not doing enough about poor performers. The nonmanagers felt that failure to deal with poor performance was unfair to those who worked hard.¹⁰ In one financial services company that did not give poor performance reviews, a new CEO instituted a performance system that gave

star performers raises as high as 20% and poor performers nothing. The tougher performance system encouraged poor performers to leave the company voluntarily, increased the performance of many other employees, and enhanced company profitability.¹¹ Additionally, performance-based pay can strengthen the link between employee and organizational goals, increase individual motivation, and augment worker retention, especially when an organization develops sound compensation, performance, and strategic plans.¹²



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Free Management Library

This website is an integrated online library with resources for profit and nonprofit entities regarding performance management. Visit the site at www.managementhelp.org.

FIGURE 10-3

Components of a Performance-Focused Culture



IDENTIFYING AND MEASURING EMPLOYEE PERFORMANCE

Performance criteria vary from job to job, but the most common employee performance measures associated with many jobs include the following:

- Quantity of output
- Quality of output
- Timeliness of output
- Presence/attendance on the job
- Efficiency of work completed
- Effectiveness of work completed

Specific **job duties** identify the most important elements in a given job. For example, a salesperson must know a company's products and services, identify the needs of customers, and actively sell in order to be successful at work. Since such actions are so important, duties are identified from job descriptions that contain the most important parts of individual jobs. They help to define what the organization pays employees to do. Therefore, the performance of individuals on those important job duties should be measured and compared against appropriate standards, and the results should be communicated to the employee.

To complicate matters, multiple job duties are the rule rather than the exception in most jobs. An individual might demonstrate better performance

Job duties Important elements in a given job.

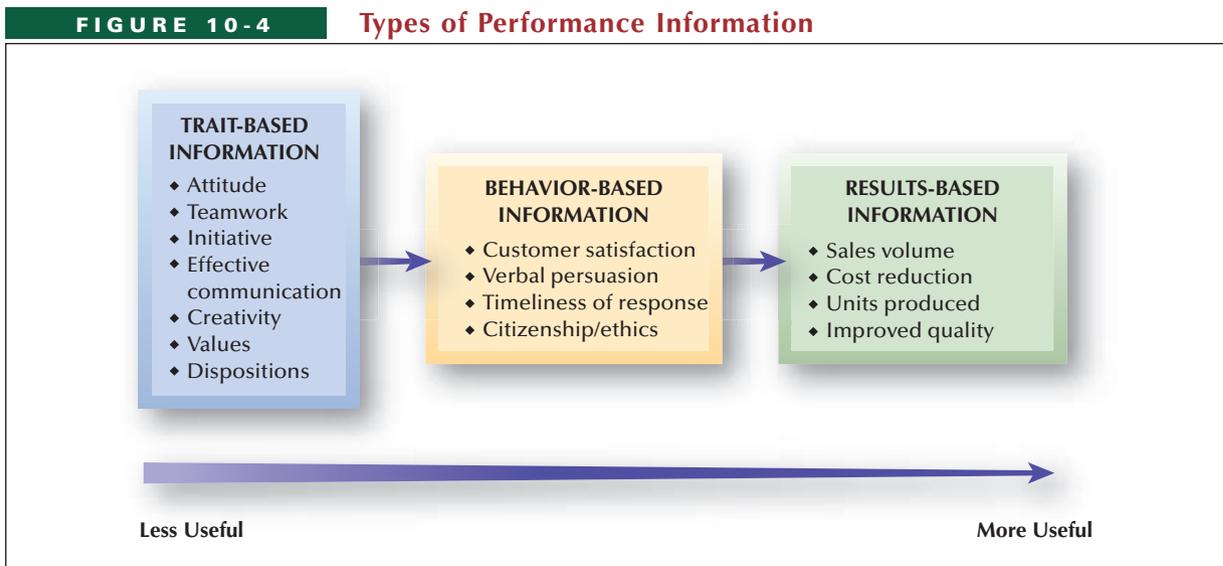
on some duties than others, and some duties might be more important than others to the organization. For example, professors are broadly required to conduct research, teach classes, and provide service to important university stakeholders. Some professors focus heavily on one area of work over the others, which can cause performance management issues when their universities value all the different parts of the job.

Weights can be used to show the relative importance of several duties in one job. For example, in a management job at a company that wants to improve customer service feedback, control operational costs, and encourage quality improvements, weights might be assigned as follows:

Weighting of Management Duties at Sample Firm	Weight
Improve customer feedback	50%
Control operational costs	30%
Encourage quality improvements	20%
Total Management Performance	100%

Types of Performance Information

Managers can use three different types of information about employee performance, as Figure 10-4 shows. *Trait-based information* identifies a character trait of the employee—such as attitude, initiative, or creativity—and may or may not be job related. For example, one study concluded that conscientiousness was an important determinant of job performance.¹³ Because traits tend to be ambiguous, and favoritism of raters can affect how traits are viewed, court decisions generally have held that trait-based performance appraisals are too vague to use when making performance-based HR decisions such as promotions or terminations. Also, fixating too much on characteristics such as “potential” can lead managers to ignore the important behaviors and outcomes that help organizations reach their objectives.¹⁴



Behavior-based information focuses on specific behaviors that lead to job success. For a waitperson, the behavior “menu up-selling” can be observed and used as performance information. Additionally, a human resource director who institutes an “open-door policy” behaves in a manner that likely increases communication with employees. Behavioral information clearly specifies the behaviors management wants to see. A potential problem arises when any of several behaviors can lead to successful performance, and employees rely on these different behaviors to complete work. For example, salespeople might use different verbal persuasion strategies with customers because no one approach can be utilized successfully by all individuals.

Results-based information considers employee accomplishments. For jobs in which measurement is easy and obvious, a results-based approach works well. For instance, a professor might receive extra compensation for securing grants or publishing papers in academic journals, or a salesperson in a retail outlet might receive extra commission pay based on how many products are sold. However, in this approach, that which is measured tends to be emphasized, which may leave out equally important but difficult-to-measure parts of work. For example, a car salesperson who gets paid *only* for sales may be unwilling to do paperwork and other work not directly related to selling cars. Further, ethical or even legal issues may arise when only results are emphasized, and *how* the results were achieved is not considered, so care should be taken to balance the different types of information. For a study on behavior-based and results-based information, see the HR Perspective.

Behaviors or Results . . . Why Not Both?



A study of human resource professionals conducted by *Human Resource Executive* determined that a majority of organizations focused on a balance of behavioral and results criteria when managing individual performance.¹⁵ A smaller number (34%) focused on objectives and results, and even fewer professionals (11%) stated that their companies relied just on behaviors. The percentage breakdowns were similar for assessments of top managers, and a majority of professionals reported that corporate performance objectives originated from the top organizational ranks. According to Scott Cohen, a leader at Watson Wyatt Worldwide in Boston, even though results are extremely important, it is important for a business to focus on the kinds of actions and employee behaviors that ensure sustained viability from a long-range perspective, with a particular eye toward the

promotion of behaviors that are considered to be ethical in nature.

Companies should therefore consider developing a performance management process that takes into consideration the many different employee behaviors that bring about high levels of organizational performance. For instance, recognizing members of the organization for ethical conduct (i.e., helping others, doing the right thing, complying with the company's codes of conduct), particularly when such conduct results in positive outcomes for the company, would serve to reinforce the notion that both behaviors and results are important employee considerations. Many of these behaviors can be emphasized in the company's value statements so that employees realize the importance of positive action on the job, making them more likely to function in a manner consistent with the company's expectations.

Performance measures can be viewed as objective or subjective. The *objective measures* can be observed—for example, the number of cars sold or the number of invoices processed can be counted. *Subjective measures* require judgment on the part of the evaluator and are more difficult to determine. One example of a subjective measure is a supervisor’s ratings of an employee’s “attitude,” which cannot be seen directly. Consequently, both objective and subjective measures should be used carefully.

Relevance of Performance Criteria

Measuring performance requires focusing on the most important aspects of employees’ jobs. For example, measuring the initiative of customer service representatives in an insurance claims center may be less relevant than measuring the number of calls the representatives handle properly. Likewise, evaluating how well a hotel manager is liked by peers is likely to be less relevant than evaluating the policies created by the manager to increase hotel profitability. These examples stress that the most important job criteria or duties should be identified in job descriptions and then conveyed to employees.

Performance measures that leave out some important job duties are considered *deficient*. For example, measurement of an employment interviewer’s performance is likely to be deficient if it evaluates only the number of applicants hired and not the quality of those hired or how long those hired stay at the company. On the other hand, including irrelevant criteria in performance measures *contaminates* the measures. For example, appearance might be a contaminating criterion in measuring the performance of a telemarketing sales representative whom customers never see. Managers need to guard against using deficient or contaminated performance measures.

Overemphasis on one or two criteria also can lead to problems. For example, overstressing the number of traffic tickets written by a police officer or the revenue generated by a sales representative may lead to the employee ignoring other important performance areas. In addition, cheating can become an issue when goals are set to support such criteria because individuals might act unethically to reach objectives, especially when the objectives are linked to specific rewards.¹⁶ The scandals involving Enron, Qwest, and Tyco and the financial crisis in the first decade of the twenty-first century clearly illustrate this concern.

Performance Standards

Performance standards define the expected levels of employee performance. Sometimes they are labeled *benchmarks*, *goals*, or *targets*—depending on the approach taken. Realistic, measurable, clearly understood performance standards benefit both organizations and employees. In a sense, performance standards define what satisfactory job performance is, so performance standards should be established *before* work is performed. Well-defined standards ensure that everyone involved knows the levels of accomplishment expected. For example, a business college might require each of its faculty members to publish at least one academic article a year to be considered in good standing as an employee.

Both numerical and nonnumerical standards can be established. Sales quotas and production output standards are familiar numerical performance standards. A standard of performance can also be based on nonnumerical criteria. Assessing whether someone has met a performance standard, especially a

Performance standards

Define the expected levels of employee performance.

