



## CHAPTER 12

# Performance Management and Appraisal

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

- Distinguish between job criteria and performance standards and discuss criterion contamination and deficiency.
- Identify the two major uses of performance appraisal.
- Explain several rater errors by giving examples of them.
- Describe both the advantages and disadvantages of multisource (360°) appraisal.
- Identify the nature of behavioral approaches to performance appraisal and management by objectives (MBO).
- Discuss several concerns about appraisal feedback interviews.
- Identify the characteristics of a legal and effective performance appraisal system.

## HR TRANSITIONS

# 360° Performance Appraisal

The latest attempt to improve performance appraisal—multisource assessment, or 360° performance appraisal (PA)—has found favor with a growing number of organizations. Unlike traditional performance appraisals, which typically come from superiors, 360° appraisal uses feedback from “all around” the appraisee. Superiors, subordinates, peers, customers—and perhaps a self-appraisal as well—provide input for the performance appraisal process. Factors driving the use of 360° PA include the increased use of teams and an emphasis on customer satisfaction that comes from quality enhancement operations. Use of 360° PA with teams presents a problem, however. Should managers even do performance appraisals, should team leaders do them, or should team members evaluate each other?

There also are several other potential problems with 360° assessment:

- The process generates a great deal of paper, with evaluations done by many people.
- Confidentiality is an issue. If people do not believe their comments will be anonymous, they are not as honest as they otherwise would be.
- Determining who will be selected for assessment is important. Friends, enemies, or both?

Intermountain Health Care (IMHC), in Salt Lake City, is a health-care

provider that has designed a 360° program around a web-based approach. The company’s internally developed system can be customized to the person being rated, eliminates much of the paperwork, and solves data entry problems.

For years, employees at IMHC were evaluated in a traditional way by their supervisors. However, it became clear that due to the nature of the work, supervisors were not able to observe workers in enough situations to evaluate them accurately. Therefore, it was decided that it was more appropriate for employees to be appraised by a team consisting of internal customers, coworkers, and direct reports. Thus,

but that did not eliminate the paper problem.

The new web-based system allows employees to select from a database those questions that apply to them and their jobs. For example, a nurse will select different questions than will someone in marketing. Once the questions are selected, they are approved by the supervisor. The employee and supervisor answer the evaluation questions, as does a “team” of other evaluators agreed to by the employee and supervisor. Then, each team member is e-mailed the list of evaluation questions, and they respond by e-mail. The surveys are kept anonymous, but both employee and supervisor receive

*Unlike traditional performance appraisals, which typically come from superiors, 360° appraisal uses feedback from “all around” the appraisee.*

the 360° approach to performance appraisal was adopted.

This approach was sound, given the nature of the jobs, but a serious workflow problem was created: how to collect and input into the computer all of the evaluations of each employee who is evaluated by a group of as many as 10 other employees? IMHC tried scanning the paper evaluations into a database,

copies of the evaluations.

The system is relatively new, but so far IMHC employees and supervisors seem pleased with the way it is working. Feedback occurs quickly with a minimum amount of paper and hassle.<sup>1</sup> Much is left to learn about 360° performance appraisal, but with this new human resource approach, there is great potential to provide *better* feedback where appropriate.

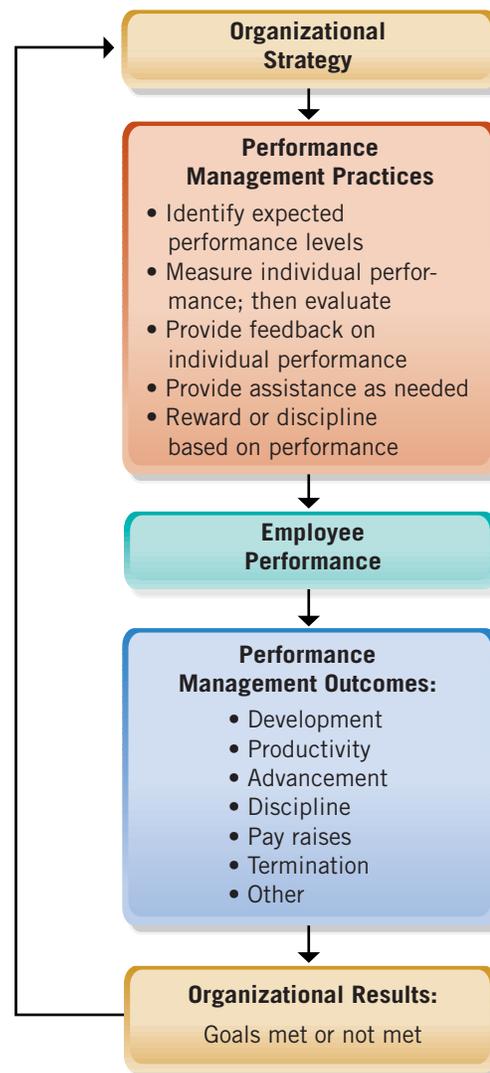
“Maximizing performance is a priority for most organizations today.”  
BOB CARDY

### Performance management system

Processes used to identify, encourage, measure, evaluate, improve, and reward employee performance.

Employees' job performance is an important issue for all employers. However, satisfactory performance does not happen automatically; therefore, it is more likely with a good performance management system. A **performance management system** consists of the processes used to identify, encourage, measure, evaluate, improve, and reward employee performance at work. In this chapter the focus is on *identifying*, *measuring*, and *evaluating* performance. The other remaining elements are covered in other chapters. Figure 12–1 shows performance management as part of the link between organizational strategy and results. The figure illustrates common performance management practices and outcomes.

**FIGURE 12–1** *Linkage between Strategy, Outcomes, and Organizational Results*



## Identifying and Measuring Employee Performance

Performance is essentially what an employee does or does not do. Performance of employees that affects how much they contribute to the organization could include:

- Quantity of output
- Quality of output
- Timeliness of output
- Presence at work
- Cooperativeness

Obviously other dimensions of performance might be appropriate in certain jobs, but those listed are common to most. However, they are general; each job has specific **job criteria** or job performance dimensions that identify the elements most important in that job. For example, a college professor's job might include the job criteria of teaching, research, and service.<sup>2</sup> Job criteria are the most important factors people do in their jobs; in a sense, job criteria define what the organization is paying an employee to do. Because these criteria are important, individuals' performance on job criteria should be measured, compared against standards, and then the results must be communicated to each employee.

Jobs almost always have more than one job criterion or dimension. For example, a baseball outfielder's job criteria include home runs, batting average, fielding percentage, and on-base performance, to name a few. In sports and many other jobs, multiple job criteria are the rule rather than the exception, and it follows that a given employee might be better at one job criterion than at another.

Some criteria might have more importance than others to the organization. Weights are a way to show the relative importance of several job criteria in one job. In some universities a college professor's teaching might be a bigger part of the job than research or service, so that a weighting of the job criteria at a given university might look like this:

Job Criterion	Weight
Teaching	60%
Research	30%
Service	10%
	100%

### Job Criteria and Information Types

The data or information that managers receive on how well employees are performing their jobs can be of three different types. *Trait-based* information identifies a subjective character trait—such as pleasant personality, initiative, or creativity—and may have little to do with the specific job. Traits tend to be ambiguous, and many court decisions have held that performance evaluations based on traits such as “adaptability” and “general demeanor” are too vague to use as the basis for performance-based HR decisions.<sup>3</sup>

*Behavior-based* information focuses on specific behaviors that lead to job success. For a salesperson, the behavior of “verbal persuasion” can be observed and used as information on performance. Behavioral information is more difficult to identify, but has the advantage of clearly specifying the behaviors management

#### Job criteria

Important elements of a job on which performance is measured.

wants to see. A potential problem is that there may be several behaviors, all of which can be successful in a given situation. For example, identifying exactly what “verbal persuasion” is for a salesperson might be difficult.

*Results-based* information considers what the employee has done or accomplished. For jobs in which measurement is easy and appropriate, a results-based approach works very well. However, that which is measured tends to be emphasized, and the equally important but unmeasurable parts of the job may be left out. For example, a car sales representative who gets paid only for sales may be unwilling to do any paperwork or other work not directly related to selling cars. Further, ethical or even legal issues may arise when only results are emphasized and not *how the results were achieved*.

## Relevance of Criteria

When measuring performance, it is important that relevant criteria be used. Generally, criteria are relevant when they focus on the most important aspects of employees’ jobs. For example, measuring customer service representatives in an insurance claims center on their “appearance” may be less relevant than measuring the number of calls handled properly. This example stresses that the most important job criteria should be identified and be linked back to the employees’ job descriptions.

## Potential Criteria Problems

Because jobs usually include several duties and tasks, if the performance measures leave out some important job duties, the measures are *deficient*. For example, measuring the performance of an employment interviewer only on the number of applicants hired, but not on the quality of those hires, could be deficient. If some irrelevant criteria are included, the criteria are said to be *contaminated*. An example of a contaminated criteria might be appearance for a telemarketing sales representative who is not seen by the customers. Managers use deficient or contaminated criteria for measuring performance much more than they should.

Performance measures also can be thought of as *objective* or *subjective*. Objective measures can be directly counted—for example, the number of cars sold or the number of invoices processed. Subjective measures are more judgmental and more difficult to measure directly. One example of a subjective measure is a supervisor’s ratings of an employee’s customer service performance. Unlike subjective measures, objective measures tend to be more narrowly focused, which may lead to the objective measures being inadequately defined. However, subjective measures may be prone to contamination or other random errors. Neither is a panacea, and both should be used carefully.

