

# 8 Performance Management and Appraisal

## HRM in Action: Employee Engagement as a Strategic HR Tool

**Employee engagement** refers to the level of commitment workers make to their employer, seen in their willingness to stay at the firm and to go beyond the call of duty.<sup>1</sup> Firms want employees that are highly motivated and feel they have a real stake in the company's success. Such employees are willing to finish tasks in their own time and see a strong link between the firm's success and their own career prospects. In short, motivated, empowered employees work hand in hand with employers in an atmosphere of mutual trust. Companies with engaged workforces have also reported less absenteeism, more engagement with customers, greater employee satisfaction, less mistakes, fewer employees leaving, and naturally higher profits. Such is the power of this concept that former Secretary of State for Business, Peter Mandelson, commissioned David McLeod and Nita Clarke to investigate how much UK competitiveness could be enhanced by wider use of employee engagement. David and Nita concluded that in a world where work tasks have become increasingly similar, engaged employees could give some companies the edge over their rivals. They also identified significant barriers to engagement such as a lack of appreciation for the concept of employee engagement by some companies and managers. Full participation by line managers is particularly crucial.

From the employee point of view, it is easy to view engagement as a management fad, particularly if the company fails to demonstrate the necessary commitment. Some also feel that in a recession, employee engagement becomes less of a priority when in

## CHAPTER OBJECTIVES

After completing this chapter, students should be able to:

1. Define *performance management* and describe the importance of performance management.
2. Define *performance appraisal* and identify the uses of performance appraisal.
3. Discuss the performance appraisal environmental factors.
4. Describe the performance appraisal process.
5. Identify the various performance criteria (standards) that can be established.
6. Identify who may be responsible for performance appraisal and the performance period.
7. Identify the various performance appraisal methods.
8. List the problems that have been associated with performance appraisal.
9. Explain the characteristics of an effective appraisal system.
10. Describe the legal implications of performance appraisal.
11. Explain how the appraisal interview should be conducted.



fact it could be the factor that enables a business in trouble to stay afloat. Others feel that in an environment where recruitment is easier due to increasing unemployment, firms tend to slacken their commitment to engagement.

A company that has demonstrated the value of employee engagement is John Lewis, who sell a range of household goods, clothes, and electronics. The John Lewis business model has been hailed as a good way to run public services and 70,000 store employees recently received a slice of a £151.3 million bonus.

The engagement strategy of John Lewis is facilitated by its unusual employee-owned structure. Employees are known as partners and the company is run by a Partnership Council, a Partnership Board, and a Chairman. At least 80 percent of the Partnership Council is elected and this is one of the ways employees feel that they can influence the working of the company. At the core of the John Lewis philosophy is a belief that employees are critical to success. Employees benefit from an environment that positively encourages a healthy work–life balance and engagement in community projects and charity work. Tangible benefits include a noncontributory final salary pension scheme, store discounts, subsidized holidays, and even a contribution towards concert tickets.

Tesco is another retailing company that has embraced employee engagement. Chief Executive, Terry Leahy, remarked recently that he knew more about Tesco customers than his employees and set out to improve that situation. One of the most significant factors in this process has been an improved understanding with USDAW, the shop workers union. Tesco also launched two notable engagement projects in 2008, one of which encouraged employees to take part in a talent contest. Vouchers for in-store shopping were also distributed to employees at Christmas.

Tesco is already receiving encouraging results for its investment in employee engagement. Stores with the most committed employees are the most successful in terms of turnover. However, surprisingly, many companies still conclude that employee engagement is not for them.<sup>2</sup>

### employee engagement

Level of commitment workers make to their employer, seen in their willingness to stay at the firm and to go beyond the call of duty.

**This chapter begins** by discussing employee engagement. Then performance management is defined and the importance of integrating learning and performance management discussed. The relationship of performance management to performance appraisal is then studied. Next, we look at the uses made of appraisal data and the environmental factors affecting the performance appraisal process. The performance appraisal process is then described and the possible criteria used in evaluating performance are discussed. Then the person(s) responsible for appraisal and the appraisal period are described, and the various performance appraisal methods are explained. Problems associated with performance appraisal and characteristics of an effective appraisal system are described next, followed by a discussion of the legal aspects of performance appraisal and the appraisal interview. This chapter concludes with a global perspective entitled “Two Cultures’ Views of Performance Appraisal.”