FIGURE 10-5

ACTFL Performance Standards for Speaking Proficiency

PERFORMANCE LEVEL	DEMONSTRATED ABILITY
Superior	<ul style="list-style-type: none"> ◆ Participates fully in conversations relating to needs and professional interests ◆ Discusses topics both concretely and abstractly ◆ Can deal effectively with unfamiliar speaking situations
Intermediate	<ul style="list-style-type: none"> ◆ Can participate in simple conversations on predictable topics ◆ Can satisfy simple needs to survive in the language's culture ◆ Can ask and answer questions
Novice	<ul style="list-style-type: none"> ◆ Can respond to simple questions ◆ Can convey minimal meaning by using isolated words or memorized phrases ◆ Can satisfy a limited number of immediate needs

nonnumerical one, can be difficult, but usually can be done. For example, how would you correctly measure someone's ability to speak a foreign language before the person was sent overseas? Figure 10-5 lists a number of performance standards that facilitate such measurement and make assessing a person's performance level, even nonnumerical performance, much more accurate.¹⁷



Performance Metrics in Service Businesses

Measuring performance in service businesses is difficult, but the process is important. Measuring service performance is difficult because services are very individualized for customers, there is typically great variation in the services that can be offered, and service quality is somewhat subjective. Yet the performance of people in service jobs is commonly evaluated along with the basic productivity measure used in the industry. Some of the most useful sources of performance differences among managers in service businesses are:

- Regional differences in labor costs
- Service agreement differences
- Equipment/infrastructure differences
- Work volume

On an individual employee level, common measures are: cost per employee, incidents per employee per day, number of calls per product, cost per call, sources of demand for services, and service calls per day.

Once managers have determined appropriate measures of the service variance in their company, they can deal with waste and service delivery. *Performance that is measured can be managed.*¹⁸

PERFORMANCE APPRAISALS

Performance appraisals are used to assess an employee's performance and provide a platform for feedback about past, current, and future performance expectations. Performance appraisal is variously called *employee rating*, *employee evaluation*, *performance review*, *performance evaluation*, or *results appraisal*.

Performance appraisals are widely used for administering wages and salaries, giving performance feedback, and identifying individual employee strengths and weaknesses. Most U.S. employers use performance appraisals for office, professional, technical, supervisory, middle management, and non-union production workers, and there are many reasons for this widespread use. According to a recent report issued by Bersin & Associates, performance management, which comprised self, manager, and multisource reviews and goal setting, benefits an organization with increased operational competence, legal compliance, enhanced corporate growth, and heightened transformational processes and performance.¹⁹

Indeed, performance appraisals can provide answers to a wide array of work-related questions, and by advancing a road map for success, poor performance can be improved. Even after a positive appraisal, employees benefit if appraisals help them to determine how to improve job performance. In addition, even though an employer may not need a reason to terminate an employee, as a practical matter, appraisals can provide justification for such actions should that become necessary.

However, appraisal programs must be carefully developed to fully capitalize on the talents and efforts of employees. For instance, research has indicated that a gap often exists between actual job performance and the ratings of the work.²⁰ Poorly done performance appraisals lead to disappointing results for all concerned, and there is reason to believe that evaluations can cause bad feelings and damaged relationships if not managed well.²¹ Some believe that performance evaluations are an unnecessary part of work because of vague rating terms, self-interest, and/or deception on the part of rating managers.²²

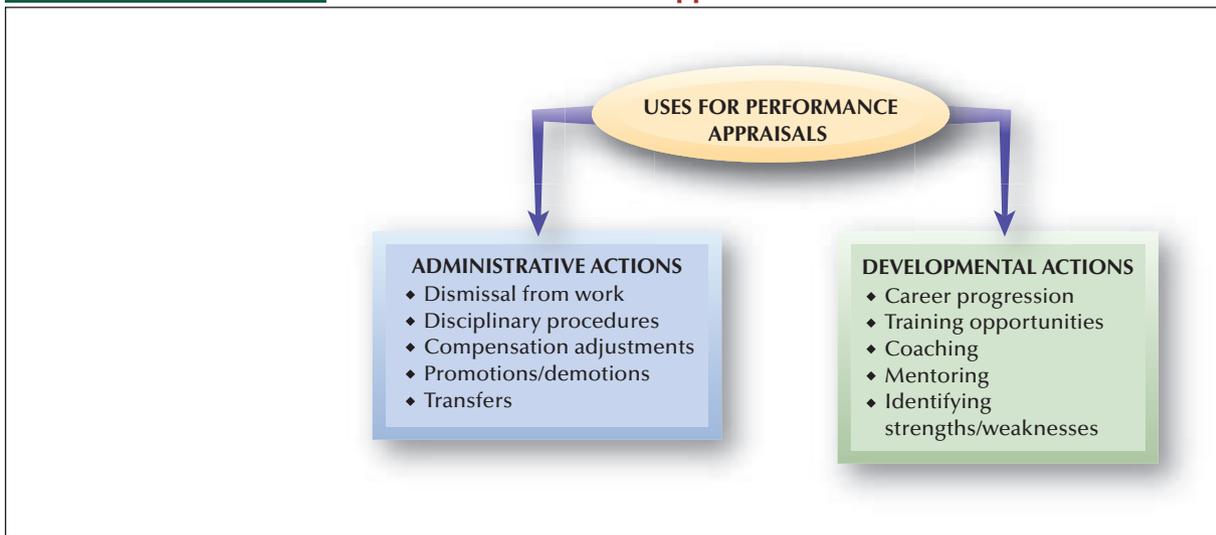
Managers need to display courage and honesty when they evaluate the performance of their workers.²³ One study concluded that some of the top reasons for ineffective evaluations were: “unclear performance criteria/bad rating instrument” (78%), “poor working relationship with your boss” (72%), “lack of ongoing performance feedback” (67%), “superior lacks information on actual performance” (63%), and “perceived political reviews” (59%).²⁴ Indeed, performance reviews can be politically oriented and highly subjective in nature, which can adversely impact the relationships between managers and their employees.²⁵ However, having no formal performance appraisal can weaken discipline and harm an employee's ability to improve.

Uses of Performance Appraisals

Organizations generally use performance appraisals in two potentially conflicting ways. One use is to provide a measure of performance for consideration in making pay or other administrative decisions about employees. This *administrative* role often creates stress for managers doing the appraisals and employees as well. The other use focuses on the *development* of individuals. In this role, the manager acts more as a counselor and coach than as a judge, a perspective that can change the overall tone of the appraisal process. The developmental

FIGURE 10-6

Uses for Performance Appraisals



performance appraisal emphasizes identifying current training and development needs, as well as planning employees' future opportunities and career directions. Figure 10-6 shows both uses for performance appraisals.

Administrative Uses of Appraisals Three administrative uses of appraisal impact managers and employees the most: (1) determining pay adjustments; (2) making job placement decisions on promotions, transfers, and demotions; and (3) choosing employee disciplinary actions up to and including termination of employment.

A performance appraisal system is often the link between additional pay and rewards that employees receive and their job performance. Performance-based compensation affirms the idea that pay raises are given for performance accomplishments rather than based on length of service (seniority) or granted automatically to all employees at the same percentage levels. In pay-for-performance compensation systems, historically supervisors and managers have evaluated the performance of individual employees and also made compensation recommendations for the same employees. If any part of the appraisal process fails, better-performing employees may not receive larger pay increases, and the result is perceived inequity in compensation.

Many U.S. workers say that they see little connection between their performance and the size of their pay increases due to flaws in performance appraisals.²⁶ However, the use of such appraisals to determine pay is common. Consequently, many people argue that performance appraisals and pay discussions should be done separately. Two major realities support this view. One is that employees often focus more on the pay received than on the developmental appraisal feedback. The other is that managers sometimes manipulate ratings to justify the pay they wish to give individuals or the amount the market or budget situation suggests should be given.²⁷ As a result, many employees view the appraisal process as a “game,” because compensation increases have been predetermined before the appraisal.

To address these issues, numerous organizations have managers first conduct performance appraisals and discuss the results with employees, and then several weeks later hold a shorter meeting to discuss pay issues. For example,

Belimo Aircontrols developed an approach like this by creating different performance appraisal and compensation forms that are considered separately at different times.²⁸ By adopting such an approach, the results of the performance appraisal can be considered before the amount of the pay adjustment is determined. Also, the performance appraisal discussions between managers and employees can focus on the developmental uses of appraisals.

Employers are interested in the administrative uses of performance appraisals as well, such as decisions about promotions, terminations, layoffs, and transfer assignments. Promotions and demotions based on performance must be documented through performance appraisals; otherwise, legal problems can result.

To improve the administrative processes of performance appraisals, many employers have implemented software so that managers can prepare appraisals electronically. As the HR Online indicates, many firms are using such HR technology not only to administer appraisals but also to facilitate employee development and talent management in a fully integrated capacity.²⁹ For instance, Porsche Cars North America utilizes a performance review system called Vurv Express Performance that facilitates employee participation in performance management.³⁰ The Zoological Society of San Diego also uses a Web-based performance management program that enables employees to better understand the linkages between organizational and employee goals.³¹ Finally, Belkin International Inc., an electronic accessories provider located in Los Angeles, uses software developed by SuccessFactors to reduce administrative inefficiencies and enhance the strategic flavor of evaluations.³²

Using Technology to Enhance Performance Appraisals



Proper performance management requires considerable time, resources, and paperwork, so companies are using more technology to become more efficient in the management of human resources. A performance appraisal system that uses technology to automate processes can provide many advantages to organizations, so human resource professionals should consider utilizing electronic methods to facilitate the manner in which appraisal procedures are administered and managed.

Automated systems offered by vendors provide common formats, sample text, integration with compensation, and development and succession planning. These systems also can provide information on individuals, units, and the performance of entire companies. All of these features serve to enhance the effectiveness of a company's performance management processes.

In addition, automated systems can help managers identify which of a company's thousands of employees

are its top performers, or provide a breakdown of workers with certain competencies and the best performers among them. The systems may use "dashboards," which are advanced technologies that provide indicators of the current performance levels of the organization. Aggregating performance information can provide "big picture," overarching perspectives on performance management that are difficult for human resource professionals to get otherwise. Finally, online performance assessment can minimize face-to-face meetings and reduce time, perhaps allowing for more frequent reviews.

One survey found that about 28% of organizations surveyed had automated their performance systems. Those that had done so confirmed that ease of use, time savings, and ability to track performance had improved. Other companies should therefore find ways to better utilize technology to enhance performance management.³³

Developmental Uses of Appraisals For employees, a performance appraisal can be a primary source of information and feedback that builds their future development in an organization. By identifying employee strengths, weaknesses, potentials, and training needs through performance appraisal feedback, supervisors can inform employees about their progress, discuss areas in which additional training may be beneficial, and outline future developmental plans.

The manager's role in performance appraisal meetings parallels that of a coach, discussing good performance, explaining what improvements are needed, and showing employees how to improve. It is clear that employees do not always know where and how to improve, and managers should not expect improvement if they are unwilling to provide developmental feedback. Many firms, such as the diesel engine parts distributor Cummins Mid-South LLC, are combining performance and learning management processes with technological support programs that prompt more effective evaluations, increased employee development, and reduced turnover.³⁴

Positive reinforcement for desired behaviors contributes to both individual and organizational growth. The purpose of the feedback is both to reinforce satisfactory employee performance and to address performance deficiencies. The developmental function of performance appraisal can also identify areas in which the employee might wish to grow. For example, in a performance appraisal interview targeted exclusively to development, an employee found out that the only factor keeping her from being considered for a management job in her firm was the lack of a working knowledge of cost accounting. Her supervisor suggested that she consider taking some night courses at the local college.