## Performance Standards

To know that an employee produces 10 “photons” per day does not provide a complete basis for judging employee performance as satisfactory or not. A *standard* against which to compare the information is necessary. Maybe 15 photons is considered a sufficient day’s work. **Performance standards** define the expected levels of performance, and are “benchmarks,” or “goals,” or “targets”—depending on the approach taken. Realistic, measurable, clearly understood



### LOGGING ON . . .

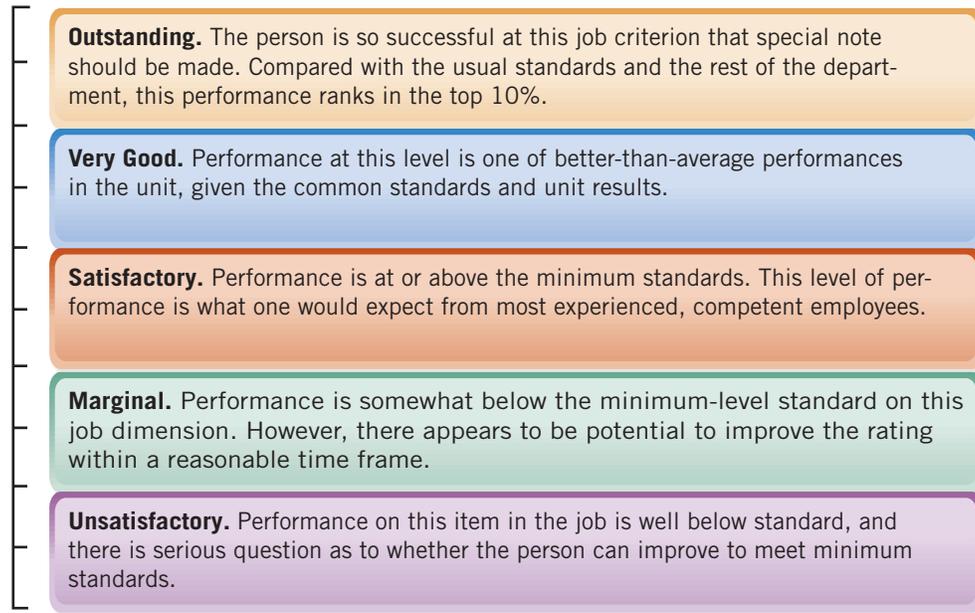
#### Redefining Performance

This website is for a firm specializing in performance management systems and other tools for HR professionals. The overview explains the firm’s approach to increasing employee performance through appraisal systems.

<http://www.btweb.com/>

#### Performance standards

Expected levels of performance.

**FIGURE 12–2** *Terms Used to Define Standards at One Company*

performance standards benefit both the organization and the employees. In a sense, performance standards define what satisfactory job performance is. It is important to establish standards *before* the work is performed, so that all involved will understand the level of accomplishment expected.

The extent to which standards have been met often is expressed in either numerical or verbal ratings, for example, “outstanding” or “unsatisfactory.” It may sometimes be difficult for two or more people to reach agreement on exactly what the level of performance has been relative to the standard. Figure 12–2 shows terms used in evaluating employee performance on standards at one company. Notice that each level is defined in terms of performance standards, rather than numbers, in order to minimize different interpretations of the standards.

Sales quotas and production output standards are familiar numerical performance standards. A nonnumerical standard of performance is that a cashier in a retail store must balance the cash drawer at the end of each day. For example, two nonnumerical performance standards for difficult duties were derived jointly as follows:

*Job Criterion.* Keep current on supplier technology.

*Performance Standards.* 1. Every six months, invite suppliers to make presentation of newest technology. 2. Visit supplier plants once per year. 3. Attend trade shows quarterly.

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*Job Criterion.* Do price or cost analysis as appropriate.

*Performance Standard.* Performance is acceptable when employee follows all requirements of the procedure “Price and Cost Analysis.”

Standards are often set by someone external to the job, such as a supervisor or a quality control inspector, but they can be written effectively by employees as well. Experienced employees usually know what constitutes satisfactory performance of tasks in their job descriptions, and so do their supervisors.<sup>4</sup> Therefore, these individuals often can collaborate effectively on setting standards.

### Performance appraisal (PA)

The process of evaluating how well employees perform their jobs when compared to a set of standards, and then communicating that information.

## Uses of Performance Appraisal

**Performance appraisal (PA)** is the process of evaluating how well employees perform their jobs when compared to a set of standards, and then communicating that information to those employees. Such appraisal also has been called *employee rating*, *employee evaluation*, *performance review*, *performance evaluation*, and *results appraisal*.<sup>5</sup>

Performance appraisal sounds simple enough; and research shows that it is widely used for administering wages and salaries, giving performance feedback, and identifying individual employee strengths and weaknesses. Most U.S. companies have performance appraisal systems for office, professional, technical, supervisory, middle management, and nonunion production workers.

For situations in which an employer deals with a strong union, performance appraisals are usually conducted only on the salaried, nonunion employees. Generally, unions emphasize seniority over merit, which precludes the use of performance appraisal. Because unions officially view all members as equal in ability, the worker with the most experience is considered the most qualified, and a performance appraisal is unnecessary.

Performance appraisal often is many managers' least-favored activity, and there may be good reasons for that feeling. Not all performance appraisals are positive, and discussing ratings with poorly performing employees may not be pleasant. Also, it may be difficult to differentiate among employees if sufficient performance data are not available.<sup>6</sup> Further, some supervisors are uncomfortable "playing God" with employees' raises and careers, which they may feel is a result of conducting performance appraisals.

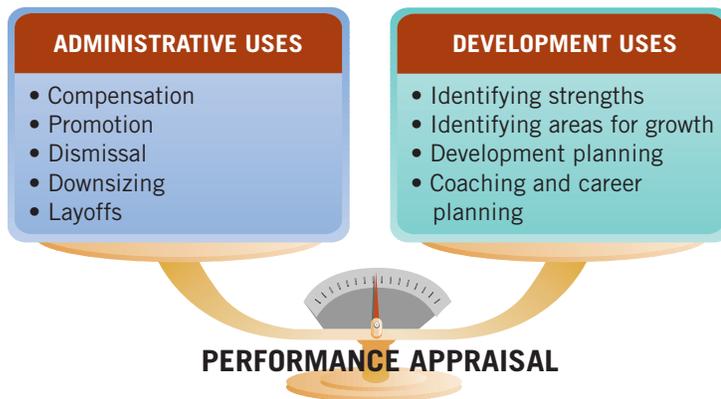
Performance appraisal has two general uses in organizations, and these roles often are potential conflicts. One role is to measure performance for the purpose of rewarding or otherwise making *administrative* decisions about employees. Promotions or layoffs might hinge on these ratings, often making them difficult for managers to do. Another role is *development* of individual potential. In that role, the manager is featured more as a counselor than as a judge, and the atmosphere is often different. Emphasis is on identifying potential and planning employees' growth opportunities and direction. Figure 12-3 shows the two potentially conflicting roles for performance appraisal.

### Administrative Uses

A performance appraisal system is often the link between the rewards employees hope to receive and their productivity. The linkage can be thought of as follows:

productivity → performance appraisal → rewards

Compensation based on performance appraisal is at the heart of the idea that raises should be given for performance accomplishments rather than for seniority. Under performance-oriented systems, employees receive raises based on how well they perform their jobs. The manager's role historically has been as an evaluator of a subordinate's performance, which then leads to managers making

**FIGURE 12-3** *Conflicting Roles for Performance Appraisal?*

compensation recommendations or decisions for employees. If any part of the process fails, the most productive employees do not receive the larger rewards, resulting in perceived inequity in compensation.

Many U.S. workers see little connection between the levels of their efforts and the sizes of their paychecks. However, the use of performance appraisal to determine pay is very common. Other administrative uses of performance appraisal, such as decisions on promotion, termination, layoff, and transfer assignments, are very important to employees. For example, the order of layoffs can be justified by performance appraisals. For this reason, if an employer claims that the decision was performance-based, the performance appraisals must document clearly the differences in employee performance. Similarly, promotion or demotion based on performance must be documented with performance appraisals.

Performance appraisals are essential when organizations terminate, promote, or pay people differently, because they are a crucial defense if employees sue over such decisions. Thus, necessity likely accounts for the widespread administrative use of performance appraisals. But certain problems, including leniency, are common when ratings are to be used for administrative purposes.

## Development Uses

Performance appraisal can be a primary source of information and feedback for employees, which is key to their future development. When supervisors identify the weaknesses, potentials, and training needs of employees through performance appraisal feedback, they can inform employees about their progress, discuss what skills they need to develop, and work out development plans.

The manager's role in such a situation is like that of a coach. The coach's job is to reward good performance with recognition, explain what improvement is necessary, and show employees *how* to improve. After all, people do not always know where they could improve, and managers really cannot expect improvement if they are unwilling to explain where and how improvement can occur.

The purpose of developmental feedback is to change or reinforce individual behavior, rather than to compare individuals—as in the case of administrative uses of performance appraisal. Positive reinforcement for the behaviors the organization wants is an important part of development.

The development function of performance appraisal also can identify areas in which the employee might wish to grow. For example, in a performance appraisal interview that was 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 a working knowledge of cost accounting. Her supervisor suggested that she consider taking such a course at night at the local college.

The use of teams provides a different set of circumstances for developmental appraisal. The manager may not see all of the employee's work, but team members do. Teams *can* provide developmental feedback, as we noted earlier in the feature on 360° appraisal. However, it is still an open question whether teams can handle administrative appraisal. When teams are allowed to design appraisal systems, they prefer to "get rid of judgment," and they apparently have a very hard time dealing with differential rewards. Perhaps, then, group appraisal is best used for developmental purposes.

## Informal vs. Systematic Appraisal



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### Performance Appraisal Process

Compare the steps in the performance appraisal process discussed here with those used at your current employer.

Performance appraisal can occur in two ways, informally or systematically. The *informal appraisal* is conducted whenever the supervisor feels it necessary. The day-to-day working relationship between a manager and an employee offers an opportunity for the employee's performance to be judged. This judgment is communicated through conversation on the job, over coffee, or by on-the-spot examination of a particular piece of work. Informal appraisal is especially appropriate when time is an issue. The longer feedback is delayed, the less likely it is to motivate behavior change. Frequent informal feedback to employees can also prevent surprises when the formal evaluation is communicated. However, informal appraisal can become *too* informal:<sup>7</sup>

A senior executive at a big auto maker so dreaded face-to-face evaluations that he recently delivered one manager's review while both sat in adjoining stalls in the men's room. The boss told the startled subordinate: "I haven't had a chance to give you a performance appraisal this year. Your bonus is going to be 20%. I am really happy with your performance."



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## HR PERSPECTIVE

## The CEO's Performance Review

Performance reviews are routine at the lower levels in corporations, but they are somewhat less frequent at the top. Some CEOs do not want them, and often when boards of directors do review the chief executive, the focus is on pay rather than leadership or effectiveness.