#### OBJECTIVE 8.1

Define *performance management* and describe the importance of performance management.

#### performance management (PM)

Goal-oriented process directed toward ensuring that organizational processes are in place to maximize the productivity of employees, teams, and ultimately, the organization.

#### performance appraisal (PA)

Formal system of review and evaluation of individual or team task performance.

#### OBJECTIVE 8.2

Define *performance appraisal* and identify the uses of performance appraisal.

## Performance Management

**Performance management (PM)** is a goal-oriented process directed toward ensuring that organizational processes are in place to maximize the productivity of employees, teams, and ultimately, the organization. It is a major player in accomplishing organizational strategy in that it involves measuring and improving the value of the workforce. PM includes incentive goals and the corresponding incentive values so that the relationship can be clearly understood and communicated. There is a close relationship between incentives and performance.<sup>3</sup>

Performance management systems are one of the major focuses in business today. Although every HR function contributes to performance management, training and performance appraisal play a more significant role. Whereas performance appraisal occurs at a specific time, performance management is a dynamic, ongoing, continuous process. Every person in the organization is a part of the PM system. Each part of the system, such as training, appraisal, and rewards, is integrated and linked for the purpose of continuous organizational effectiveness. With PM, the effort of each and every worker should be directed toward achieving strategic goals. If a worker’s skills need to be improved, training is needed. With PM systems, training has a direct tie-in to achieving organizational effectiveness. In addition, pay and performance are directly related to achieving organizational goals.

Robert J. Greene, CEO of Reward Systems Inc., said, “Performance management is the single largest contributor to organizational effectiveness. If you ignore performance management, you fail.”<sup>4</sup> Organizations must take a more strategic approach to performance appraisal. Instead of using the familiar “check the box, write a comment” ritual, organizations need to integrate the company’s mission, vision, and values into their performance management systems.

## Performance Appraisal

**Performance appraisal (PA)** is a formal system of review and evaluation of individual or team task performance. A critical point in the definition is the word *formal*, because in actuality, managers should be reviewing an individual’s performance on a continuing basis.<sup>5</sup>

PA is especially critical to the success of performance management. Although performance appraisal is but one component of performance management, it is vital, in that it directly reflects



### HR Web Wisdom

Performance  
Management

[http://www.opm.gov/  
perform/overview.asp](http://www.opm.gov/performance/overview.asp)

Office of Personnel  
Management Web site  
on performance  
management.

the organization's strategic plan. Although evaluation of team performance is critical when teams exist in an organization, the focus of PA in most firms remains on the individual employee. Regardless of the emphasis, an effective appraisal system evaluates accomplishments and initiates plans for development, goals, and objectives.

Performance appraisal is often a negative, disliked activity and one that seems to elude mastery.<sup>6</sup> Managers do not like giving them and employees do not like receiving them.<sup>7</sup> In fact, in one survey, almost 80 percent of workers stated dissatisfaction with their PA process.<sup>8</sup> If this is so, why not just eliminate it? Actually, some managers might do just that *if* they did not need to provide feedback, encourage performance improvement, make valid decisions, justify terminations, identify training and development needs, and defend personnel decisions.<sup>9</sup> Performance appraisal serves many purposes, and improved results and efficiency are increasingly critical in today's globally competitive marketplace. Therefore, abandoning the only program with *performance* in its name and *employees* as its focus would seem to be an ill-advised overreaction. On top of these considerations, managers must be concerned about legal ramifications. Developing an effective performance appraisal system has been and will continue to be a high priority for management.

## Uses of Performance Appraisal

For many organizations, the primary goal of an appraisal system is to improve individual and organizational performance. There may be other goals, however. A potential problem with PA, and a possible cause of much dissatisfaction, is expecting too much from one appraisal plan. For example, a plan that is effective for developing employees may not be the best for determining pay increases. Yet, a properly designed system can help achieve organizational objectives and enhance employee performance. In fact, PA data are potentially valuable for virtually every human resource functional area.