The use of teams provides a different set of circumstances for developmental appraisals. The manager may not see all of an employee's work, but the employee's team members do. Teams can provide important feedback. However, it is still an open question as to whether teams can handle administrative appraisals. When teams are allowed to design appraisal systems, they tend to "get rid of judgment" and avoid differential rewards. Thus, group appraisal may be best suited to developmental, not administrative, purposes.

Decisions about the Performance Appraisal Process

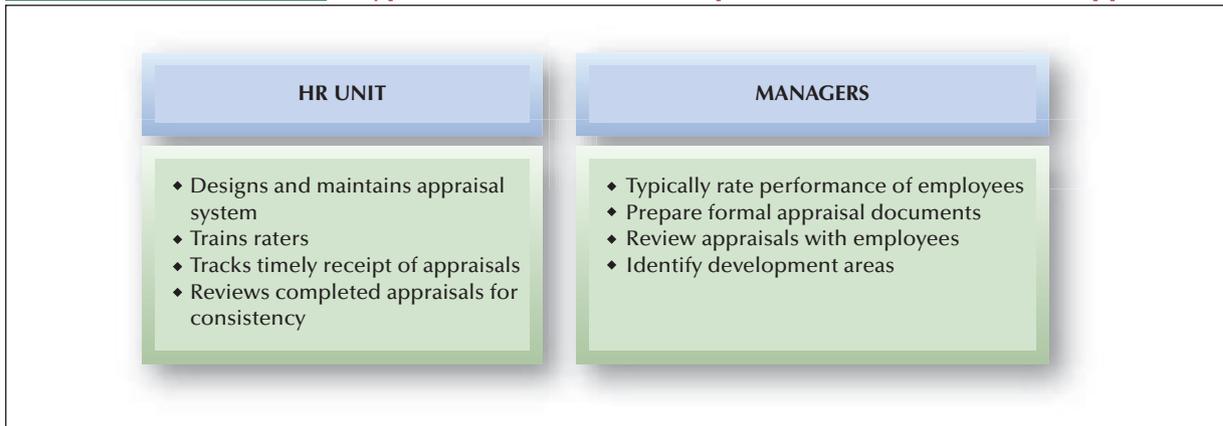
A number of decisions must be made when designing performance appraisal systems. Some important ones are identifying the appraisal responsibilities of the HR unit and of the operating managers, the type of appraisal system to use, the timing of appraisals, and who conducts appraisals.

Appraisal Responsibilities The appraisal process can benefit both the organization and the employees, if done properly. As Figure 10-7 shows, the HR unit typically designs a performance appraisal system. The operating managers then appraise employees using the appraisal system. During development of the formal appraisal system, managers usually offer input as to how the final system will work.

It is important for managers to understand that appraisals are *their* responsibility. Through the appraisal process, effective employee performance can be developed to be even better, and poor employee performance can be improved or poor performers can be removed from the organization. Performance

FIGURE 10-7

Typical Division of HR Responsibilities: Performance Appraisal



appraisal must not be simply an HR requirement but also a management process, because guiding employees' performance is among the most important responsibilities of managers.

Informal versus Systematic Appraisal Processes Performance appraisals can occur in two ways: informally and/or systematically. A supervisor conducts an *informal appraisal* whenever necessary. The day-to-day working relationship between a manager and an employee offers an opportunity for the employee's performance to be evaluated. A manager communicates this evaluation through conversation on the job, over coffee, or by on-the-spot discussion of a specific occurrence. For instance, a restaurant manager might discuss a waiter's table service while they both eat lunch in the break room. Although such informal feedback is useful and necessary, it should not take the place of formal appraisal.

Frequent informal feedback to employees can prevent "surprises" during a formal performance review. However, informal appraisal can become *too* informal. For example, a senior executive at a large firm so dreaded face-to-face evaluations that he delivered one manager's review while both sat in adjoining stalls in the men's room.

A *systematic appraisal* is used when the contact between a manager and employee is formal, and a system is in place to report managerial impressions and observations on employee performance. This approach to appraisals is quite common, and one survey found that almost 90% of employers have a formal performance management system or process.³⁵ Systematic appraisals feature a regular time interval, which distinguishes them from informal appraisals. Both employees and managers know that performance will be reviewed on a regular basis, and they can plan for performance discussions. For example, a front desk supervisor in a large hotel chain may wish to provide more formalized feedback to a bell captain, so a systematic appraisal session will be scheduled so that both individuals can prepare ahead of time to discuss performance issues.

Timing of Appraisals Most companies require managers to conduct appraisals once or twice a year, most often annually. Employees commonly receive an appraisal 60 to 90 days after hiring, again at 6 months, and annually thereafter. *Probationary* or *introductory employees*, who are new and in

a trial period, should be informally evaluated often—perhaps weekly for the first month, and monthly thereafter until the end of the introductory period. After that, annual reviews are typical. For employees in high demand, some employers use accelerated appraisals—every 6 months instead of every year. This is done to retain those employees so that more feedback can be given and pay raises may occur more often. In some organizations, meeting more frequently with employees can enhance individual performance. For instance, Whirlpool Corp. requires managers to meet with employees on a quarterly basis, but because some want even more feedback, some managers schedule meetings every few weeks.³⁶

One way to separate the administrative and developmental uses of appraisals is to implement the following appraisal schedule: (1) First hold a performance review and discussion; (2) later hold a separate training, development, and objective-setting session; and (3) within two weeks, have a compensation adjustment discussion. Having three separate discussions provides both the employee and the manager with opportunities to focus on the administrative, developmental, and compensation issues. Using this framework is generally better than addressing all three areas in one discussion of an hour or less, once a year.

Legal Concerns and Performance Appraisals

Because appraisals are supposed to measure how well employees are doing their jobs, it may seem unnecessary to emphasize that performance appraisals must be job related. However, it is important for evaluations to adequately reflect the nature of work, and employees should have fair and nondiscriminatory performance appraisals. Companies need to have appraisal systems that satisfy the courts, as well as performance management needs.³⁷ The HR On-the-Job shows the elements of a legal performance appraisal system.



LOGGING ON

LegalWorkplace.Com

For valuable legal management information on performance issues and other HR topics, visit this resource center website at www.ahipubs.com.

Elements of a Legal Performance Appraisal System

The elements of a performance appraisal system that can survive court tests can be determined from existing case law. It is generally agreed that a legally defensible performance appraisal should include the following:

- Performance appraisal criteria based on job analysis
- Absence of disparate impact
- Formal evaluation criteria that limit managerial discretion
- A rating instrument linked to job duties and responsibilities
- Documentation of the appraisal activities
- Personal knowledge of and contact with each appraised individual
- Training of supervisors in conducting appraisals
- A review process that prevents one manager, acting alone, from controlling an employee's career
- Counseling to help poor performers improve

Of course, having all these components is no guarantee against lawsuits. However, including them does improve the chance of winning any lawsuits that might be filed.



WHO CONDUCTS APPRAISALS?

Performance appraisals can be conducted by anyone familiar with the performance of individual employees. Possible rating situations include the following:

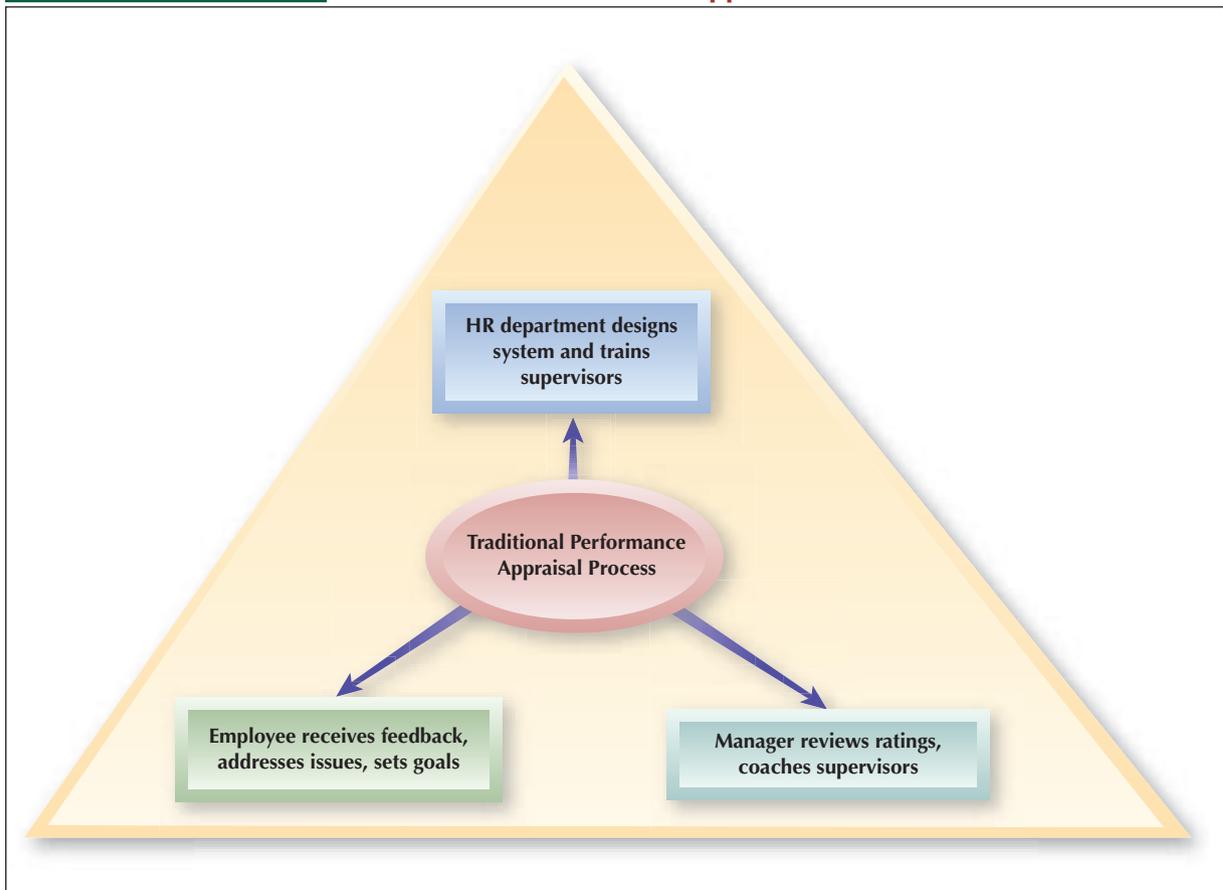
- Supervisors rating their employees
- Employees rating their superiors
- Team members rating each other
- Employees rating themselves
- Outside sources rating employees
- A variety of parties providing multisource, or 360-degree, feedback

Supervisory Rating of Subordinates

The most widely used means of rating employees is based on the assumption that the immediate supervisor is the person most qualified to evaluate an employee's performance realistically and fairly. To help themselves provide accurate evaluations, some supervisors keep performance logs noting their employees' accomplishments so that they can reference these notes when rating performance. For instance, a sales manager might periodically observe a salesperson's interactions with clients so that constructive performance feedback can be provided at a later date. Figure 10-8 shows the traditional

FIGURE 10-8

Traditional Performance Appraisal Process



review process by which supervisors conduct performance appraisals on employees.