But that approach can lead to very poor communications. For example, when Gilbert Amelio was fired as Apple Computer CEO, he said his dismissal came as a total surprise. Not a single board member felt comfortable telling him he was in trouble. He indicated that CEOs *really do* want the feedback on how they are doing, so that they can adjust their performance.

More boards of directors are starting to recognize that CEO performance should be appraised, and

they are conducting executive performance reviews. For example, Thomas Loarie, Chairman of Kera Vision Inc., a start-up vision care company, was told at one of his last appraisals that he needed to demand more accountability from subordinates and be more realistic about his sales plans. By nature, Mr. Loarie is open and forthright; he was also well liked by the directors. Still, Loarie admitted to feeling some concern before a review, even though negative feedback can be seen as positive because it provides additional information.

When a new Kera Vision product was introduced in Europe, Mr. Loarie had projected a sales increase—but it did not happen. In fact, sales were nonexistent. The board was very critical, suggesting

that Loarie had not demanded enough from the European managers. This observation led to the criticism of Loarie about making subordinates accountable.

The Kera Vision board uses specially designed evaluation forms for evaluating the CEO, and the perspective is forward looking rather than only retrospective. The past year's performance is assessed, but—unlike evaluations for lower-level employees—the outlook for the medium- and long-term future also is evaluated. For Kera Vision and other firms, organizational performance is a key factor considered in a CEO's performance appraisal. It is likely that more boards of directors of other firms will adopt a formal process for appraising the performance of CEOs.<sup>8</sup>

A *systematic appraisal* is used when the contact between manager and employee is formal, and a system is in place to report managerial impressions and observations on employee performance. Although informal appraisal is useful, it should not take the place of formal appraisal. Even some Chief Executive Officers receive and indeed often *want* formal appraisal. For an example, see the HR Perspective.

## Appraisal Responsibilities

The appraisal process can be quite beneficial to the organization and to the individuals involved if done properly. It also can be the source of a great deal of discontent.

Figure 12–4 shows that the HR unit typically designs a systematic appraisal system. The manager does the actual appraising of the employee, using the procedures developed by the HR unit. As the formal system is being developed, the manager usually offers input on how the final system will work. Only rarely does an HR specialist actually rate a manager's employees.

**TIMING OF APPRAISALS** Appraisals typically are conducted once or twice a year, most often annually, near the employee's anniversary date. For new employees, common timing is to conduct an appraisal 90 days after employment, again at six months, and annually thereafter. "Probationary" or new employees, or those who



### LOGGING ON . . . Performance Appraisal Policies and Procedures

This website contains an example of the performance appraisal policies and procedures followed by the human resource management of an educational institution.

<http://www.hr.rpi.edu/hartford/policies/rhpman8.htm>

**FIGURE 12-4** *Typical Appraisal Responsibilities*

HR Unit	Managers
<ul style="list-style-type: none"> <li>● Designs and maintains formal system</li> <li>● Establishes formal report system</li> <li>● Makes sure reports are on time</li> <li>● Trains raters</li> </ul>	<ul style="list-style-type: none"> <li>● Typically rate performance of employees</li> <li>● Prepare formal appraisal documents</li> <li>● Review appraisals with employees</li> </ul>

are new and in a trial period, should be evaluated frequently—perhaps weekly for the first month and monthly thereafter until the end of the introductory period for new employees. After that, annual reviews may be sufficient. Indeed, some argue that performance can be appraised too often.<sup>9</sup>

Some companies in high-technology fields are promising accelerated appraisals—six months instead of a year—so that employees receive more frequent raises. The result for some companies has been a reduction in turnover among these very turnover-prone employees.<sup>10</sup>

A regular time interval is a feature of systematic appraisals that distinguishes them from informal appraisals. Both employees and managers are aware that performance will be reviewed on a regular basis, and they can plan for performance discussions. In addition, informal appraisals should be conducted whenever a manager feels they are desirable.

**APPRAISALS AND PAY DISCUSSIONS** Many experts argue that the timing of performance appraisals and pay discussions should be different. The major reason for this view is that employees often focus more on the pay amount than on what they have done well or need to improve. Sometimes managers may manipulate performance appraisal ratings to justify the desired pay treatment for a given individual.

## Who Conducts Appraisals?

Performance appraisal can be done by anyone familiar with the performance of individual employees. Possibilities include the following:

- Supervisors who rate their employees
- Employees who rate their superiors
- Team members who rate each other
- Outside sources
- Employee self-appraisal
- Multisource (360°) appraisal

The first method is the most common. The immediate superior has the sole responsibility for appraisal in most organizations, although it is common practice to have the appraisal reviewed and approved by the supervisor's boss. Any system should include a face-to-face discussion between rater and ratee.

Because of the growing use of teams and a concern with customer input, two fast-growing sources of appraisal information are team members and sources out-



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### **Appraisal Approaches and Methods**

Review additional details on appraisal methods here to expand the considerations discussed in the text.

side the organization. Also, as highlighted in the chapter opening discussion, multisource appraisal (or 360° appraisal) is a combination of all the methods and has grown in usage recently.

## Supervisory Rating of Subordinates

Traditional rating of employees by supervisors is based on the assumption that the immediate supervisor is the person most qualified to evaluate the employee's performance realistically, objectively, and fairly. Toward this end, some supervisors keep performance logs noting what their employees have done. These logs provide specific examples to use when doing ratings. They also serve to jog their memory, because supervisors cannot be expected to remember every detail of performance over a six-month or one-year period. A supervisor's appraisal typically is reviewed by the manager's boss to make sure that a proper job of appraisal has been done. Figure 12-5 shows the traditional review process by which supervisors conduct performance appraisals on employees.

## Employee Rating of Managers

The concept of having supervisors and managers rated by employees or group members is being used in a number of organizations today. A prime example of this type of rating takes place in colleges and universities, where students evaluate the performance of professors in the classroom. Industry also uses employee ratings for management development purposes.

**FIGURE 12-5** *Traditional Performance Appraisal: Logic and Process*



In a very new approach, some corporate boards of directors are being evaluated. Because the fundamental responsibility of the board is to establish goals and direct their accomplishment, that part of their performance should be evaluated. In some instances, evaluation of boards of directors is done by executives if possible, but board self-review or outside evaluation all can be used.<sup>11</sup>

**ADVANTAGES** There are three primary advantages of having employees rate managers. First, in situations where manager-employee relationships are critical, employee ratings can be quite useful in identifying competent managers. The rating of leaders by combat soldiers is an example. Second, this type of rating program can help make the manager more responsive to employees, though this advantage can quickly become a disadvantage if it leads the manager to trying to be “nice” rather than managing. Nice people without other qualifications may not be good managers in many situations. Finally, employee appraisals can be the basis for coaching as part of a career development effort for the managers. The hope is that the feedback will assist their managerial development.

**DISADVANTAGES** A major disadvantage of receiving employee ratings is the negative reaction many superiors have to being evaluated by employees. The “proper” nature of manager-employee relations may be violated by having workers rate managers. Also, the fear of reprisal may be too great for employees to give realistic ratings. In addition, employees may resist rating their bosses because they do not perceive it as part of their jobs. If this situation exists, workers may rate the manager only on the way the manager treats them and not on critical job requirements.

The problems associated with having employees rate managers seem to limit the usefulness of this appraisal approach to certain situations, except for managerial development uses. The traditional nature of most organizations appears to restrict the applicability of employee rating to self-improvement purposes.

### Team/Peer Ratings

The use of peer groups as raters is another type of appraisal with potential both to help and to hurt. For example, if a group of salespersons meets as a committee to talk about one another’s ratings, then they may share ideas that could be used to improve the performance of lower-rated individuals. Alternatively, the criticisms could lead to future work relationships being affected negatively.

Peer ratings are especially useful when supervisors do not have the opportunity to observe each employee’s performance, but other work group members do.<sup>12</sup> As mentioned earlier, it may be that team/peer evaluations are best used for development purposes rather than for administrative purposes. However, some contend that *any* performance appraisal, including team/peer ratings, can affect teamwork and participative management efforts negatively.

**TEAM APPRAISAL AND TQM** Total quality management (TQM) and other participative management approaches emphasize teamwork and team performance rather than individual performance. Effectiveness is viewed as the result of systematic factors rather than the product of individual efforts.<sup>13</sup> Individual accomplishment occurs only through working with others. In this view, individual performance appraisal is seen as producing fear and hinder-

ing the development of teamwork. If management does not appraise team members in high-involvement/high-commitment groups, some contend that it is more likely that other team members will focus informally on helping those whose performance is deficient. But even if formal appraisals seem inappropriate, informal appraisals by peers or team leaders still may be necessary at times.

**TEAM RATING DIFFICULTIES** Although team members have good information on one another's performance, they may not choose to share it. They may unfairly attack or "go easy" to spare feelings. Some organizations attempt to overcome such problems by using anonymous appraisals and/or having a consultant or manager interpret peer ratings. However, there is some evidence that using outsiders to facilitate the rating process does not necessarily result in the system being seen as more fair by those being rated. Whatever the solution, team/peer performance ratings are important and probably inevitable, especially where work teams are used extensively.<sup>14</sup>

## Self-Ratings

Self-appraisal works in certain situations. Essentially, it is a self-development tool that forces employees to think about their strengths and weaknesses and set goals for improvement. If an employee is working in isolation or possesses a unique skill, the employee may be the only one qualified to rate his or her own behavior. However, employees may not rate themselves as supervisors would rate them; they may use quite different standards.<sup>15</sup> Some research shows that people tend to be more lenient when rating themselves, whereas other research does not. Despite the difficulty in evaluating self-ratings, employee self-ratings can be a valuable and credible source of performance information.<sup>16</sup>

## Outside Raters

Rating also may be done by outsiders. Outside experts may be called in to review the work of a college president, for example; or a panel of division managers might evaluate a person's potential for advancement in an organization. Outsiders may furnish managers with professional assistance in making appraisals, but there are obvious disadvantages. The outsider may not know all the important contingencies within the organization. In addition, outsider appraisals are time consuming and expensive.

The customers or clients of an organization are obvious sources for outside appraisals. For salespeople and other service jobs, customers may provide the only really clear view of certain behaviors. One corporation uses measures of customer satisfaction with service as a way of helping to determine bonuses for top marketing executives.