### Human Resource Planning

In assessing a firm's human resources, data must be available to identify those who have the potential to be promoted or for any area of internal employee relations. Through performance appraisal it may be discovered that there is an insufficient number of workers who are prepared to enter management. Plans can then be made for greater emphasis on management development. Succession planning (discussed previously in Chapter 4) is a key concern for all firms. A well-designed appraisal system provides a profile of the organization's human resource strengths and weaknesses to support this effort.

### Recruitment and Selection

Performance evaluation ratings may be helpful in predicting the performance of job applicants. For example, it may be determined that a firm's successful employees (identified through performance evaluations) exhibit certain behaviors when performing key tasks. These data may then provide benchmarks for evaluating applicant responses obtained through behavioral interviews, discussed in Chapter 6. Also, in validating selection tests, employee ratings may be used as the variable against which test scores are compared. In this instance, determination of the selection test's validity would depend on the accuracy of appraisal results.

### Training and Development

Performance appraisal should point out an employee's specific needs for training and development. For instance, if Pat Compton's job requires skill in technical writing and her evaluation reveals a deficiency in this factor, she may need additional training in written communication. If a firm finds that a number of first-line supervisors are having difficulty in administering disciplinary action, training sessions addressing this problem may be appropriate. By identifying deficiencies that adversely affect performance, T&D programs can be developed that permit individuals to build on their strengths and minimize their deficiencies. An appraisal system does not guarantee properly trained and developed employees. However, determining T&D needs is more precise when appraisal data are available.

### Career Planning and Development

As discussed in the appendix to Chapter 7, *career planning* is an ongoing process whereby *an individual* sets career goals and identifies the means to achieve them. On the other hand, *career development* is a formal approach used by the organization to ensure that people with the proper qualifications and experiences are available when needed. Performance appraisal data is essential in assessing an employee's strengths and weaknesses and in determining the person's potential. Managers may use such information to counsel subordinates and assist them in developing and implementing their career plans.

### Compensation Programs

Performance appraisal results provide a basis for rational decisions regarding pay adjustments. Most managers believe that you should reward outstanding job performance tangibly with pay increases. They believe that *the behaviors you reward are the behaviors you get*. Rewarding behaviors necessary for accomplishing organizational objectives is at the heart of a firm's strategic plan. To encourage good performance, a firm should design and implement a reliable performance appraisal system and then reward the most productive workers and teams accordingly.

### Internal Employee Relations

Performance appraisal data are also used for decisions in several areas of internal employee relations, including promotion, demotion, termination, layoff, and transfer. For example, an employee's performance in one job may be useful in determining his or her ability to perform another job on the same level, as is required in the consideration of transfers. When the performance level is unacceptable, demotion or even termination may be appropriate.

### Assessment of Employee Potential

Some organizations attempt to assess an employee's potential as they appraise his or her job performance. Although past behaviors may be a good predictor of future behaviors in some jobs, an employee's past performance may not accurately indicate future performance in other jobs. The best salesperson in the company may not have what it takes to become a successful district sales manager, where the tasks are distinctly different. Similarly, the best systems analyst may, if promoted, be a disaster as an information technology manager. Overemphasizing technical skills and ignoring other equally important skills is a common error in promoting employees into management jobs. Recognition of this problem has led some firms to separate the appraisal of performance, which focuses on past behavior, from the assessment of potential, which is future-oriented.

#### OBJECTIVE 8.3

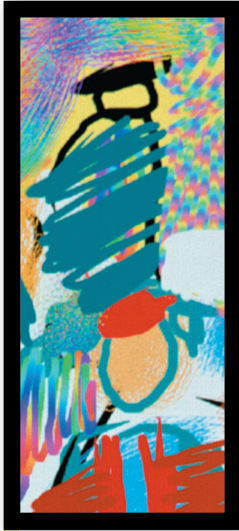
Discuss the performance appraisal environmental factors.