Employee Rating of Managers

A number of organizations today ask employees to rate the performance of their immediate managers. A prime example of this type of rating takes place in colleges and universities, where students evaluate the teaching effectiveness of professors in the classroom. Another example is HCL Technologies in India, which requires employees to rate their bosses as part of a multisource review process that posts evaluations on the intranet.³⁸ These performance appraisal ratings are generally used for management development purposes.

Having employees rate managers provides three primary advantages. First, in critical manager-employee relationships, employee ratings can be quite useful for identifying competent managers. The rating of leaders by combat soldiers is one example of such a use. Second, this type of rating program can help make a manager more responsive to employees. This advantage can quickly become a disadvantage if the manager focuses on being “nice” rather than on managing; people who are nice but have no other qualifications may not be good managers in many situations. Finally, employee appraisals can contribute to career development efforts for managers by identifying areas for growth.

A major disadvantage of having employees rate managers is the negative reaction many superiors have to being evaluated by employees. Also, the fear of reprisals may be too great for employees to give realistic ratings. This may prompt workers to rate their managers only on the way the managers treat them, not on critical job requirements. The problems associated with this appraisal approach limit its usefulness to certain situations, including managerial development and improvement efforts.³⁹

Team/Peer Rating

Having employees and team members rate each other is another type of appraisal with potential both to help and to hurt. Peer and team ratings are especially useful when supervisors do not have the opportunity to observe each employee’s performance but other work group members do. For instance, some of the advanced training programs in the U.S. military use peer ratings to provide candidates more extensive feedback about their leadership qualities and accomplishments. Peer evaluations are also common in collegiate schools of business where professors commonly require students to conduct peer evaluations after the completion of group-based projects. One challenge of this approach is how to obtain ratings with virtual or global teams, in which the individuals work primarily through technology, not in person (i.e., an online college class). Another challenge is obtaining ratings from and for individuals who are on different special project teams throughout the year.

Some contend that any performance appraisal, including team/peer ratings, can negatively affect teamwork and participative management efforts. Although team members have good information on one another’s performance, they may not choose to share it in the interest of sparing feelings; alternatively, they may unfairly attack other group members. Some organizations attempt to overcome such problems by using anonymous appraisals and/or having a consultant or HR manager interpret team/peer ratings. Despite the problems, team/peer performance ratings are probably inevitable, especially where work teams are used extensively.⁴⁰

Self-Rating

Self-appraisal works in certain situations. As a self-development tool, it requires employees to think about their strengths and weaknesses and set goals for improvement. Employees working in isolation or possessing unique skills may be particularly suited to self-ratings because they are the only ones qualified to rate themselves. Overall, the use of self-appraisals in organizations has increased. For instance, the YMCA located in Greater Rochester, New York, successfully incorporated self-ratings into a traditional rating approach that presumably did not generate enough dialogue and direction for individual development; reactions from both workers and supervisors have been favorable.⁴¹

However, employees may use quite different standards and not rate themselves in the same manner as supervisors. Research exploring how people might be more lenient or more demanding when rating themselves is mixed, with self-ratings being frequently higher than supervisory ratings. Still, employee self-ratings can be a useful source of performance information for development.⁴²

Outsider Rating

People outside the immediate work group may be called in to conduct performance reviews. This field review approach can include someone from the HR department as a reviewer, or completely independent reviewers from outside the organization. Examples include a review team evaluating a college president or a panel of division managers evaluating a supervisor's potential for advancement in the organization. A disadvantage of this approach is that outsiders may not know the important demands within the work group or organization.

The customers or clients of an organization are good sources for outside appraisals. For sales and service jobs, customers may provide useful input on the performance behaviors of employees. For instance, many hospitality organizations such as restaurants and hotels use customer comments cards to gather feedback about the service provided by customer contact personnel, and this information is commonly used for job development purposes.

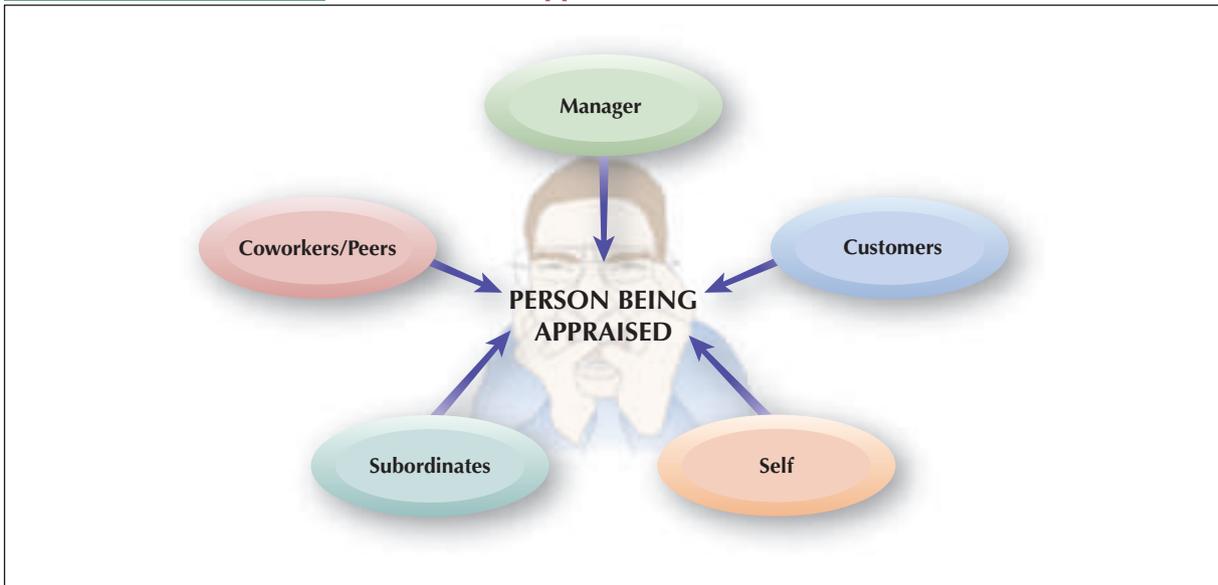
Multisource/360-Degree Feedback

The use of multisource rating, or 360-degree feedback, has grown in popularity in organizations. Multisource feedback recognizes that for many jobs, employee performance is multidimensional and crosses departmental, organizational, and even global boundaries. Therefore, information needs to be collected from many different sources to adequately and fairly evaluate an incumbent's performance in one of these jobs.

The major purpose of 360-degree feedback is *not* to increase uniformity by soliciting like-minded views. Instead, it is designed to capture evaluations of the employee's different roles to provide richer feedback during an evaluation. Figure 10-9 shows graphically some of the parties who are often involved in 360-degree feedback. For example, an HR manager for an insurance firm deals with seven regional sales managers, HR administrators in five claims centers, and various corporate executives in finance, legal, and information technology. The Vice President of HR uses 360-degree feedback to gather data on all facets of the HR manager's job before completing a performance appraisal on the

FIGURE 10-9

Multisource Appraisal



manager. Similar examples can be cited in numerous managerial, professional, technical, operational, and administrative jobs.

Significant administrative time and paperwork are required to request, obtain, and summarize feedback from multiple raters. Using electronic systems to summarize the information can greatly reduce the administrative demands of multisource ratings and increase the effectiveness (i.e., privacy and expediency) of the process.⁴³

Developmental Use of Multisource Feedback As originally designed and used, multisource feedback focuses on the use of appraisals for future development of individuals. Conflict resolution skills, decision-making abilities, team effectiveness, communication skills, managerial styles, and technical capabilities are just some of the developmental areas that can be examined. Even in a multisource system, the manager remains a focal point, both to receive the feedback initially and to follow up with the employee appropriately.

Administrative Use of Multisource Feedback The popularity of 360-degree feedback systems has led to the results being used for compensation, promotion, termination, and other administrative decisions. When using 360-degree feedback for administrative purposes, managers must anticipate potential problems. Differences among raters can present a challenge, especially when using 360-degree ratings for discipline or pay decisions. Bias can just as easily be rooted in customers, subordinates, and peers as in a boss, and the lack of accountability of those sources can affect the ratings. “Inflation” of ratings is common when the sources know that their input will affect someone’s pay or career. At one manufacturing firm, the apparent “back scratching” associated with multisource reviews led the company to drop the program.⁴⁴ Also, issues of confidentiality and anonymity have led to lawsuits. Even though multisource approaches offer possible solutions to the well-documented dissatisfaction associated with performance appraisals, a

number of questions have arisen as multisource appraisals have become more common.

Evaluating Multisource Feedback Research on multisource/360-degree feedback has revealed both positives and negatives. More variability than expected may be seen in the ratings given by the different sources. Thus, supervisor ratings must carry more weight than peer or subordinate input to resolve the differences. One concern is that those peers who rate poor-performing coworkers tend to inflate the ratings so that the peers themselves can get higher overall evaluation results.⁴⁵

Another concern is whether 360-degree appraisals improve the process or simply multiply the number of problems by the total number of raters. Also, some wonder whether multisource appraisals really create better decisions that offset the additional time and investment required. These issues appear to be less threatening when the 360-degree feedback is used *only for development*, so companies should consider using multisource feedback primarily as a developmental tool to enhance future job performance⁴⁶ while effectively reducing the use of multisource appraisals as an administrative tool.



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TOOLS FOR APPRAISING PERFORMANCE

Performance can be appraised by a number of methods. Some employers use one method for all jobs and employees, some use different methods for different groups of employees, and others use a combination of methods. The following discussion highlights different tools that can be used and some of the advantages and disadvantages of each approach.

Category Scaling Methods

The simplest methods for appraising performance are category scaling methods, which require a manager to mark an employee's level of performance on a specific form divided into categories of performance. A *checklist* uses a list of statements or words from which raters check statements that are most representative of the characteristics and performance of employees. Often, a scale indicating perceived level of accomplishment on each statement is included, which becomes a type of graphic rating scale.