## Multisource Rating

As noted in the chapter opening discussion, multisource—or 360°—rating is growing in popularity. Figure 12–6 shows graphically some of the parties who may be involved in 360° rating. Multisource feedback recognizes that the manager is no longer the sole source of performance appraisal information. Instead,



### LOGGING ON . . .

#### 360° Feedback

Descriptions of the methodology of the 360° feedback process can be found here, from a firm that provides such software products to assist employers.

<http://www.teamsinc.com/>

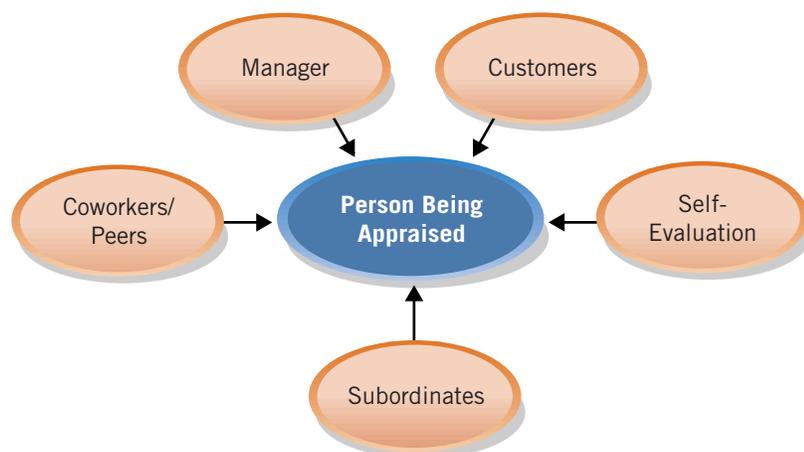
feedback from various colleagues and constituencies is obtained and given to the manager, thus allowing the manager to help shape the feedback from all sources. The manager remains a focal point both to receive the feedback initially and to engage in appropriate follow-up, even in a 360° system. Thus, the manager's perception of an employee's performance is still an important part of the process.

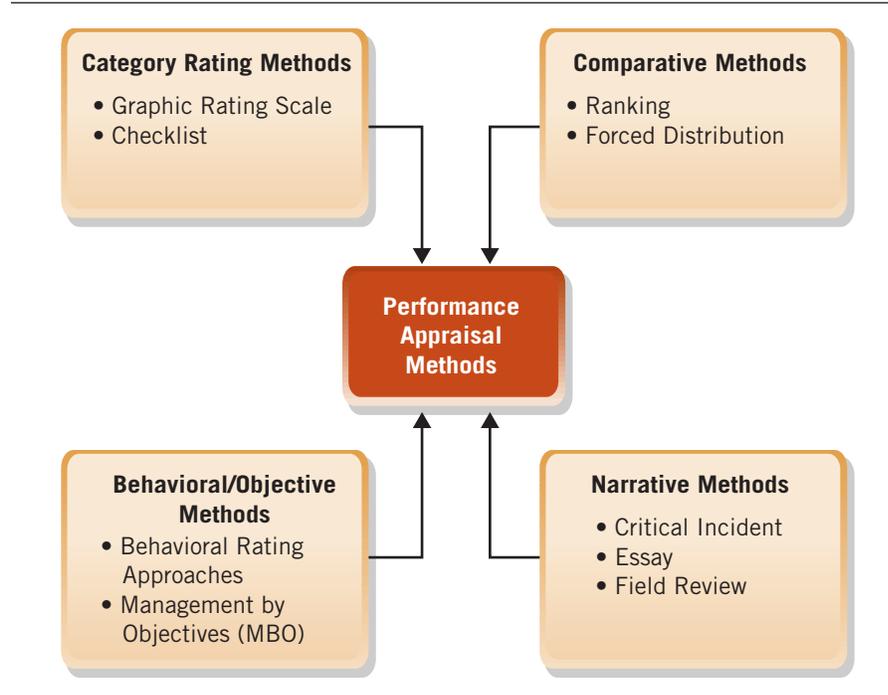
The research on 360° feedback is relatively new and not large in volume. A review of the research suggests there is typically limited agreement among rating sources.<sup>17</sup> However, it should be remembered that the purpose of 360° feedback is *not* to increase reliability by soliciting like-minded views. Rather, the intent is to capture all of the differing evaluations that bear on the individual employee's different roles.

Multisource feedback has been seen by participants as useful, but follow-up on the development activities identified as a result of the feedback has been found to be the most critical factor in the future development of a manager's skills. Appraisees are generally supportive of subordinate appraisal when they receive feedback from *both* their managers and their subordinates. However, supervisors' enthusiasm for subordinates' ratings dims considerably when such ratings are used to help determine pay.

Some potential problems clearly are present when 360° feedback is used for administrative purposes. Differences among raters can present a challenge, especially in the use of 360° ratings for discipline or pay decisions.<sup>18</sup> Bias can just as easily be rooted in customers, subordinates, and peers as in a boss, and their lack of accountability can affect the ratings. Multisource approaches to performance appraisal are possible solutions to the well-documented dissatisfaction with today's legally necessary administrative performance appraisal. But a number of questions arise as multisource appraisals become more common. One concern is whether 360° appraisals improve the process or simply multiply the number of problems by the total number of raters. Also, some wonder if multisource appraisals really will create better decisions than conventional methods, given the additional time investment.<sup>19</sup>

FIGURE 12-6 *Multisource Appraisal*



**FIGURE 12-7 Performance Appraisal Methods**

It seems reasonable to assume that these issues are of less concern when the 360° feedback is used *only for development*, because the process is usually less threatening. But those concerns may negate multisource appraisals as an administrative tool in many situations.<sup>20</sup>

## Methods for Appraising Performance

Performance can be appraised by a number of methods. In Figure 12-7, various methods are categorized into four major groups. In this section, after describing each method, the discussion considers combinations of methods. Combinations occur across different jobs in the same organization and even within the same jobs when appropriate.

### Category Rating Methods

The simplest methods for appraising performance are category rating methods, which require a manager to mark an employee's level of performance on a specific form divided into categories of performance. The graphic rating scale and checklist are common category rating methods.

**GRAPHIC RATING SCALE** The **graphic rating scale** allows the rater to mark an employee's performance on a continuum. Because of its simplicity, this method is the one most frequently used. Figure 12-8 shows a graphic rating scale form

#### Graphic rating scale

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

**FIGURE 12-8 Sample Performance Appraisal Form (simplified)**

Date Sent <b>4/19/00</b>	Return by <b>5/01/00</b>			
Name <b>Jane Doe</b>	Job Title <b>Receiving Clerk</b>			
Department <b>Receiving</b>	Supervisor <b>Fred Smith</b>			
Full-time <input checked="" type="checkbox"/> Part-time _____	Date of Hire <b>5/12/98</b>			
Rating Period: From <b>5/12/99</b> To: <b>5/12/00</b>				
Reason for appraisal (check one): Regular Interval <input checked="" type="checkbox"/> Introductory___ Counseling only___ Discharge___				
.....				
<b>Utilizing the following definitions, rate the performance on as I, M, or E.</b>				
I - Performance is below job requirements and <b>improvement is needed.</b>				
M - Performance meets job requirements and is <b>meeting standards.</b>				
E - Performance <b>exceeds</b> job requirements a <b>majority</b> of the time and is <b>exceeding standards.</b>				
.....				
<b>SPECIFIC JOB RESPONSIBILITIES:</b> 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.				
<table border="1" style="margin: auto;"> <tr> <td style="width: 33%; text-align: center;">I</td> <td style="width: 33%; text-align: center;">M</td> <td style="width: 33%; text-align: center;">E</td> </tr> </table>		I	M	E
I	M	E		
<b>Job Duty #1: Inventory receiving and checking</b>				
Explanation: _____				
.....				
<table border="1" style="margin: auto;"> <tr> <td style="width: 33%; text-align: center;">I</td> <td style="width: 33%; text-align: center;">M</td> <td style="width: 33%; text-align: center;">E</td> </tr> </table>		I	M	E
I	M	E		
<b>Job Duty #2: Accuracy of records kept</b>				
Explanation: _____				
.....				
<table border="1" style="margin: auto;"> <tr> <td style="width: 33%; text-align: center;">I</td> <td style="width: 33%; text-align: center;">M</td> <td style="width: 33%; text-align: center;">E</td> </tr> </table>		I	M	E
I	M	E		
<b>Attendance</b> (including absences and tardies): Number of absences___ Number of tardies___				
Explanation: _____				
.....				
<b>Overall Rating:</b> Based on the total performance, place the letter <b>I, M, or E</b> in the box provided that best describes the employee's overall performance.				
Explanation: _____ <span style="float: right; border: 1px solid black; width: 40px; height: 20px; display: inline-block;"></span>				
_____				

used by managers to rate employees. The rater checks the appropriate rating on the scale for each duty listed. More detail can be added in the space for comments following each factor rated.

There are actually two types of graphic rating scales in use today. They are sometimes *both* used in rating the same person. The first and most common type

lists job criteria (quantity of work, quality of work, etc.). The second is more behavioral, with specific behaviors listed and the effectiveness of each rated.

There are some obvious drawbacks to the graphic rating scale as well. Often, separate traits or factors are grouped together, and the rater is given only one box to check. Another drawback is that the descriptive words sometimes used in such scales may have different meanings to different raters. Terms such as *initiative* and *cooperation* are subject to many interpretations, especially if used in conjunction with words such as *outstanding*, *average*, and *poor*.

Graphic rating scales in many forms are used widely because they are easy to develop; but they encourage errors on the part of the raters, who may depend too heavily on the form itself to define performance. Both graphic rating scales and the checklist (which follows) tend to focus much emphasis on the rating instrument itself and its limitations. In so far as they fit the person and job being rated, the scales work well. However, if the instrument is a poor fit, managers who must use them frequently complain about “the rating form.”

**CHECKLIST** The **checklist** is composed of a list of statements or words. Raters check statements most representative of the characteristics and performance of employees. The following are typical checklist statements:

- \_\_\_\_\_ can be expected to finish work on time
- \_\_\_\_\_ seldom agrees to work overtime
- \_\_\_\_\_ is cooperative and helpful
- \_\_\_\_\_ accepts criticism
- \_\_\_\_\_ strives for self-improvement

The checklist can be modified so that varying weights are assigned to the statements or words. The results can then be quantified. Usually, the weights are not known by the rating supervisor because they are tabulated by someone else, such as a member of the HR unit.