### Performance Appraisal Environmental Factors

External and internal environmental factors can influence the appraisal process. For example, legislation requires that appraisal systems be nondiscriminatory. In the case of *Mistretta v Sandia Corporation* (a subsidiary of Western Electric Company, Inc.), a federal district court judge ruled against the company, stating, "There is sufficient circumstantial evidence to indicate that age bias and age based policies appear throughout the performance rating process to the detriment of the protected age group." The *Albemarle Paper v Moody* case also supported validation requirements for performance appraisals, as well as for selection tests. Organizations should avoid using any appraisal method that results in a disproportionately negative impact on a protected group.

The labor union is another external factor that might affect a firm's appraisal process. Unions have traditionally stressed seniority as the basis for promotions and pay increases. They may vigorously oppose the use of a management-designed performance appraisal system used for these purposes.

Factors within the internal environment can also affect the performance appraisal process. For instance, a firm's corporate culture can assist or hinder the process. Today's dynamic organizations, which increasingly use teams to perform jobs, recognize overall team results as



## TRENDS & INNOVATIONS

### Integrating Learning and Performance Management

Companies are now integrating learning and performance management into a total system. Mike DeVries, vice president of human resources at Cummins Mid-South LLC, said, “We didn’t have a good system on goals [and] development plans, tracking progress throughout the year. More time was spent administering [appraisals] than looking at effectiveness. In addition, the company did not have defined learning offerings for all employees.”<sup>10</sup>

The company looked for automated solutions to accommodate its 550 employees. Today, DeVries’ world is much different. He says, “Now, individual goals are aligned with corporate goals. We can calculate the effectiveness of [employees’] reviews and goals, and the system identifies training needs.” More companies are integrating their learning and performance functions as technology makes it easier and more affordable.<sup>11</sup>

There has been a need for integrating learning and performance for years but technology had not caught up to the need. There were learning management systems and performance management systems but they did not work together as a total system. Now they have converged. Most integrated systems use a competency model where competencies or skills are first identified for each job and the competencies provide the basis for performance appraisal. Managers rate the performance of each employee and look for differences between individual ratings and desired ratings. An employee development plan is formulated based on the gaps. Employees can go to the system to review the plan and

assess how they are doing. When the next appraisal date arrives, the manager and the employee have a clear record of the employee’s development activities.<sup>12</sup>

Historically, HR has struggled with describing the value of training. David Karel, vice president of product marketing for SuccessFactors, a learning and performance management systems provider in San Mateo, California, said, “In the old world, the learning organization was tracking the number of people trained. Now, learning can tie what they are doing to productivity. They can show much more directly how they are impacting the company.” Jon Ciampi, vice president of product management for SumTotal, said, “Employees will leave if they don’t see a career path. By identifying skills gaps and a path to get there, you can let employees actively manage their own careers.” In addition, time spent on the appraisal has been significantly reduced. DeVries said, “Appraisals are more consistent, there’s more content, and employees know what they are being assessed on.”<sup>13</sup>

These systems can also assist in staffing. With an integrated system, managers can easily view up-to-date information on employees’ skills. Tamar Elkeles, Qualcomm’s vice president of learning and organizational development, said, “Without a lot of hiring, you need to find ways to utilize talent differently.” For example, if 30 new multimedia engineers are needed, and the system can identify 15 current employees with the necessary skill sets, then only 15 have to be hired.<sup>14</sup>

Those who have lived with the new systems have no desire to go back to the old way. DeVries said, “Without a system like this, it’s hard for a manager to understand how to do a development plan and follow through on it, to identify skills gaps and track those. If you’re trying to keep up with improving performance without a system like this, I don’t see how you can get there.”<sup>15</sup>

well as individual contributions. A nontrusting culture does not provide the environment needed to encourage high performance by either individuals or teams. In such an atmosphere, the credibility of an appraisal system will suffer regardless of its merits.

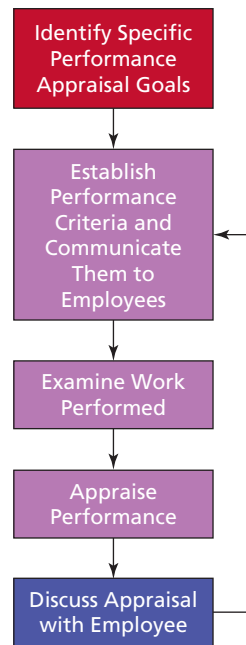
#### OBJECTIVE 8.4

Describe the performance appraisal process.