Graphic Rating Scales

The **graphic rating scale** allows the rater to mark an employee's performance on a continuum indicating low to high levels of a particular characteristic. Because of the straightforwardness of the process, graphic rating scales are commonly used in performance evaluations.⁴⁷ Figure 10-10 shows a sample appraisal form that combines graphic rating scales with essays. Three aspects of performance are appraised using graphic rating scales: *descriptive categories* (such as quantity of work, attendance, and dependability), *job duties* (taken from the job description), and *behavioral dimensions* (such as decision making, employee development, and communication effectiveness).

Graphic rating scale Scale that allows the rater to mark an employee's performance on a continuum.

FIGURE 10-10

Sample Performance Appraisal Form

Date sent: 4/19/11	Return by: 5/01/11
Name: Joe Hernandez	Job title: Receiving Clerk
Department: Receiving	Supervisor: Marian Williams
Employment status (check one): Full-time <input checked="" type="checkbox"/> Part-time <input type="checkbox"/>	Date of hire: 5/12/02
Rating period: From: 4/30/10 To: 4/30/11	
Reason for appraisal (check one): Regular interval <input checked="" type="checkbox"/> Introductory <input type="checkbox"/> Counseling only <input type="checkbox"/> Discharge <input type="checkbox"/>	

Using the following definitions, rate the performance as I, M, or E.

I—Performance is below job requirements and **improvement is needed**.

M—Performance **meets** job requirements and standards.

E—Performance **exceeds** job requirements and standards **most** of the time.

SPECIFIC JOB RESPONSIBILITIES: List the principal activities from the job summary, rate the performance on each job duty by placing an X on the rating scale at the appropriate location, and make appropriate comments to explain the rating.

I ————— M ————— E

Job Duty #1: Inventory receiving and checking
 Explanation: _____

I ————— M ————— E

Job Duty #2: Accurate recordkeeping
 Explanation: _____

I ————— M ————— E

Attendance (including absences and tardies): Number of absences _____ Number of tardies _____
 Explanation: _____

Overall rating: In the box provided, place the letter—I, M, or E—that best describes the employee's overall performance.

Explanation: _____

Each of these types can be used for different jobs. How well employees meet established standards is often expressed either numerically (e.g., 5, 4, 3, 2, 1) or verbally (e.g., “outstanding,” “meets standards,” “below standards”). If two or more people are involved in the rating, they may find it difficult to agree on the exact level of performance achieved relative to the standard in

evaluating employee performance. Notice that each level specifies performance standards or expectations in order to reduce variation in interpretations of the standards by different supervisors and employees.

Concerns with Graphic Rating Scales Graphic rating scales in many forms are widely used because they are easy to develop and provide a uniform set of criteria to equally evaluate the job performance of different employees. However, the use of scales can cause rater error because the form might not accurately reflect the relative importance of certain job characteristics, and some factors might need to be added to the ratings while others might need to be deleted. If they fit the person and the job, the scales work well. However, if they fit poorly, managers and employees who must use them frequently complain about “the rating form.”

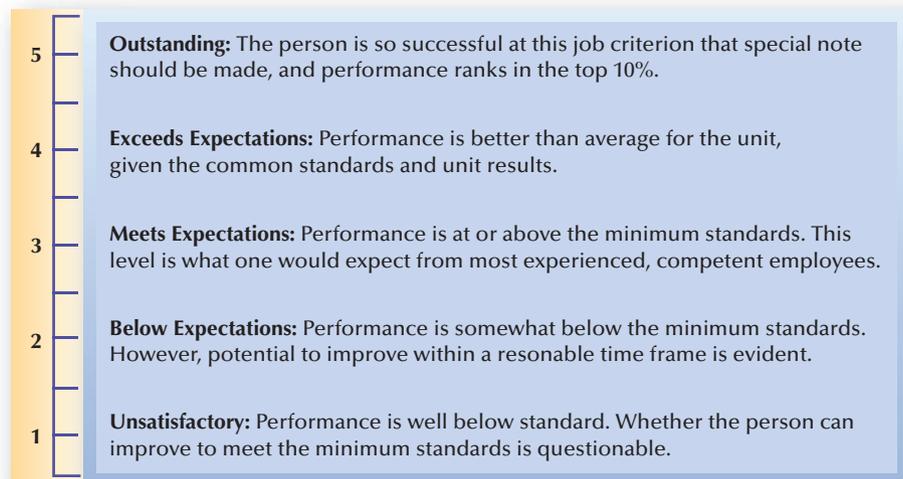
A key point must be emphasized. Regardless of the scales used, the focus should be on the job duties and responsibilities identified in job descriptions. The closer the link between the scales and what people actually do, as identified in current and complete job descriptions, the stronger the relationship between the ratings and the job, as viewed by employees and managers. Also, should the performance appraisal results be challenged by legal actions, the closer performance appraisals measure what people actually do, the more likely employers are to prevail in those legal situations.

An additional drawback to graphic rating scales is that often separate traits or factors are grouped together, and the rater is given only one box to check. For example, “dependability” could refer to meeting deadlines for reports, or it could refer to attendance and tardiness. If a supervisor gives an employee a rating of 3, which aspect of “dependability” is being rated? One supervisor might rate employees on meeting deadlines, while another rates employees on attendance.

Another drawback is that the descriptive words sometimes used in scales may have different meanings to different raters.⁴⁸ Terms such as *initiative* and *cooperation* are subject to many interpretations, especially if used in conjunction with words such as *outstanding*, *average*, and *poor*. Also, as Figure 10-11 shows, the number of scale points can be defined differently.

FIGURE 10-11

Sample Terms for Defining Standards



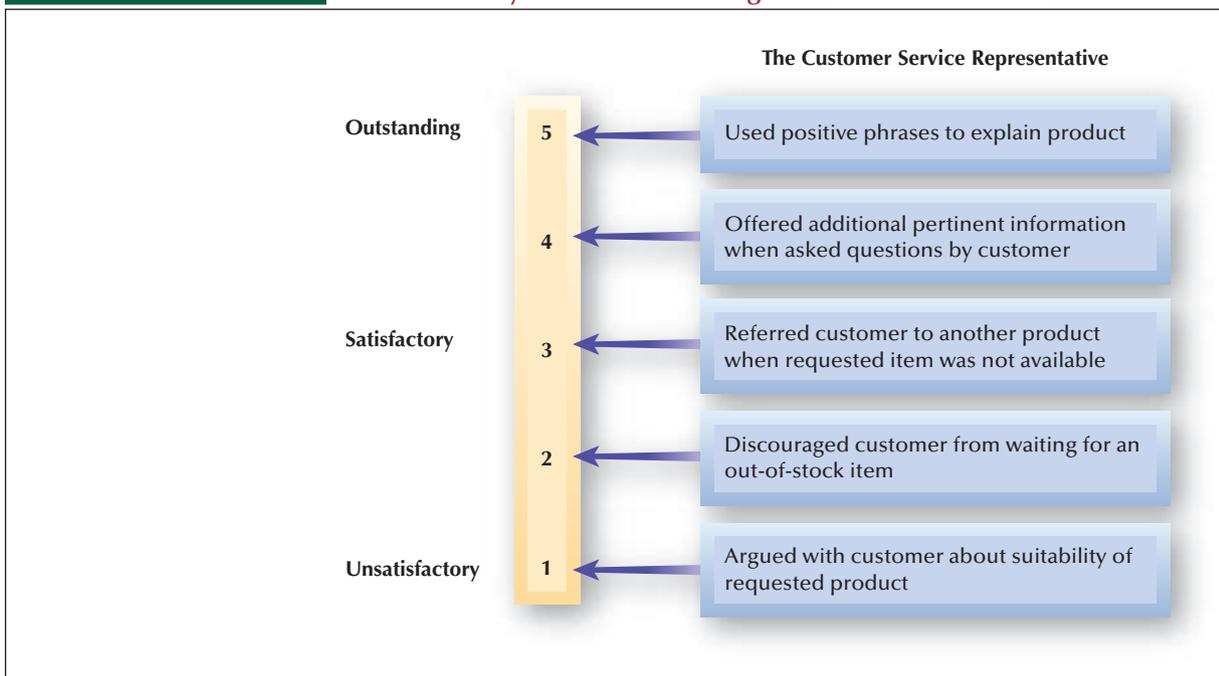
Behavioral Rating Scales In an attempt to overcome some of the concerns with graphic rating scales, employers may use behavioral rating scales designed to assess individual actions instead of personal attributes and characteristics.⁴⁹ Different approaches are used, but all describe specific examples of employee job behaviors. In a behaviorally–anchored rating scale (BARS), these examples are “anchored” or measured against a scale of performance levels.

When creating a BARS system, identifying important *job dimensions*, which are the most important performance factors in a job description, is done first. Short statements describe both desirable and undesirable behaviors (anchors). These are then “translated,” or assigned, to one of the job dimensions. Anchor statements are usually developed by a group of people familiar with the job. Assignment to a dimension usually requires the agreement of 60% to 70% of the group. The group then assigns each anchor a number that represents how good or bad the behavior is, and the anchors are fitted to a scale. Figure 10-12 contains an example that rates customer service skills for individuals taking orders for a national catalog retailer. Spelling out the behaviors associated with each level of performance helps minimize some of the problems noted for the graphic rating scale.

Several problems are associated with the behavioral approaches. First, creating and maintaining behaviorally–anchored rating scales requires extensive time and effort. In addition, various appraisal forms are needed to accommodate different types of jobs in an organization. For instance, because nurses, dietitians, and admissions clerks in a hospital all have distinct job descriptions, a separate BARS form needs to be developed for each.

FIGURE 10-12

Behaviorally–Anchored Rating Scale for Customer Service Skills



Comparative Methods

Comparative methods require that managers directly compare the performance levels of their employees against one another, and these comparisons can provide useful information for performance management. A recent study found that performance evaluations that utilize social comparisons provide more valid assessments of employee performance than do absolute measures.⁵⁰ However, there are other issues. An example of this process would be an information systems supervisor comparing the performance of a programmer with that of other programmers. Comparative techniques include ranking and forced distribution.

Ranking The **ranking** method lists the individuals being rated from highest to lowest based on their performance levels and relative contributions.⁵¹ One disadvantage of this process is that the sizes of the performance differences between employees are often not fully investigated or clearly indicated. For example, the performances of individuals ranked second and third may differ little, while the performances of those ranked third and fourth differ a great deal. This limitation can be mitigated to some extent by assigning points to indicate performance differences. Ranking also means someone must be last, which ignores the possibility that the last-ranked individual in one group might be equal to the top-ranked employee in a different group. Further, the ranking task becomes unwieldy if the group to be ranked is large.