There are several difficulties with the checklist: (1) as with the graphic rating scale, the words or statements may have different meanings to different raters; (2) raters cannot readily discern the rating results if a weighted checklist is used; and (3) raters do not assign the weights to the factors. These difficulties limit the use of the information when a rater discusses the checklist with the employee, creating a barrier to effective developmental counseling.

## Comparative Methods

Comparative methods require that managers directly compare the performance of their employees against one another. For example, a data-entry operator’s performance would be compared with that of other data-entry operators by the computing supervisor. Comparative techniques include ranking, paired comparison, and forced distribution.

**RANKING** The **ranking** method consists of listing all employees from highest to lowest in performance. The primary drawback of the ranking method is that the size of the differences among individuals is not well defined. For example, there may be little difference in performance between individuals ranked second and third, but a big difference in performance between those ranked third and fourth. This drawback can be overcome to some extent by assigning points to indicate

### Checklist

Performance appraisal tool that uses a list of statements or words that are checked by raters.

### Ranking

Listing of all employees from highest to lowest in performance.

the size of the gaps. Ranking also means that someone must be last. It is possible that the last-ranked individual in one group would be the top employee in a different group. Further, ranking becomes very unwieldy if the group to be ranked is very large.

### Forced distribution

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

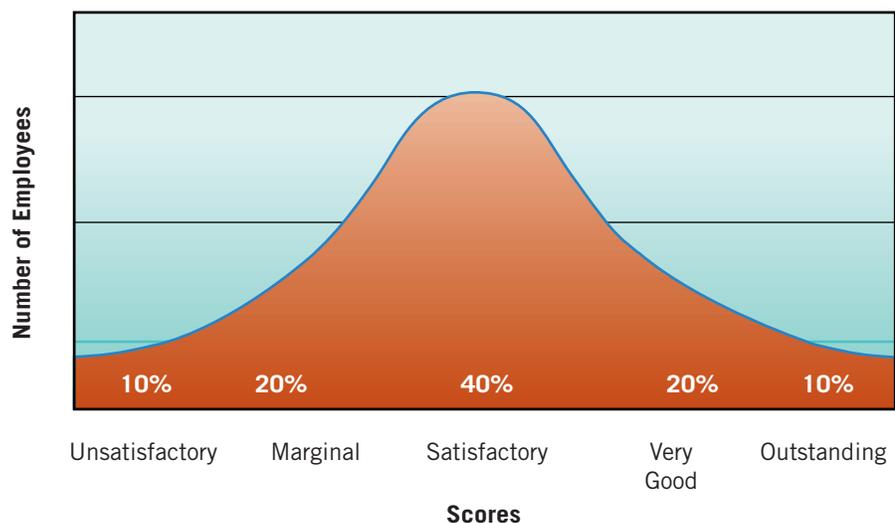
**FORCED DISTRIBUTION** Forced distribution is a technique for distributing ratings that can be generated with any of the other methods. However, it does require a comparison among people in the work group under consideration.

With the **forced distribution** method, the ratings of employees' performance are distributed along a bell-shaped curve. Using the forced distribution method, for example, a head nurse would rank nursing personnel along a scale, placing a certain percentage of employees at each performance level. Figure 12-9 shows a scale used with a forced distribution.

This method assumes that the widely known bell-shaped curve of performance exists in a given group. In fact, generally, the distribution of performance appraisal ratings does not approximate the normal distribution of the bell-shaped curve. It is common for 60% to 70% of the workforce of an organization to be rated in the top two performance levels. This pattern could reflect outstanding performance by many employees, or it could reflect *leniency bias*, discussed later in this chapter.

There are several drawbacks to the forced distribution method. One problem is that a supervisor may resist placing any individual in the lowest (or the highest) group. Difficulties may arise when the rater must explain to the employee why he or she was placed in one grouping and others were placed in higher groupings. Further, with small groups, there may be no reason to assume that a bell-shaped distribution of performance really exists. Finally, in some cases the manager may feel forced to make distinctions among employees that may not exist.

**FIGURE 12-9** *Forced Distribution on a Bell-Shaped Curve*



## Narrative Methods

Managers and HR specialists frequently are required to provide written appraisal information. Documentation and description are the essence of the critical incident, the essay, and the field review methods. These records describe an employee's actions rather than indicating an actual rating.

**CRITICAL INCIDENT** In the critical incident method, the manager keeps a written record of both highly favorable and unfavorable actions in an employee's performance. When a "critical incident" involving an employee occurs, the manager writes it down. A list of critical incidents is kept during the entire rating period for each employee. The critical incident method can be used with other methods to document the reasons why an employee was rated in a certain way.

The critical incident method also has its unfavorable aspects. First, what constitutes a critical incident is not defined in the same way by all supervisors. Next, producing daily or weekly written remarks about each employee's performance can take considerable time. Further, employees may become overly concerned about what the superior writes and begin to fear the manager's "black book."

**ESSAY** The essay, or "free-form," appraisal method requires the manager to write a short essay describing each employee's performance during the rating period. The rater usually is given a few general headings under which to categorize comments. The intent is to allow the rater more flexibility than other methods do. As a result, the essay is often combined with other methods.

**FIELD REVIEW** The field review has as much to do with *who* does the evaluation as the method used. This approach can include the HR department as a reviewer, or a completely independent reviewer outside the organization. In the field review, the outside reviewer becomes an active partner in the rating process. The outsider interviews the manager about each employee's performance, then compiles the notes from each interview into a rating for each employee. Then the rating is reviewed by the supervisor for needed changes. This method assumes that the outsider knows enough about the job setting to help supervisors give more accurate and thorough appraisals.

The major limitation of the field review is that the outsider has a great deal of control over the rating. Although this control may be desirable from one viewpoint, managers may see it as a challenge to their authority. In addition, the field review can be time consuming, particularly if a large number of employees are to be rated.

## Behavioral/Objectives Methods

In an attempt to overcome some of the difficulties of the methods just described, several different behavioral approaches have been used. Behavioral approaches hold promise for some situations in overcoming some of the problems with other methods.

**BEHAVIORAL RATING APPROACHES** Behavioral rating approaches attempt to assess an employee's *behaviors* instead of other characteristics. Some of the different behavioral approaches are *behaviorally anchored rating scales* (BARS), *behavioral observation scales* (BOS), and *behavioral expectation scales* (BES). BARS match

### Behavioral rating approach

Assesses an employee's behaviors instead of other characteristics.

descriptions of possible behaviors with what the employee most commonly exhibits. BOS are used to count the number of times certain behaviors are exhibited. BES order behaviors on a continuum to define outstanding, average, and unacceptable performance. BARS were developed first and are used here as an example of behavioral rating approaches.

Behavioral rating approaches describe examples of employee job behaviors. These examples are “anchored,” or measured, against a scale of performance levels. Figure 12–10 shows a behavioral observation rating scale that rates customer service skills. What constitutes various levels of performance is clearly defined in the figure. Spelling out the behavior associated with each level of performance helps minimize some of the problems noted earlier for other approaches.

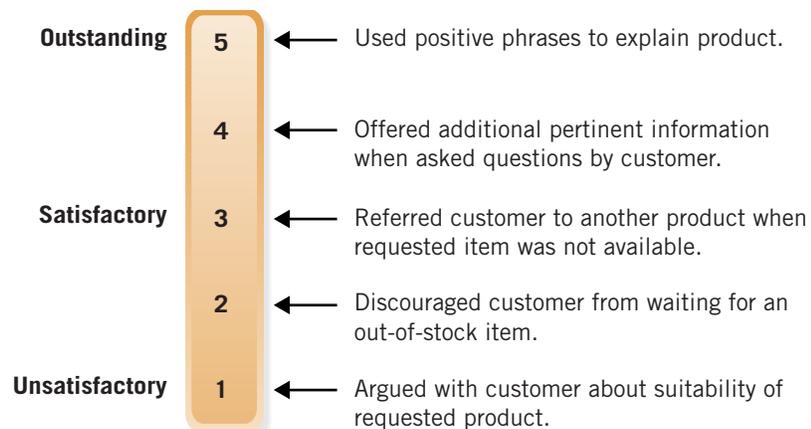
**CONSTRUCTING BEHAVIORAL SCALES** Construction of a behavioral scale begins with identifying important *job dimensions*. These dimensions are the most important performance factors in an employee’s job description. For example, for a college professor, the major job dimensions associated with teaching might be (a) course organization, (b) attitude toward students, (c) fair treatment, and (d) competence in subject area.

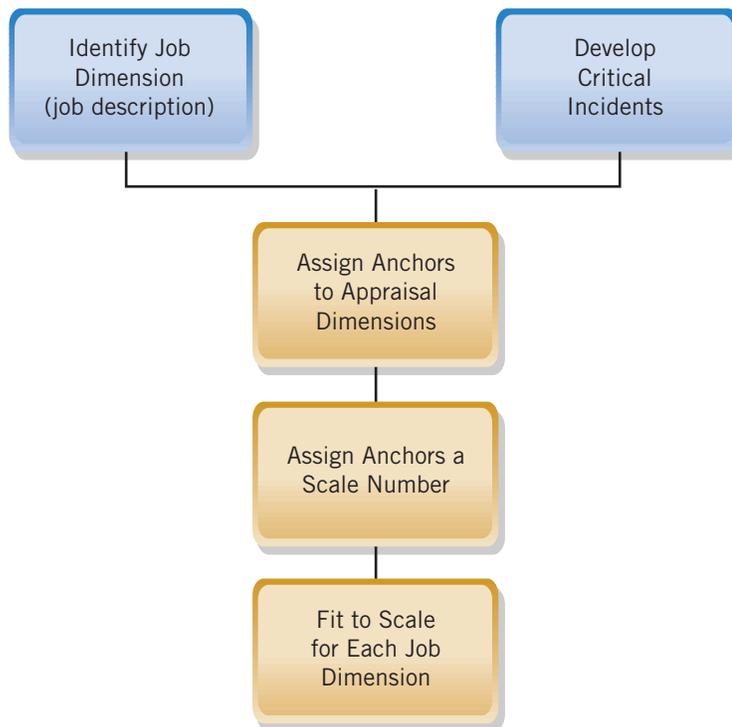
Short statements, similar to critical incidents, are developed that describe both desirable and undesirable behaviors (anchors). Then they are “retranslated,” or assigned to one of the job dimensions.<sup>21</sup> This task is usually a group project, and assignment to a dimension usually requires the agreement of 60% to 70% of the group. The group, consisting of people familiar with the job, then assigns each “anchor” a number, which represents how good or bad the behavior is. When numbered, these anchors are fitted to a scale. Figure 12–11 shows a flow diagram for developing behavioral anchors.