### Performance Appraisal Process

As shown in Figure 8.1, the starting point for the PA process is identifying specific performance goals. An appraisal system probably cannot effectively serve every desired purpose, so management should select the specific goals it believes to be most important and realistically achievable. For example, some firms may want to stress employee development, whereas other organizations may want to focus on pay adjustments. Too many PA systems fail because management expects too much from one method and does not determine specifically what it wants the system to accomplish.

**Figure 8.1**  
**Performance**  
**Appraisal Process**



The next step in this ongoing cycle continues with establishing performance criteria (standards) and communicating these performance expectations to those concerned. Then the work is performed and the supervisor appraises the performance. At the end of the appraisal period, the appraiser and the employee together review work performance and evaluate it against established performance standards. This review helps determine how well employees have met these standards, determines reasons for deficiencies, and develops a plan to correct the problems. At this meeting, goals are set for the next evaluation period, and the cycle repeats.

#### OBJECTIVE 8.5

Identify the various performance criteria (standards) that can be established.

### Establish Performance Criteria (Standards)

There is an old adage that says “What gets watched gets done.” Therefore, management must carefully select performance criteria as it pertains to achieving corporate goals.<sup>16</sup> The most common appraisal criteria are traits, behaviors, competencies, goal achievement, and improvement potential.

#### Traits

Certain employee traits such as attitude, appearance, and initiative are the basis for some evaluations. However, many of these commonly used qualities are subjective and may be either unrelated to job performance or difficult to define. In such cases, inaccurate evaluations may occur and create legal problems for the organization as well. This was the case in *Wade v Mississippi Cooperative Extension Service* where the circuit court ruled:

In a performance appraisal system, general characteristics such as leadership, public acceptance, attitude toward people, appearance and grooming, personal conduct, outlook on life, ethical habits, resourcefulness, capacity for growth, mental alertness, and loyalty to organization are susceptible to partiality and to the personal taste, whim, or fancy of the evaluator as well as patently subjective in form and obviously susceptible to completely subjective treatment by those conducting the appraisals.

At the same time, certain traits may relate to job performance and, if this connection is established, using them may be appropriate. Traits such as adaptability, judgment, appearance, and attitude may be used when shown to be job-related.

## Behaviors

When an individual's task outcome is difficult to determine, organizations may evaluate the person's task-related behavior or competencies. For example, an appropriate behavior to evaluate for a manager might be leadership style. For individuals working in teams, developing others, teamwork and cooperation, or customer service orientation might be appropriate. Desired behaviors may be appropriate as evaluation criteria because if they are recognized and rewarded, employees tend to repeat them. If certain behaviors result in desired outcomes, there is merit in using them in the evaluation process.

## Competencies

**Competencies** include a broad range of knowledge, skills, traits, and behaviors that may be technical in nature, relate to interpersonal skills, or are business-oriented.

Some managers recommend that cultural competencies such as ethics and integrity be used for all jobs. There are also competencies that are job-specific. For example, analytical thinking and achievement orientation might be essential in professional jobs. In leadership jobs, relevant competencies might include developing talent, delegating authority, and people management skills. The competencies selected for evaluation purposes should be those that are closely associated with job success.

Research conducted by the University of Michigan Business School and sponsored by the Society for Human Resource Management (SHRM) and the Global Consulting Alliance determined that success in HR is dependent on competency and specific skills in the following five key areas:

- *Strategic contribution*: Connecting firms to their markets and quickly aligning employee behaviors with organizational needs.
- *Business knowledge*: Knowing how businesses are run and translating this into action.
- *Personal credibility*: Demonstrating measurable value; being part of an executive team.
- *HR delivery*: Providing efficient and effective service to customers in the areas of staffing, performance management, development, and evaluation.
- *HR technology*: Using technology and Web-based means to deliver value to customers.<sup>17</sup>

## Goal Achievement

If organizations consider *ends* more important than *means*, goal achievement outcomes become an appropriate factor to evaluate. The outcomes established should be within the control of the individual or team and should be those results that lead to the firm's success. At upper levels, the goals might deal with financial aspects of the firm such as profit or cash flow, and market considerations such as market share or position in the market. At lower organizational levels, the outcomes might be meeting the customer's quality requirements and delivering according to the promised schedule.