Forced Distribution Forced distribution is a technique for distributing ratings that are generated with any of the other appraisal methods and comparing the ratings of people in a work group. With the **forced distribution** method, the ratings of employees' performance are distributed along a bell-shaped curve. For example, a medical clinic administrator ranking employees on a 5-point scale would have to rate 10% of the employees as a 1 ("unsatisfactory"), 20% as a 2 ("below expectations"), 40% as a 3 ("meets expectations"), 20% as a 4 ("above expectations"), and 10% as a 5 ("outstanding").

Forced distribution has been used in some form by an estimated 30% of all firms with performance appraisal systems. At General Electric, in the "20/70/10" program, managers identify the top 20% and reward them richly so that few will leave. The bottom 10% are given a chance to improve or leave. The forced distribution system is controversial because of both its advantages and its disadvantages, which are discussed next.⁵²

Advantages and Disadvantages of Forced Distribution One reason why firms have mandated the use of forced distributions for appraisal ratings is to deal with "rater inflation." If employers do not require a forced distribution, performance appraisal ratings often do not match the normal distribution of a bell-shaped curve (see Figure 10-13).

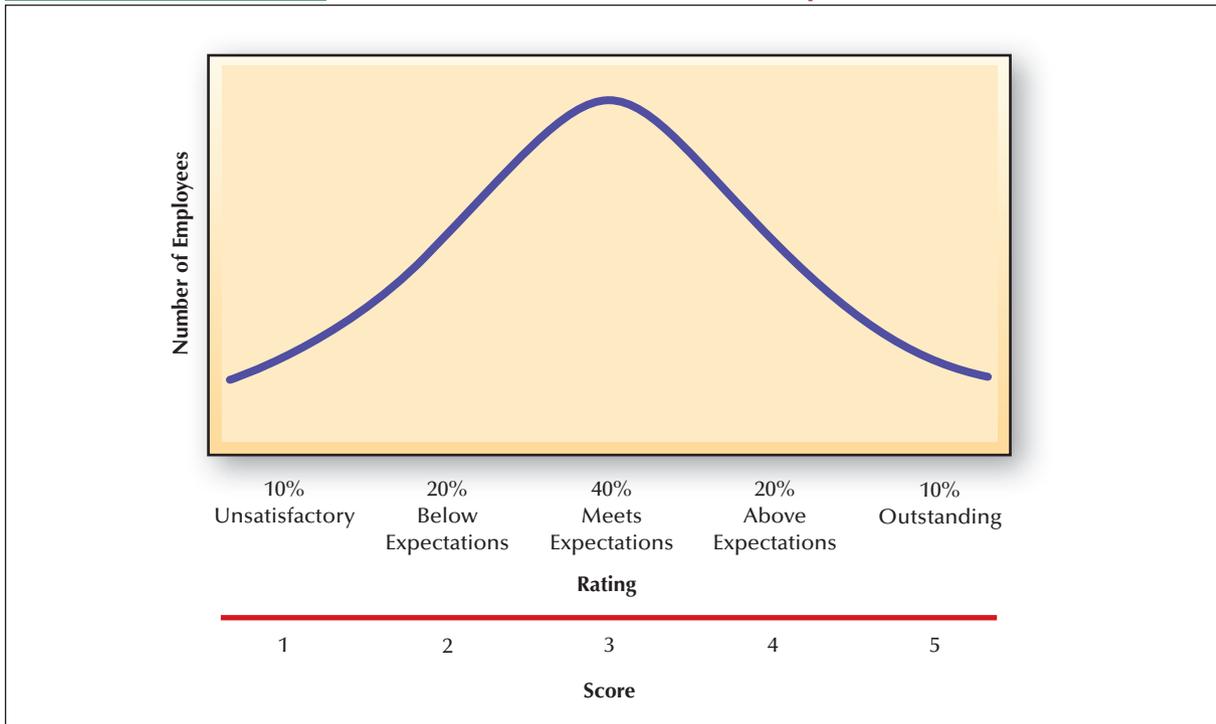
The use of a forced distribution system forces managers to identify high, average, and low performers. Thus, high performers can be rewarded and developed, while low performers can be "encouraged" to improve or leave. Advocates of forced ranking also state that forced distribution ensures that compensation increases truly are differentiated by performance rather than being spread somewhat equally among all employees. Forced rankings may also enhance a company's level of talent, instill a high-performance work environment, and increase workers' self-confidence.⁵³

Ranking Performance appraisal method in which all employees are listed from highest to lowest in performance.

Forced distribution Performance appraisal method in which ratings of employees' performance levels are distributed along a bell-shaped curve.

FIGURE 10-13

Forced Distribution on a Bell-Shaped Curve



But the forced distribution method suffers from several drawbacks. One problem is that a supervisor may resist placing any individual in the lowest (or the highest) group. Difficulties also arise when the rater must explain to an employee why the employee was placed in one group and others were placed in higher groups. Further, particularly with small groups, the nature and magnitude of rating scores often may not conform to a bell-shaped distribution, possibly due to leniency bias.⁵⁴ In some cases, the manager may make false distinctions between employees. By comparing people against each other, rather than against a standard of job performance, supervisors trying to fill the percentages may end up giving employees subjective ratings. Finally, forced ranking structures can increase anxiety in employees, promote conformity, and encourage gaming of the system.⁵⁵ Consequently, a number of firms such as Ford and Goodyear Tire & Rubber have been involved in lawsuits about forced distribution performance appraisal processes.⁵⁶

A number of actions are recommended to address these problems if a forced distribution system is to be used, including many that are similar to those for making other methods of appraisals more legal and effective⁵⁷:

- Use specific, objective criteria and standards to evaluate employees.
- Involve employees in program development.
- Ensure that sufficient numbers of individuals are being rated, so that ranking profiles are relevant.
- Train managers, and review their ratings to ensure job relatedness (no favoritism).



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Narrative Methods

Managers and HR specialists often are required to provide written appraisal information. However, some appraisal methods are entirely written, rather than relying on predetermined rating scales or ranking structures. Documentation and descriptive text are the basic components of the critical incident method and the essay method.

Critical Incident In the critical incident method, the manager keeps a written record of both highly favorable and unfavorable actions performed by an employee during the entire rating period. When a “critical incident” involving an employee occurs, the manager writes it down. For instance, when a sales clerk at a clothing store spends considerable time with a customer helping him purchase a new suit, a manager might document this exceptional service for later review during an annual evaluation. The critical incident method can be used with other methods to document the reasons why an employee was given a certain rating.

Essay The essay method requires a manager to write a short essay describing each employee’s performance during the rating period. Some “free-form” essays are without guidelines; others are more structured, using prepared questions that must be answered. The rater usually categorizes comments under a few general headings. The essay method allows the rater more flexibility than other methods do. As a result, appraisers often combine the essay with other methods.

The effectiveness of the essay approach often depends on a supervisor’s writing skills. Some supervisors do not express themselves well in writing and as a result produce poor descriptions of employee performance, whereas others have excellent writing skills and can create highly positive impressions. If well composed, essays can provide highly detailed and useful information about an employees’ job performance.

Management by Objectives

Management by objectives (MBO) specifies the performance goals that an individual and manager identify together. Each manager sets objectives derived from the overall goals and objectives of the organization; however, MBO should not be a disguised means for a superior to dictate the objectives of individual managers or employees. Other names for MBO include *appraisal by results*, *target coaching*, *work planning and review*, *performance objective setting*, and *mutual goal setting*.

MBO Process Implementing a guided self-appraisal system using MBO is a four-stage process. The stages are as follows:

1. *Job review and agreement*: The employee and the superior review the job description and the key activities that constitute the employee’s job. The idea is to agree on the exact makeup of the job.
2. *Development of performance standards*: Together, the employee and the employee’s superior develop specific standards of performance and determine a satisfactory level of performance that is specific and measurable. For example, a quota of selling five cars a month may be an appropriate performance standard for a salesperson.

Management by objectives (MBO)

Performance appraisal method that specifies the performance goals that an individual and manager identify together.

3. *Setting of objectives:* Together, the employee and the superior establish objectives that are realistically attainable.
4. *Continuing performance discussions:* The employee and the superior use the objectives as bases for continuing discussions about the employee's performance. Although a formal review session may be scheduled, the employee and the supervisor do not necessarily wait until the appointed time to discuss performance. Objectives can be mutually modified as warranted.

The MBO process seems to be most useful with managerial personnel and employees who have a fairly wide range of flexibility and control over their jobs. When imposed on a rigid and autocratic management system, MBO often has failed. Emphasizing penalties for not meeting objectives defeats the development and participative nature of MBO.

Combinations of Methods

No single appraisal method is best for all situations. Therefore, a performance measurement system that uses a combination of methods may be sensible in certain circumstances. Using combinations may offset some of the advantages and disadvantages of individual methods. Category scaling methods sometimes are easy to develop, but they usually do little to measure strategic accomplishments. Further, they may make inter-rater reliability problems worse. Comparative approaches help reduce leniency and other errors, which makes them useful for administrative decisions such as determining pay raises. But comparative approaches do a poor job of linking performance to organizational goals, and by themselves do not provide feedback for improvement as well as other methods do.

Narrative methods work well for development because they potentially generate more feedback information. However, without good definitions of performance criteria or standards, they can be so unstructured as to be of little value. Also, these methods work poorly for administrative uses. The MBO approach works well to link performance to organizational goals, but it can require much effort and time for defining objectives and explaining the process to employees. Narrative and MBO approaches may not work as well for lower-level jobs as for jobs with more varied duties and responsibilities.

When managers can articulate what they want a performance appraisal system to accomplish, they can choose and mix methods to realize those advantages. For example, one combination might include a graphic rating scale of performance on major job criteria, a narrative for developmental needs, and an overall ranking of employees in a department. Different categories of employees (e.g., salaried exempt, salaried nonexempt, and maintenance) might require different combinations of methods.

TRAINING MANAGERS AND EMPLOYEES IN PERFORMANCE APPRAISAL

Court decisions on the legality of performance appraisals and research on appraisal effectiveness both stress the importance of training managers and employees on performance management and on conducting performance appraisals. Managers with positive views of the performance appraisal system

are more likely to use the system effectively. Unfortunately, such training occurs only sporadically or not at all in many organizations.

For employees, performance appraisal training focuses on the purposes of appraisal, the appraisal process and timing, and how performance criteria and standards are linked to job duties and responsibilities. Some training also discusses how employees might rate their own performance and use that information in discussions with their supervisors and managers.