**FIGURE 12–10** *Customer Service Skills*

Example behaviors of a telephone customer service representative taking orders for a national catalog retailer.

**The customer service representative:**



**FIGURE 12–11** *Development Process for Behavioral Anchors*

There are several problems associated with the behavioral approaches that must be considered. First, developing and maintaining behaviorally anchored rating scales require extensive time and effort. In addition, several appraisal forms are needed to accommodate different types of jobs in an organization. In a hospital, nurses, dietitians, and admission clerks all have different jobs; separate BARS forms would need to be developed for each distinct job.

## Management by Objectives (MBO)

**Management by objectives (MBO)** specifies the performance goals that an individual hopes to attain within an appropriate length of time. The objectives that each manager sets are derived from the overall goals and objectives of the organization, although MBO should not be a disguised means for a superior to dictate the objectives of individual managers or employees. Although not limited to the appraisal of managers, MBO is most often used for this purpose. Other names for MBO include *appraisal by results*, *target-coaching*, *work planning and review*, *performance objectives*, and *mutual goal setting*.

**KEY MBO IDEAS** Three key assumptions underlie an MBO appraisal system. First, if an employee is involved in planning and setting the objectives and determining the measure, a higher level of commitment and performance may result.

Second, if the objectives are identified clearly and precisely, the employee will do a better job of achieving the desired results. Ambiguity and confusion—and

## Management by objectives (MBO)

Specifies the performance goals that an individual hopes to attain within an appropriate length of time.

therefore less effective performance—may result when a superior determines the objectives for an individual. By setting their own objectives, the employee gains an accurate understanding of what is expected.

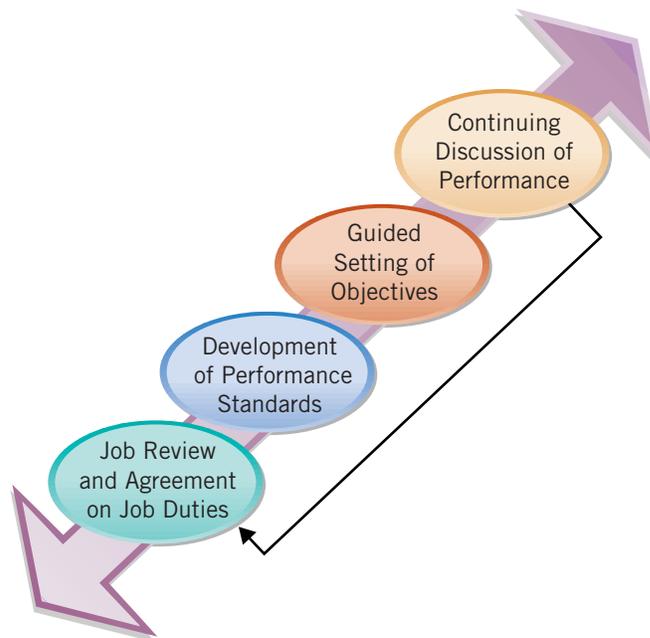
Third, performance objectives should be measurable and should define results. Vague generalities such as “initiative” and “cooperation,” which are common in many superior-based appraisals, should be avoided. Objectives are composed of specific actions to be taken or work to be accomplished. Sample objectives might include:

- Submit regional sales report by the fifth of every month.
- Obtain orders from at least five new customers per month.
- Maintain payroll costs at 10% of sales volume.
- Have scrap loss of less than 5%.
- Fill all organizational vacancies within 30 days after openings occur.

**THE MBO PROCESS** Implementing a guided self-appraisal system using MBO is a four-stage process. These phases are shown in Figure 12–12 and discussed next.

1. *Job review and agreement:* The employee and the superior review the job description and the key activities that comprise the employee’s job. The idea is to agree on the exact makeup of the job.
2. *Development of performance standards:* Specific standards of performance must be mutually developed. In this phase a satisfactory level of performance that is specific and measurable is determined. For example, a quota of selling

**FIGURE 12–12** *MBO Process*



five cars per month may be an appropriate performance standard for a salesperson.

3. *Guided objective setting:* Objectives are established by the employee in conjunction with, and guided by, the superior. For the automobile salesperson, an objective might be to improve performance; the salesperson might set a new objective of selling six cars per month. Notice that the objective set may be different from the performance standard. Objectives should be 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 manager do not necessarily wait until the appointed time to discuss performance. Objectives are modified mutually, and progress is discussed during the period.

**MBO CRITIQUE** No management tool is perfect, and certainly MBO is not appropriate for all employees or all organizations. Jobs with little or no flexibility are not compatible with MBO. For example, an assembly-line worker usually has so little job flexibility that performance standards and objectives are already determined. 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 may fail. Extreme emphasis on penalties for not meeting objectives defeats the development and participative nature of MBO.

## Combinations of Methods

There is no one best appraisal method. Indeed, research has suggested that the method used does not change the accuracy or solve rater errors. A performance measurement system that uses a combination of the preceding methods is possible and may be sensible in certain circumstances. Consider combinations to offset the following advantages and disadvantages: Category rating methods 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, central tendency, and strictness errors, which makes them useful for administrative decisions such as pay raises. *But* the comparative approaches do a poor job of linking performance to organizational goals, and they do not provide feedback for improvement as well as other methods.

Narrative methods work best for development because they potentially generate more feedback information. However, without good definitions of criteria or standards, they can be so unstructured as to be of little value. Also, these methods are poor for administrative uses. The behavioral/objective approaches work well to link performance to organizational goals, but both can require much more effort and time to define expectations and explain the process to employees. These approaches may not work well for lower-level jobs.

When managers can articulate what they want a performance appraisal system to accomplish, they can choose and/or mix the methods just mentioned to get the combinations of advantages they want.<sup>22</sup> For example, one combination might include a graphic rating scale of performance on major job criteria, a narrative of developmental needs, and an overall ranking of employees in a depart-

ment.<sup>23</sup> Different categories of employees (e.g., salaried exempt, nonexempt salaried, maintenance) might require different combinations.

## Rater Errors

There are many possible sources of error in the performance appraisal process. One of the major sources is mistakes made by the rater. There is no simple way to completely eliminate these errors, but making raters aware of them through training is helpful. Various types of rater errors are discussed next.

### Problems of Varying Standards

When appraising employees, a manager should avoid using different standards and expectations for employees performing similar jobs, which is certain to incur the anger of employees. Such problems are likely to exist when ambiguous criteria and subjective weightings by supervisors are used.

Even if an employee actually has been appraised on the same basis as others, his or her perception is crucial. If a student felt a professor had graded his exam harder than another student's exam, he might ask the professor for an explanation. The student's opinion might not be changed by the professor's claim that she had "graded fairly." So it is with performance appraisals in a work situation. If performance appraisal information is to be helpful, the rater must use the same standards and weights for every employee and be able to defend the appraisal.

### Recency Effect

#### Recency effect

Error in which the rater gives greater weight to recent events when appraising an individual's performance.

The **recency effect** occurs when a rater gives greater weight to recent events when appraising an individual's performance. Giving a student a course grade based only on his performance in the last week of class, or giving a drill press operator a high rating even though she made the quota only in the last two weeks of the rating period are examples.

The recency effect is an understandable rater error. It may be difficult for a rater to remember performance that took place seven or eight months ago. Employees also become more concerned about performance as formal appraisal time approaches. Some employees may attempt to take advantage of the recency effect by currying favor with their supervisors shortly before their appraisals are conducted. The problem can be minimized by using some method of documenting both positive and negative performance.

### Central Tendency, Leniency, and Strictness Errors

#### Central tendency error

Rating all employees in a narrow band in the middle of the rating scale.

Students are well aware that some professors tend to grade easier or harder than others. A manager may develop a similar *rating pattern*. Appraisers who rate all employees within a narrow range (usually the middle or average) commit a **central tendency error**. For example, Dolores Bressler, office manager, tends to rate all her employees as average. Even the poor performers receive an average rating from Dolores. However, Jane Carr, the billing supervisor, believes that if employees are poor performers, they should be rated below average. An employee of Jane's who is rated average may well be a better performer than one rated average by Dolores.

## HR PERSPECTIVE

## Research on Influence Tactics

Performance ratings can be subject to leniency and other errors, but what can subordinates do to influence the ratings their way? Research reported in *Personnel Psychology* by Wayne, Linden, Graf, and Ferris helps answer that question.

Previous research has suggested that employees are not passive, but actively engage in efforts to improve their work environments. The employees use “upward influence,” which is behavior directed at persons higher in the hierarchy in an attempt to favorably influence performance ratings as well as other outcomes. Three such influence attempts and their effect on performance appraisal were considered in this research study.

One influence attempt focuses on a manager’s perceptions of a subordinate’s *skills with other people* that could affect performance ratings. If the subordinate uses interpersonal skill and reasoning in

dealing with the manager, the manager may then assume the subordinate treats all people that way and rate him or her well.

Another possible area for influence occurs when a manager likes the individual because he or she *does favors* for the manager. In turn this means the manager appreciates the employee and perhaps feels that employee is “owed” something.

A pervasive effect in social psychology is that people tend to perceive themselves as *being similar* to a person who engages in desirable behavior. The third area for influence could occur if managers view some subordinates as similar to themselves, and these perceptions could affect the performance ratings given by managers.

In a large corporation that produces chemicals and machinery, the researchers studied 247 pairs of managers and subordinates. The average age of subordinates was 48,

they had been with the company on average a bit over 16 years, and their average education was a bachelor’s degree. A questionnaire designed to cover “career-related issues” was mailed to the employees’ and managers’ homes. Interpersonal skills, liking, similarity, and performance ratings were measured on the questionnaire.