To assist the process, the manager needs to provide specific examples of how the employee can further his or her development and achieve specific goals. Both parties should reach an agreement as to the employee's goals for the next evaluation period and the assistance and resources the manager needs to provide. This aspect of employee appraisal should be the most positive element in the entire process and help the employee focus on behavior that will produce positive results for all concerned.

## Improvement Potential

When organizations evaluate their employees' performance, many of the criteria used focus on the past. From a performance management viewpoint, the problem is that you cannot change the past. Unless a firm takes further steps, the evaluation data become merely historical documents. Therefore, firms should emphasize the future, including the behaviors and outcomes needed to develop the employee, and, in the process, achieve the firm's goals. This involves an assessment of the employee's potential. Including *potential* in the evaluation process helps to ensure more effective career planning and development.

You should remember that the evaluation criteria presented here are not mutually exclusive. In fact, many appraisal systems are hybrids of these approaches.

### competencies

Broad range of knowledge, skills, traits, and behaviors that may be technical in nature, relate to interpersonal skills, or are business-oriented.



**OBJECTIVE 8.6**

Identify who may be responsible for performance appraisal and the performance period.

## Responsibility for Appraisal

Often the human resource department is responsible for coordinating the design and implementation of performance appraisal programs. However, it is essential that line managers play a key role from beginning to end. These individuals usually conduct the appraisals, and they must directly participate in the program if it is to succeed. Several possibilities exist with regard to the person who will actually rate the employee.

### Immediate Supervisor

An employee's immediate supervisor has traditionally been the most logical choice for evaluating performance and this continues to be the case. The supervisor is usually in an excellent position to observe the employee's job performance and the supervisor has the responsibility for managing a particular unit. When someone else has the task of evaluating subordinates, the supervisor's authority may be undermined. Also, subordinate training and development is an important element in every manager's job and, as previously mentioned, appraisal programs and employee development are usually closely related.

On the negative side, the immediate supervisor may emphasize certain aspects of employee performance and neglect others. Also, managers have been known to manipulate evaluations to justify pay increases and promotions and vice versa.

When geography separates subordinates from their supervisors, evaluation becomes increasingly difficult. In other cases, the appraised employee may be more technically knowledgeable than the boss, and this presents another potential problem. One suggestion for overcoming these disadvantages is to bring subordinates into the process more closely. Have them suggest ways to fairly evaluate their performance and then use their suggestions as part of the appraisal criteria.

In most instances, the immediate supervisor will probably continue to be involved in evaluating performance. Organizations will seek alternatives, however, because of technological advances and a desire to broaden the perspective of the appraisal.

### Subordinates

Historically, our culture has viewed evaluation by subordinates negatively. However, this thinking has changed somewhat. Some firms conclude that evaluation of managers by subordinates is both feasible and needed. They reason that subordinates are in an excellent position to view their superiors' managerial effectiveness. Advocates believe that this approach leads supervisors to become especially conscious of the work group's needs and to do a better job of managing. In the higher education environment, it is a common practice for instructors to be evaluated by students. Critics are concerned that the manager (and instructors) will be caught up in a popularity contest or that employees will be fearful of reprisal. If this approach has a chance for success, one thing is clear: the evaluators must be guaranteed anonymity. Ensuring this might be particularly difficult in a small department and especially if demographic data on the appraisal form could identify raters.

### Peers and Team Members

A major strength of using peers to appraise performance is that they work closely with the evaluated employee and probably have an undistorted perspective on typical performance, especially in team assignments. Organizations are increasingly using teams, including those that are self-directed. The rationale for evaluations conducted by team members includes the following:

- Team members know each others' performance better than anyone and can, therefore, evaluate performance more accurately.
- Peer pressure is a powerful motivator for team members.
- Members who recognize that peers within the team will be evaluating their work show increased commitment and productivity.
- Peer review involves numerous opinions and is not dependent on one individual.