Most systems can be improved by training supervisors in how to do performance appraisals.⁵⁸ Because conducting the appraisals is critical, training should center around minimizing rater errors and providing raters with details on documenting performance information. Training is especially essential for those who have recently been promoted to jobs in which conducting performance appraisals is a new experience for them. Without training, managers and supervisors often “repeat the past,” meaning that they appraise others much as they have been appraised in the past, whether accurately or inaccurately. The following list is not comprehensive, but it does identify some topics covered in appraisal training:

- Appraisal process and timing
- Performance criteria and job standards that should be considered
- How to communicate positive and negative feedback
- When and how to discuss training and development goals
- Conducting and discussing the compensation review
- How to avoid common rating errors

Rater Errors

There are many possible sources of error in the performance appraisal process. One of the major sources is the raters. Although completely eliminating errors is impossible, making raters aware of them through training is helpful. Figure 10-14 lists some common rater errors.

Varying Standards When appraising employees, a manager should avoid applying different standards and expectations to employees performing the same or similar jobs. Such problems often result from the use of ambiguous criteria and subjective weightings by supervisors.

Recency and Primacy Effects The **recency effect** occurs when a rater gives greater weight to recent events when appraising an individual’s performance. Examples include giving a student a course grade based only on the student’s performance in the last week of class and giving a drill press operator a high rating even though the operator made the quota only in the last two weeks of the rating period. The opposite of the recency effect is the **primacy effect**, which occurs when a rater gives greater weight to information received first when appraising an individual’s performance.

Central Tendency, Leniency, and Strictness Errors Ask students, and they will tell you which professors tend to grade easier or harder. A manager may develop a similar *rating pattern*. Appraisers who rate all employees within a narrow range in the middle of the scale (i.e., rate everyone as “average”) commit a **central tendency error**, giving even outstanding and poor performers an “average” rating.

Rating patterns also may exhibit leniency or strictness. The **leniency error** occurs when ratings of all employees fall at the high end of the scale. The

Recency effect Occurs when a rater gives greater weight to recent events when appraising an individual’s performance.

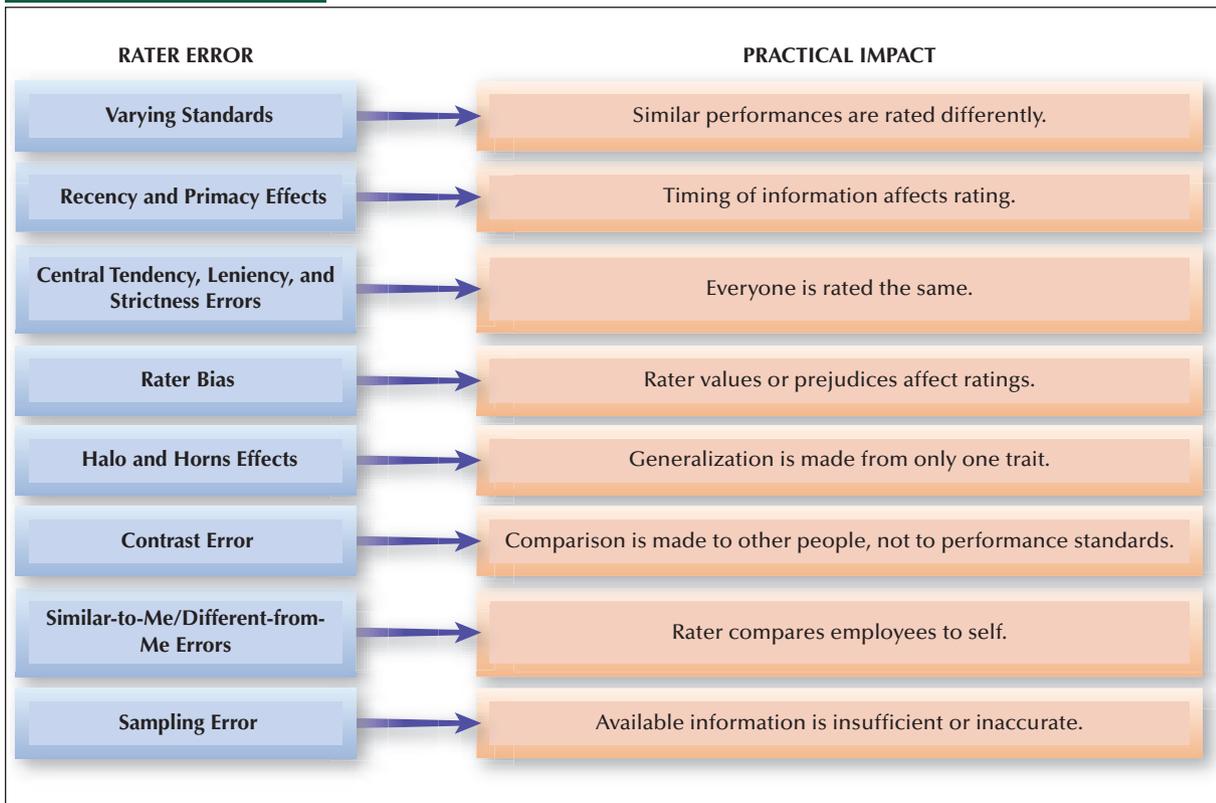
Primacy effect Occurs when a rater gives greater weight to information received first when appraising an individual’s performance.

Central tendency error Occurs when a rater gives all employees a score within a narrow range in the middle of the scale.

Leniency error Occurs when ratings of all employees fall at the high end of the scale.

FIGURE 10-14

Common Rater Errors



strictness error occurs when a manager uses only the lower part of the scale to rate employees. To avoid conflict, managers often rate employees higher than they should. This “ratings boost” is especially likely when no manager or HR representative reviews the completed appraisals.

Rater Bias When a rater’s values or prejudices distort the rating, this is referred to as **rater bias**. Such bias may be unconscious or quite intentional. For example, a manager’s dislike of certain ethnic groups may cause distortion in appraisal information for some people. Use of age, religion, seniority, sex, appearance, or other “classifications” also may skew appraisal ratings if the appraisal process is not properly designed. A review of appraisal ratings by higher-level managers may help correct this problem.

Halo and Horns Effects The **halo effect** occurs when a rater scores an employee high on all job criteria because of performance in one area. For example, if a worker has few absences, the supervisor might give the worker a high rating in all other areas of work, including quantity and quality of output, without really thinking about the employee’s other characteristics separately. The opposite is the **horns effect**, which occurs when a low rating on one characteristic leads to an overall low rating.

Contrast Error Rating should be done using established standards. One problem is the **contrast error**, which is the tendency to rate people relative to one another rather than against performance standards. For example, if

Strictness error Occurs when ratings of all employees fall at the low end of the scale.

Rater bias Occurs when a rater’s values or prejudices distort the rating.

Halo effect Occurs when a rater scores an employee high on all job criteria because of performance in one area.

Contrast error Tendency to rate people relative to others rather than against performance standards.

everyone else performs at a mediocre level, then a person performing only somewhat better may be rated as “excellent” because of the contrast effect. But in a group where many employees are performing well, the same person might receive a lower rating. Although it may be appropriate to compare people at times, the performance rating usually should reflect comparison against performance standards, not against other people.

Similar-to-Me/Different-from-Me Errors Sometimes, raters are influenced by whether people show characteristics that are the same as or different from their own. For example, a manager with an MBA degree might give subordinates with MBAs higher appraisals than those with only bachelor’s degrees. The error comes in measuring an individual against another person rather than measuring how well the individual fulfills the expectations of the job.

Sampling Error If the rater has seen only a small sample of the person’s work, an appraisal may be subject to sampling error. For example, assume that 95% of the reports prepared by an employee have been satisfactory, but a manager has seen only the 5% that had errors. If the supervisor rates the person’s performance as “poor,” then a sampling error has occurred. Ideally, the work being rated should be a broad and representative sample of all the work done by the employee.

APPRAISAL FEEDBACK

After completing appraisals, managers need to communicate results in order to give employees a clear understanding of how they stand in the eyes of their immediate superiors and the organization. Organizations commonly require managers to discuss appraisals with employees. The appraisal feedback interview provides an opportunity to clear up any misunderstandings on both sides. In this interview, the manager should focus on coaching and development, and not just tell the employee, “Here is how you rate and why.” Emphasizing development gives both parties an opportunity to consider the employee’s performance as part of appraisal feedback.⁵⁹

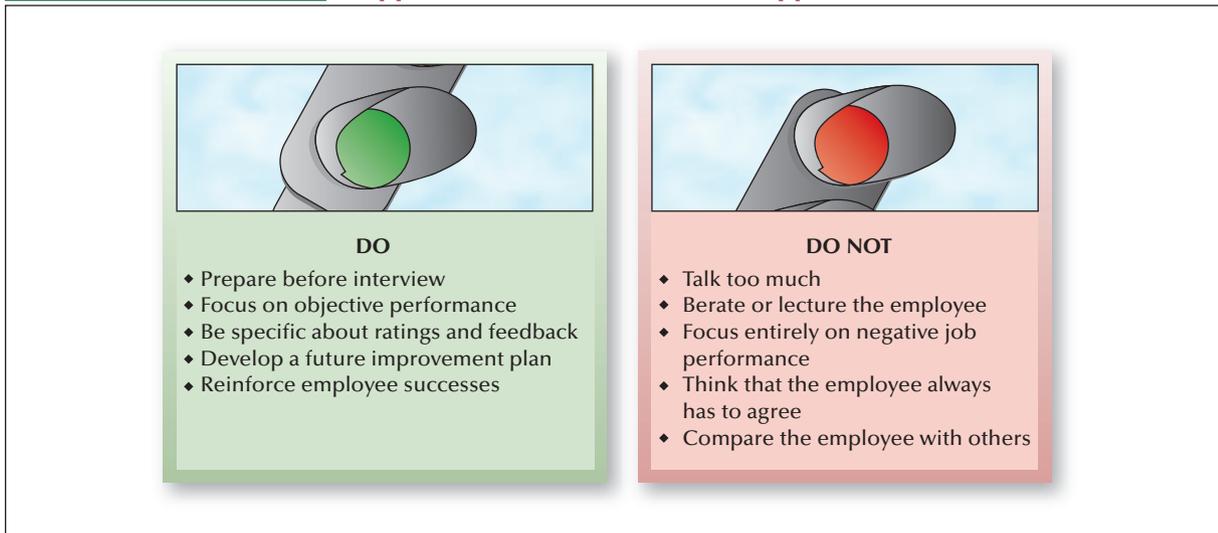
Appraisal Interview

The appraisal interview presents both an opportunity and a danger. It can be an emotional experience for the manager and the employee because the manager must communicate both praise and constructive criticism. A major concern for managers is how to emphasize the positive aspects of the employee’s performance while still discussing ways to make needed improvements. If the interview is handled poorly, the employee may feel resentment, which could lead to future conflict. Consequently, a manager should identify how employees add value to the organization and show appreciation when employees make valuable contributions.⁶⁰ When poor performance must be discussed, managers might consider using a “self-auditing” approach that relies on questions that encourage employees to identify their own performance deficiencies.⁶¹

Employees usually approach an appraisal interview with some concern. They may feel that discussions about performance are both personal and

FIGURE 10-15

Appraisal Interview Hints for Appraisers



important to their continued job success. At the same time, they want to know how their managers feel about their performance. Figure 10-15 summarizes hints for an effective appraisal interview for supervisors and managers.