The research study found that the manager’s perceptions of a subordinate’s interpersonal skills and similarity to the manager showed significant positive links with performance ratings. But “liking” showed no significant linkage. Apparently, influence attempts *do* affect manager’s perceptions of an employee. The study also found that perceptions of an employee and perceptions of interpersonal skills and similarity do affect performance ratings, although simply liking the subordinate does not.<sup>25</sup>

Rating patterns also may exhibit leniency or strictness. The *leniency error* occurs when ratings of all employees are at the high end of the scale. The *strictness error* occurs when a manager uses only the lower part of the scale to rate employees. Recent research on leniency strongly suggests that when performance evaluation is done for administrative purposes (e.g., pay or promotion), the ratings are on average one-third standard deviation higher than when they are done for development purposes.<sup>24</sup> This finding illustrates that to avoid conflict, managers often rate employees higher than they should be. This “ratings boost” is especially likely when no manager or HR representative reviews the completed appraisals. For related research, see the HR Perspective.

## Rater Bias

**Rater bias** occurs when a rater’s values or prejudices distort the rating. Rater bias may be unconscious or quite intentional. If a manager has a strong dislike of certain ethnic groups, this bias is likely to result in distorted appraisal information

## Rater bias

Error that occurs when a rater’s values or prejudices distort the rating.

for some people. Age, religion, seniority, sex, appearance, or other arbitrary classifications may be reflected in appraisals if the appraisal process is not properly designed. Examination of ratings by higher-level managers may help correct this problem.

One reason that positive rater bias or leniency may exist is that supervisors are concerned about damaging a good working relationship by giving an unfavorable rating. Or they may wish to avoid giving negative feedback, which is often unpleasant, so they inflate the ratings. Reasons for a rating biased on the low side might include sending the employee a “message” or documenting a case leading to dismissal. Rater bias is difficult to overcome, especially if a manager is not aware of the bias or will not admit to it.

## Halo Effect

### Halo effect

Rating a person high or low on all items because of one characteristic.

The **halo effect** occurs when a manager rates an employee high or low on all items because of one characteristic. For example, if a worker has few absences, her supervisor might give her a high rating in all other areas of work, including quantity and quality of output, because of her dependability. The manager may not really think about the employee’s other characteristics separately.

An appraisal that shows the same rating on all characteristics may be evidence of the halo effect. Clearly specifying the categories to be rated, rating all employees on one characteristic at a time, and training raters to recognize the problem are some ways of reducing the halo effect.

## Contrast Error

### Contrast error

Tendency to rate people relative to other people rather than to performance standards.

Rating should be done using established standards. The **contrast error** is the tendency to rate people relative to other people rather than to performance standards. For example, if everyone else in a group is doing a mediocre job, a person performing somewhat better may be rated as excellent because of the contrast effect. But in a group performing well, the same person might have received a poor rating. Although it may be appropriate to compare people at times, the rating should reflect performance against job requirements, not against other people.

## Appraisal Feedback

Once appraisals have been completed, it is important to communicate them so that employees have a clear understanding of how they stand in the eyes of their immediate superiors and the organization. It is fairly common for organizations to *require* that managers discuss appraisals with employees. The appraisal feedback interview can be used to clear up misunderstandings on both sides. In this interview, the manager should emphasize counseling and development, not just tell the employee, “Here is how you rate and why.” Focusing on development gives both parties an opportunity to consider the employee’s performance—what has been done well and what has potential for improvement. Because feedback is an important part of appraisal, a brief look at feedback and how it works is a useful aid to understanding of the appraisal interview.

## Feedback as a System

There are three commonly recognized components of a feedback system. They are *data*, *evaluation of that data*, and some *action* based on the evaluation.

*Data* are factual information regarding observed actions or consequences. Feedback systems may be judged in terms of the accuracy, completeness, and appropriateness of the data they capture. Most often data are facts that report what happened, such as “Charlie broke a photon,” or “Mary spoke harshly to an engineer.” For instance, when Mary spoke harshly to the engineer, it may have been an instance of poor human relations reflecting a lack of sensitivity. However, it also may have been a proper and necessary action. Someone will have to judge the meaning or value of the data, which is evaluation.

*Evaluation* is the way the feedback system reacts to the facts, and it requires performance standards. Evaluators, of course, might come to very different conclusions on the same performance given different standards. Management might evaluate the same factual information differently than would customers (for example, 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 decision must be made regarding subsequent *action*. A system in which data and evaluation did *not* influence action would not be a feedback system. In traditional appraisal systems, the manager makes specific suggestions regarding future actions the employee might take. In 360° feedback, those people from whom information was solicited might also suggest actions that the individual may consider in some decisions (for example, job assignments) but not in others (salary increases) depending on circumstances.<sup>26</sup>

It may be necessary to involve information providers if the subsequent actions are highly interdependent and require coordination with the people providing the information. All three components (data, evaluation, and action) are necessary parts of a successful feedback system.

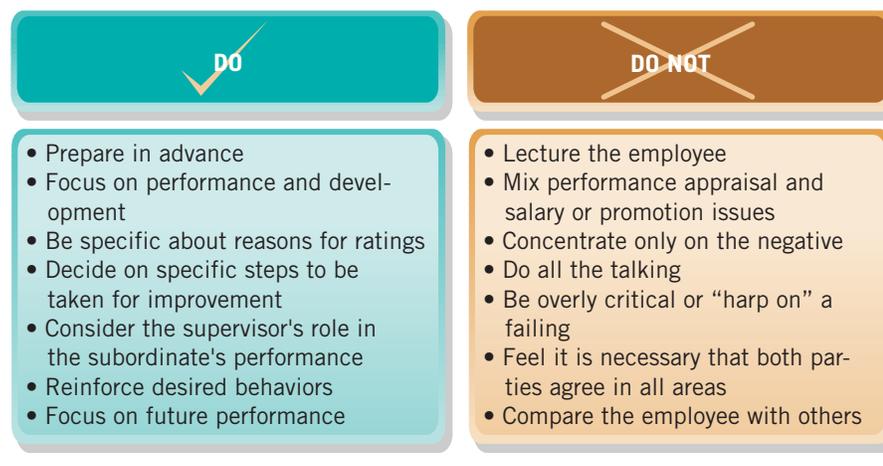
## The Appraisal Interview

The appraisal interview presents both an opportunity and a danger. It is 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, and conflict may result, which could be reflected in future work.

Employees usually approach an appraisal interview with some concern. They often feel that discussions about performance are very personal and important to their continued job success. At the same time, they want to know how the manager feels they have been doing.<sup>27</sup> Figure 12–13 on the next page summarizes hints for an effective appraisal interview for supervisors and managers.

## Reactions of Managers

Managers and supervisors who must complete appraisals of their employees often resist the appraisal process. Managers may feel they are put in the position of

**FIGURE 12–13** *Hints for Managers in the Appraisal Interview*

“playing God.” A major part of the manager’s role is to assist, encourage, coach, and counsel employees to improve their performance. However, being a judge on the one hand and a coach and counselor on the other may cause internal conflict and confusion for the manager.

The fact that appraisals may affect an employee’s future career may cause raters to alter or bias their ratings. This bias 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. From the manager’s viewpoint, providing negative feedback to an employee in an appraisal interview can be easily avoided by making the employee’s ratings positive. Reactions such as these are attempts to avoid unpleasantness in an interpersonal situation. But avoidance helps no one. A manager *owes* an employee a well-considered appraisal.

## Reactions of Appraised Employees

Many employees view appraising as a zero-sum game—that is, one in which there must be a winner and a loser. Employees may well see the appraisal process as a threat and feel that the only way 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. However, appraisals can also be non-zero-sum in nature—that is, both parties can win and no one must lose. Emphasis on the self-improvement and developmental aspects of appraisal appears to be the most effective means to reduce zero-sum reactions from those participating in the appraisal process.

Another common employee reaction is similar to students’ reactions to tests. A professor may prepare a test he or she feels is fair, but it does not necessarily follow that students will feel the test is fair. They simply may see it differently. Likewise, employees being appraised may not necessarily agree with the manager doing the appraising.<sup>28</sup> In most cases, however, employees will view appraisals done well as what they are meant to be—constructive feedback.

## Legal and Effective Performance Appraisals

A growing number of court decisions have focused on performance appraisals, particularly in relation to equal employment opportunity (EEO) concerns. The Uniform Guidelines issued by the Equal Employment Opportunity Commission (EEOC) and other federal enforcement agencies make it clear that performance appraisal must be job related and nondiscriminatory.

### Performance Appraisals and the Law

It may seem unnecessary to emphasize that performance appraisals must be job related, because appraisals are supposed to measure how well employees are doing their jobs. Yet in numerous cases, courts have ruled that performance appraisals were discriminatory and not job related.<sup>29</sup>

The elements of a performance appraisal system that can survive court tests can be determined from existing case law. Various cases have provided guidance. The elements of a legally defensible performance appraisal are as follows:

- Performance appraisal criteria based on job analysis
- Absence of disparate impact and evidence of validity
- Formal evaluation criteria that limit managerial discretion
- Formal rating instrument
- Personal knowledge of and contact with appraised individual
- Training of supervisors in conducting appraisals
- Review process that prevents one manager acting alone from controlling an employee's career
- Counseling to help poor performers improve

It is clear that the courts are interested in fair and nondiscriminatory performance appraisals. Employers must decide how to design their appraisal systems to satisfy the courts, enforcement agencies, and their employees.<sup>30</sup>

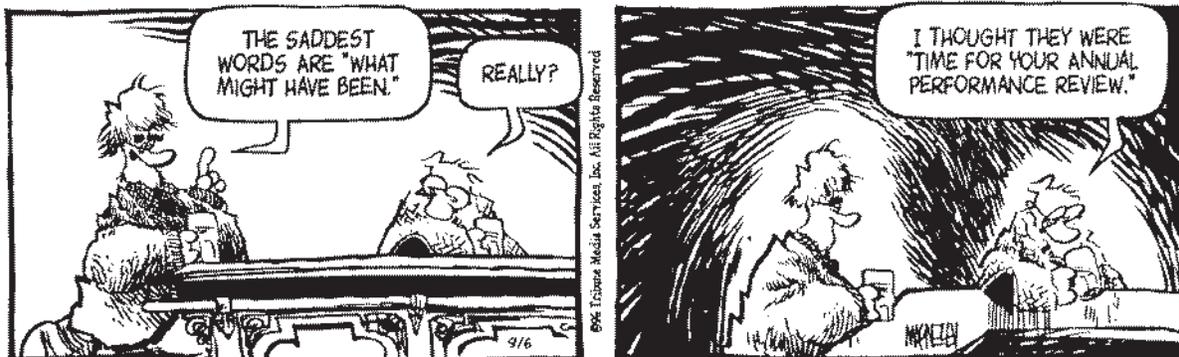


#### LOGGING ON . . .

##### Legal Problem Solving

This website provides valuable legal management tips for handling many situations, including performance appraisals.