Problems with peer evaluations include the reluctance of some people who work closely together, especially on teams, to criticize each other. On the other hand, if an employee has been

at odds with another worker he or she might really “unload on the enemy,” resulting in an unfair evaluation. Another problem concerns peers who interact infrequently and lack the information needed to make an accurate assessment.

When employees work in teams, and their appraisal system focuses entirely on individual results, it is not surprising that they show little interest in their teams. But, this problem can be corrected. If teamwork is essential, make it a criterion for evaluating employees; rewarding collaboration will encourage teamwork.

### Self-Appraisal

If employees understand their objectives and the criteria used for evaluation, they are in a good position to appraise their own performance. Many people know what they do well on the job and what they need to improve. If they have the opportunity, they will criticize their own performance objectively and take action to improve it. Paul Falcone, vice-president of HR at Nickelodeon, said, “The fascinating thing is that employees are usually tougher on themselves than you will ever be.”<sup>18</sup> Also, because employee development is self-development, employees who appraise their own performance may become more highly motivated. Self-appraisal provides employees with a means of keeping the supervisor informed about everything the worker has done during the appraisal period.<sup>19</sup> Even if a self-appraisal is not a part of the system, the employee should at least provide the manager a list of his or her most important accomplishments and contributions over the appraisal period. This will prevent the manager from being blindsided when the employee complains, perhaps justifiably, “You didn’t even mention the Bandy contract I landed last December!”

As a complement to other approaches, self-appraisal has great appeal to managers who are primarily concerned with employee participation and development. For compensation purposes, however, its value is considerably less. Some individuals are masters at attributing good performance to their own efforts and poor performance to someone else’s.

### Customer Appraisal

Customer behavior determines a firm’s degree of success. Therefore, some organizations believe it is important to obtain performance input from this critical source. Organizations use this approach because it demonstrates a commitment to the customer, holds employees accountable, and fosters change. Customer-related goals for executives generally are of a broad, strategic nature, whereas targets for lower-level employees tend to be more specific. For example, an objective might be to improve the rating for accurate delivery or reduce the number of dissatisfied customers by half. It is important to have employees participate in setting their goals and to include only factors that are within the employees’ control.

## Appraisal Period

Formal performance evaluations are usually prepared at specific intervals. Although there is nothing magical about the period for formal appraisal reviews, in most organizations they occur either annually or semiannually. Even more significant, however, is the continuous interaction (primarily informal), including coaching and other developmental activities, that continues throughout the appraisal period. Managers should be conditioned to understand that managing performance is a continuous process that is built into their job every day.

In the current business climate, it may be well for all firms to consider monitoring performance more often. Southwest Airlines has asked its managers to have monthly check-ins with staff rather than semi-annual ones.<sup>20</sup> One study found that 63 percent of high-growth companies review performance more than once a year; in comparison, just 22 percent of low-growth companies review performance more than once a year.<sup>21</sup> Changes occur so fast that employees need to look at objectives and their own roles throughout the year to see whether changes are in order. In high-tech organizations, the speed of change mandates that a performance period be shorter, perhaps every three or four months.

Some organizations use the employee’s date of hire to determine the rating period. At times a subordinate’s first appraisal may occur at the end of a probationary period, anywhere from

30 to 90 days after his or her start date. However, in the interest of consistency, it may be advisable to perform evaluations on a calendar basis rather than on anniversaries. If firms do not conduct all appraisals at the same time, it may be impossible to make needed comparisons between employees.

### OBJECTIVE 8.7

Identify the various performance appraisal methods.

### 360-degree feedback evaluation method

Popular performance appraisal method that involves evaluation input from multiple levels within the firm as well as external sources.



#### HR Web Wisdom

#### 360 Degree Evaluation

<http://www.custominsight.com/360-degree-feedback/360-delivering-feedback.asp>

Delivering feedback.

## Performance Appraisal Methods

Managers may choose from among a number of appraisal methods. The type of performance appraisal system used depends on its purpose. If the major emphasis is on selecting people for promotion, training, and merit pay increases, a traditional method, such as rating scales, may be appropriate. Collaborative methods, including input from the employees themselves, may prove to be more suitable for developing employees.

### 360-Degree Feedback Evaluation Method

The **360-degree feedback evaluation method** is a popular performance appraisal method that involves evaluation input from multiple levels within the firm as well as external sources.