Feedback as a System

The three commonly recognized components of a feedback system are data, evaluation of that data, and some action based on the evaluation. *Data* are factual pieces of information regarding observed actions or consequences. Most often, data are facts that report what happened, such as “Charlie solved a purchasing problem” or “Mary spoke harshly to an engineer.” Data alone rarely tell the whole story. For instance, Mary’s speaking harshly may have been an instance of poor communication and reflective of a lack of sensitivity, or it may have been a proper and necessary action. Someone must evaluate the meaning or value of the data.

Evaluation is the way the feedback system reacts to the facts, and it requires performance standards. Managers might evaluate the same factual information differently than would customers (e.g., regarding merchandise exchange or credit decisions) or coworkers. Evaluation can be done by the person supplying the data, by a supervisor, or by a group.

For feedback to cause change, some decisions must be made regarding subsequent *action*. In traditional appraisal systems, the manager makes specific suggestions regarding future actions the employee might take. Employee input often is encouraged as well. In 360-degree feedback, people from whom

information was solicited might also suggest actions that the individual may consider. It may be necessary to involve those providing information if the subsequent actions are highly interdependent and require coordination with the information providers.⁶² Regardless of the process used, the feedback components (data, evaluation, and action) are necessary parts of a successful performance appraisal feedback system.



LOGGING ON

HR-Software.net

For links to numerous online performance appraisal software systems, visit this website at www.hr-software.net.

Reactions of Managers

Managers who must complete appraisals of their employees often resist the appraisal process.⁶³ Many feel that their role calls on them to assist, encourage, coach, and counsel employees to improve their performance. However, being a judge on the one hand and a coach and a counselor on the other hand may cause internal conflict and confusion for managers.

Knowing that appraisals may affect employees' future careers also may cause altered or biased ratings. This problem is even more likely when managers know that they will have to communicate and defend their ratings to the employees, their bosses, or HR specialists. Managers can easily avoid providing negative feedback to an employee in an appraisal interview and thus avoid unpleasantness in an interpersonal situation by making the employee's ratings positive. But avoidance helps no one. A manager owes an employee a well-done appraisal, no matter how difficult an employee is, or how difficult the conversation about performance might be.⁶⁴

Reactions of Appraised Employees

Employees may well see the appraisal process as a threat and feel that the only way for them to get a higher rating is for someone else to receive a low rating. This win-lose perception is encouraged by comparative methods of rating. Emphasis on the self-improvement and developmental aspects of appraisal appears to be the most effective way to reduce this reaction.⁶⁵

Another common employee reaction resembles students' response to tests. A professor may prepare a test that the professor feels is fair, but it does not necessarily follow that students will believe the test is fair; they simply may see it differently. Likewise, employees being appraised may not necessarily agree with the manager doing the appraising. However, in most cases, employees will view appraisals done well as what they are meant to be—constructive feedback.

Effective Performance Management

Regardless of the approach used, managers must understand the intended outcome of performance management.⁶⁶ When performance management is used to develop employees as resources, it usually works. When one key part of performance management, a performance appraisal, is used to punish employees, performance management is less effective. In its simplest form as part of performance management, performance appraisal is a manager's observation: "Here are your strengths and weaknesses, and here is a way to develop for the future."

Done well, performance management can lead to higher employee motivation and satisfaction. To be effective, a performance management system, including the performance appraisal processes, should be:

- Consistent with the strategic mission of the organization
- Beneficial as a development tool
- Useful as an administrative tool
- Legal and job related
- Viewed as generally fair by employees
- Effective in documenting employee performance

Calibration Is the Key to Better Employee Evaluations and Performance Management



When conducting employees' performance evaluations, managers often make difficult decisions about job performance, many times without a strong reference point about how the company really defines what is acceptable and what is unacceptable. Many evaluators also do not have a real understanding of how other managers rate their employees, making relative comparisons of job performance difficult to implement throughout the organization. Consequently, ratings might not adequately or fairly convey how well employees are progressing in their jobs, which can present many different human resource challenges. Such inaccurate evaluations have the potential to derail a company's ability to effectively manage motivation because employees are not given adequate feedback, and personnel decisions are not properly linked to performance the way it is defined by the company.

Performance calibration mitigates many of these challenges and concerns by developing a more consistent understanding about how employees' job performance should be assessed. This understanding can be strengthened with company-sponsored training for evaluators that demonstrates how to properly rate individuals, thus developing a more uniform understanding about the rating process that should occur in the different operational areas of the organization. In other words, calibration sessions explore how ratings should be used to more effectively document current job performance according to company standards, while emphasizing how ratings across different work areas should be uniform. The resulting appraisals are often times more consistent and comparative across company ranks, and employees become more confident in the process as a whole, which serves to increase motivation and effort on the job.⁶⁷

Many of these factors can be enhanced through the effective development of the performance management process. The HR Best Practices explores one approach called calibration, which enables organizations to establish more specific and consistent guidelines about how employee performance should be rated across different jobs and work areas during a rating cycle. Consequently, feedback provided to employees is more consistent and fair, which can enhance employees' motivation to tackle their work responsibilities. By making sure that raters understand how to consistently evaluate job performance, managers should be able to increase support for the performance management process throughout the organization.

S U M M A R Y

- Performance management systems attempt to identify, measure, communicate, develop, and reward employee performance.
- Performance management has a broad organizational focus, whereas performance appraisals are the processes used to evaluate how employees perform their jobs and then communicate that information to employees.
- Effective performance management has a number of components, beginning with a performance-focused organizational culture.
- Job criteria identify important elements of a job, and the relevance of job criteria affects the establishment of performance standards.

- Federal employment guidelines and numerous court decisions affect the design and use of the performance appraisal process.
- Appraising employee performance serves both administrative and developmental purposes.
- Performance appraisals can be done either informally or systematically.
- Appraisals can be conducted by superiors, employees (rating superiors or themselves), teams, outsiders, or a variety of sources.
- Appraisal methods include: category scaling, comparative, narrative, and management by objectives.
- Category scaling methods, especially graphic rating scales and behavioral rating scales, are widely used.
- Comparative methods include ranking and forced distribution, both of which raise methodological and legal concerns.
- Narrative methods include the critical incident technique and the essay approach.
- Training managers and employees on how to conduct performance appraisals can contribute to the effectiveness of a performance management system.
- Many performance appraisal problems are caused by a number of different rater errors.
- The appraisal feedback interview is a vital part of any appraisal system, and the reactions of both managers and employees must be considered when evaluating the system.

CRITICAL THINKING ACTIVITIES

1. Describe how an organizational culture and the use of performance criteria and standards affect the remaining components of a performance management system.
2. Suppose you are a supervisor. What errors might you make when preparing the performance appraisal on a clerical employee? How might you avoid those errors?
3. Based on your experiences, as well as the chapter information, what are some good “rules of thumb” for conducting successful performance appraisal interviews?
4. Review the performance appraisal process and appraisal form used by a current or former employer, and compare them with those provided by other students. Also review other appraisal issues by going to www.workforce.com and searching for articles on *performance appraisals*. Develop a report suggesting changes to make the performance appraisal form and process you reviewed more effective.

HR EXPERIENTIAL PROBLEM SOLVING

As the new HR Director of a company in the behavioral health industry, you have the responsibility to develop a performance management system. You need to present a business case to senior executives that the performance management system does not stand alone and must be integrated into the company's strategic plan, business needs, and measurements. For information on performance management best practices, review various publications in the articles tab at www.insala.com.

1. Given several key practices for a successful performance management system, which ones should be implemented first?
2. Identify key measurements to transition the company from the current system of looking at personality factors to a new system of looking at performance factors.

C A S E

Building Performance Management through Employee Participation

A process of performance management is developed in companies to better shape how employees execute their job responsibilities and complete their work. Ideally, employees should feel comfortable with this process, believing that the communication occurring between managers and workers facilitates the completion of important workplace goals. Unfortunately, many employees become dissatisfied with how their organizations encourage goal-directed behavior, which can result in poor job attitudes, decreased motivation, and reduced effort on the job. These negative factors lead some companies to seek alternative ways to design and implement performance management systems so that employees are encouraged to work hard in their jobs.

Jewelers Mutual Insurance Company (JMI) is one such company that has actively improved its performance management approach, and the results have been very encouraging. Employees were initially dissatisfied with the feedback and goal-setting approaches that were being utilized to manage job performance, so company leaders decided to involve employees in the redesign efforts to create a more viable program that would be satisfactory for all the parties involved. An outside consultant started the process by interviewing top leaders in the company, and focus groups were used to solicit feedback from various other members of the organization. By utilizing a more participative and inclusive approach, the company was able to identify the problems with the current performance management system and generate greater support for the proposed changes that would ultimately fix these issues. This case illustrates how important employee

participation is in the effective management of human resources, particularly when developing a viable performance management system.

Several key changes were made to the performance management system based on the feedback received from managers and employees. In particular, inconsistencies in the administration of the performance management system, problems with the rating techniques and forms, and various challenges linking pay to performance were specifically targeted as part of the redesign effort. Such reflection and self-assessment prompted a number of specific improvements to management of job performance within the company. Evaluations are now based on narratives, various metrics of accountability, and job goals. Further, feedback is provided to employees on a quarterly basis, compensation is more strongly linked to individual effort, and the performance management system functions in concert with the other elements of human resource management. The changes made to the performance management processes at JMI Company demonstrate how human resource professionals can work with other staff members to create a system that excites employees and, ultimately, yields greater job performance.⁶⁸

QUESTIONS

1. Discuss how this case illustrates how greater support for a performance management system can be developed through employee participation.
2. Identify some of the ways that performance management systems can be improved based on the experiences at JMI.

S U P P L E M E N T A L C A S E S

Performance Management Improvements for Bristol-Myers Squibb

This case identifies how performance management systems might be redesigned. (For the case, go to www.cengage.com/management/mathis.)

Unequal/Equal Supervisors

This case identifies the consequences of giving appraisal ratings that may not be accurate. (For the case, go to www.cengage.com/management/mathis.)

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