[http://www.ahipubs.com/problem\\_solvers/index.html](http://www.ahipubs.com/problem_solvers/index.html)



## Effective Performance Management

Regardless of which approach is used, an understanding of what performance management is supposed to do is critical. When performance appraisal is used to develop employees as resources, it usually works. When management uses performance appraisal as a punishment or when raters fail to understand its limitations, it fails. The key is not which form or which method is used, but whether managers and employees understand its purposes. In its simplest form, a performance appraisal is a manager's observation: "Here are your strengths and weaknesses, and here is a way to shore up the weak areas." It can lead to higher employee motivation and satisfaction if done right.

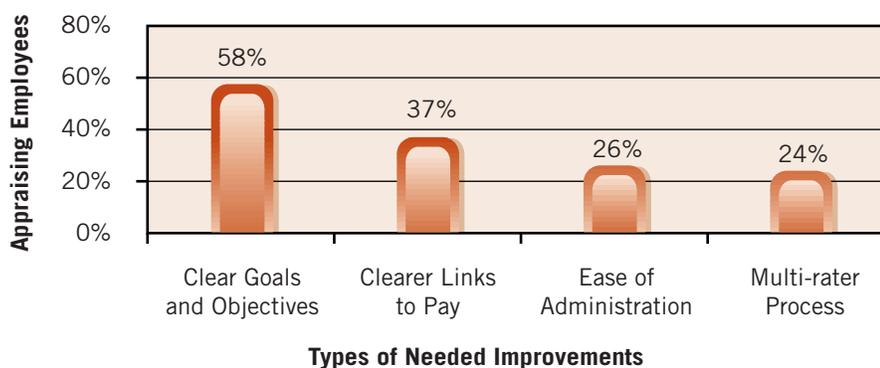
But in an era of continuous improvement, an ineffective performance management system can be a huge liability.<sup>31</sup> Figure 12–14 shows the areas where respondents to one survey felt performance management had "opportunities for improvement." An effective performance management system will be:

- 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
- Useful in documenting employee performance

Most systems can be improved by training supervisors, because conducting performance appraisal is a big part of a performance management system. Training should focus on minimizing rater errors and providing a common frame of reference on how raters observe and recall information.

Organizationally, there is a tendency to distill performance into a single number that can be used to support pay raises. Systems based on this concept reduce the complexity of each person's contribution in order to satisfy compensation-system requirements.<sup>32</sup> Such systems are too simplistic to give employees useful feedback or help managers pinpoint training and development needs. In fact, use of a single numerical rating often is a barrier to performance discussions, because

**FIGURE 12–14 Performance Management Improvements Needed**



SOURCE: Adapted from "Survey of Human Resource Trends," *HR Magazine Supplement*, August 1997, 4.

what is emphasized is attaching a label to a person's performance and defending or attacking that label. Effective performance management systems evolve from the recognition that human behaviors and capabilities collapsed into a single score have limited use in shaping the necessary range of performance.

## Summary

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- Performance management systems attempt to identify, encourage, measure, evaluate, improve, and reward employee performance.
- Performance is the critical link between organizational strategies and results.
- Job criteria are important job dimensions, such as teaching for a college professor, runs batted in for a major-league outfielder, or orders completed by a warehouse shipping worker.
- Relevance, contamination, and deficiency of criteria affect performance measurement.
- Appraising employee performance is useful for development and administrative purposes.
- Performance appraisal can be done either informally or systematically. Systematic appraisals usually are done annually.
- Appraisals can be done by superiors, employees, teams, outsiders, or a combination of raters. Employees also can conduct self-appraisals.
- Superiors' ratings of employees are most frequently used.
- Four types of appraisal methods are available: category rating methods, comparative methods, narrative methods, and behavioral objective methods.
- Category rating methods, especially graphic rating scales and checklists, are widely used.
- Ranking and forced distribution are comparative methods.
- Narrative methods include the critical incident technique, the essay approach, and the field review.
- Two behavioral/objectives methods of appraisal include behavioral rating approaches and management by objectives (MBO).
- Construction of a behaviorally-oriented rating scale requires a detailed job analysis so that the rating criteria and anchors are job specific.
- Management by objectives (MBO) is an approach that requires joint goal setting by a superior and an employee.
- A major source of performance appraisal problems is rater error. Rater errors include varying standards, recency effect, rater bias (such as leniency bias), rating patterns (such as central tendency error), halo effect, and contrast error.
- The appraisal feedback interview is a vital part of any appraisal system.
- Both managers and employees may resist performance appraisals, and perfect systems do not exist.
- Federal employment guidelines and numerous court decisions have scrutinized performance appraisals. The absence of specific job relatedness can create legal problems, as can subjectivity.
- Training appraisers and guarding against the tendency to reduce performance to a single number are important for an effective performance management system.

## Review and Discussion Questions

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1. What is the difference between performance standards and job criteria, and why do the criteria problems of contamination and deficiency exist?
2. How can the developmental and administrative uses of performance appraisals conflict?
3. Suppose you are a supervisor. What errors might you make when preparing a performance appraisal on a clerical employee?
4. What sources are typically included in many 360° performance appraisals?
5. Explain the similarities and differences between the behavioral approaches to performance appraisal and management by objectives (MBO).
6. Construct a plan for a post-appraisal interview with an employee who has performed poorly.
7. Discuss the following statement: "Most performance appraisal systems in use today would not pass legal scrutiny."

## Terms to Know

behavioral rating approach 397	job criteria 381	ranking 395
central tendency error 402	management by objectives (MBO) 399	rater bias 403
checklist 395	performance appraisal (PA) 384	recency effect 402
contrast error 404	performance management system 380	
forced distribution 396	performance standards 382	
graphic rating scale 393		
halo effect 404		

## Using the Internet



### Conducting Team-Based Performance Appraisals

Your company has recently changed from an individual-based performance appraisal system for sales associates into one stressing team performance. As the HR manager, it is your job to change your current performance appraisal system to a team-based performance appraisal system. You are meeting with the

sales managers at the end of the week to review the steps in your plan. Use the following website to assist you:

**[http://www.zigonperf.com/Team\\_Friendly.htm](http://www.zigonperf.com/Team_Friendly.htm)**

## CASE

### Revising the Performance Appraisal System at St. Luke's Hospital

Recently St. Luke's Hospital, a thoroughly modern hospital in Jacksonville, Florida, had a thoroughly modern problem. Its performance appraisal system was rapidly becoming an insurmountable pile of papers; and with 1,325 employees, the HR staff recognized that changes were needed.

Performance appraisal forms can range from a simple sheet of paper to very lengthy and complex packets. St. Luke's performance appraisal system had evolved over the years into a form with about 20 pages per employee. Although some of the length was due to concerns about meeting numerous federal, state, and health-care industry requirements, other facets of the system had been developed for administrative reasons.

The existing performance appraisal system was based on a combination of job descriptions and a performance appraisal. In addition, health-care accreditation requirements necessitated using a competency management program focusing on employee devel-

opment and education. As a result, St. Luke's had combined the competency profiles with the job descriptions and performance appraisal forms. To complete an appraisal on employees, supervisors and managers scored employee performance on formal weighted criteria and then summarized the information by compensation and benefits class. Those summaries were reviewed by upper management for consistency, as one would expect. The overall performance appraisal process was paper-intensive, slow, and frustrating because it required a total of 36 different steps.

A steering committee was formed to oversee the process of changing to a better performance appraisal system. The committee established that it was crucial for the new system to better fit the needs of those using it. Also, the committee wanted the system to use more technology and less paper. Based on these general objectives, brainstorming was conducted to find bottlenecks and identify what the ideal auto-

mated process would look like. At this point, the committee understood the current systems and what key users wanted. After reviewing literature on performance appraisal systems, surveying other hospitals, and looking at software packages, the committee decided it would have to design its own system.

The option chosen consisted of moving the numerical criteria scores from the individual pages of the job description to a summary sheet that provided for scoring up to six employees on one form. Then total scores were calculated by the computer. Also, written comments were moved to a summary sheet dealing only with exceptions to standards.

The most difficult part proved to be the design of the database. It had to be designed from scratch and had to interface with existing HR systems. A software program was written to do the calculations using data already in place, and another program was written to do the calculations. The new process reduced the paperwork from 20 to 7 pages per employee. Supervisors and managers were given the option of using computerized comment sheets. Another time-saver was the ability to use the system to record and document noteworthy employee performance incidents, both positive and negative in nature, as they occurred throughout the year. This documentation feature eliminated the need for a separate note-keeping system that many managers had been using.

To implement the new performance appraisal system, training for supervisors and managers was crucial. When the training program was developed for the new system, all 97 supervisors and managers were required to attend. During the training, attendees

were given a sample package with appraisal forms, a checkoff time line, a resource text, and directions for using the on-line performance appraisal forms.

To determine if the original goals had been met, the committee developed an evaluation form. After the new appraisal system had been in use, an evaluation revealed that 90% of the supervisors and managers felt that the process had indeed been streamlined. The new process was viewed as easier to understand, a significant reduction in paper had occurred, arithmetic errors were prevented, and the appraisal information was clearer and more concise.

The next year the committee reconvened to examine the first year of operation and identify areas for improvement. Since then minor revisions have been made in the performance appraisal system, updates on computer hardware and software were undertaken, and data screens have been simplified for management users. Also, efforts have begun to fully automate the performance appraisal system. In summary, the revision of St. Luke's performance appraisal system met its objectives.<sup>33</sup>

## Questions

1. Explain why the new performance appraisal system at St. Luke's Hospital is more likely to result in more accurate performance appraisals.
2. Describe some of the advantages and disadvantages of combining job descriptions, performance appraisals, and competency profiles for development as St. Luke's did.

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