The 360-degree method is unlike traditional performance reviews, which provide employees with feedback only from supervisors.<sup>22</sup> In this method, people all around the rated employee may provide ratings, including senior managers, the employee himself or herself, supervisors, subordinates, peers, team members, and internal or external customers.<sup>23</sup> As many as 90 percent of *Fortune* 500 companies use some form of 360-degree feedback for either employee evaluation or development.<sup>24</sup> Many companies use results from 360-degree programs not only for conventional applications but also for succession planning, training, and professional development.

Unlike traditional approaches, 360-degree feedback focuses on skills needed across organizational boundaries. Also, by shifting the responsibility for evaluation to more than one person, many of the common appraisal errors can be reduced or eliminated. Software is available to permit managers to give the ratings quickly and conveniently. The 360-degree feedback method may provide a more objective measure of a person's performance. Including the perspective of multiple sources results in a broader view of the employee's performance and may minimize biases that result from limited views of behavior.

Having multiple raters also makes the process more legally defensible. However, it is important for all parties to know the evaluation criteria, the methods for gathering and summarizing the feedback, and the use to which the feedback will be put. An appraisal system involving numerous evaluators will naturally take more time and, therefore, be more costly. Nevertheless, the way firms are being organized and managed may require innovative alternatives to traditional top-down appraisals.

According to some managers, the 360-degree feedback method has problems. Ilene Gochman, director of Watson Wyatt's organization effectiveness practice, says, "We've found that use of the 360 is actually negatively correlated with financial results."<sup>25</sup> GE's former CEO Jack Welch maintains that the 360-degree system in his firm had been "gamed" and that people were saying nice things about one another, resulting in all good ratings.<sup>26</sup> Another critical view with an opposite twist is that input from peers, who may be competitors for raises and promotions, might intentionally distort the data and sabotage the colleague. Yet, since so many firms use 360-degree feedback evaluation, it seems that many firms have found ways to avoid the pitfalls.

Google has a different approach to 360-degree feedback as it provides managers and employees to nominate 'peer reviewers' from anywhere across the organization. According to the company's manager of HR technology and operations, Melissa Karp, "People are fairly candid in their feedback."<sup>27</sup> One might ask, what happens at Google when people write unconstructive comments? Karp said, "managers are encouraged to use that as a 'coachable moment' to talk to the person who wrote something unconstructive. However, at Google this hasn't been too much of a problem."<sup>28</sup>

The biggest risk with 360-degree feedback is confidentiality. Many firms outsource the process to make participants feel comfortable that the information they share and receive is

completely anonymous, but the information is very sensitive and, in the wrong hands, could impact careers.

### Rating Scales Method

#### rating scales method

Performance appraisal method that rates employees according to defined factors.

The **rating scales method** is a performance appraisal method that rates employees according to defined factors.

Using this approach, evaluators record their judgments about performance on a scale. The scale includes several categories, normally 5–7 in number, defined by adjectives such as *outstanding*, *meets expectations*, or *needs improvement*. Although systems often provide an overall rating, the method generally allows for the use of more than one performance criterion. One reason for the popularity of the rating scales method is its simplicity, which permits quick evaluations of many employees. When you quantify the ratings, the method facilitates comparison of employees’ performances.

The factors chosen for evaluation are typically of two types: job-related and personal characteristics. Note that in Figure 8.2, job-related factors include quality and quantity of work,

**Figure 8.2**  
Rating Scales Method of Performance Appraisal

<b>Name</b>	<b>Job Title</b>
Supervisor/Manager	Department
<b>Appraisal Period:</b> <b>From</b>	<b>To</b>

Evaluate the performance in each of the following factors on a scale of 1 to 5:  
**5 = Outstanding**, consistently exceeds expectations for this factor.  
**4 = Above Expectations**, consistently meets and occasionally exceeds expectations.  
**3 = Meets Expectations**, consistently meets expectations.  
**2 = Below Expectations**, occasionally fails to meet expectations.  
**1 = Needs Improvement**, consistently fails to meet expectations.

**Part 1—Task Outcomes (Weighted 80% of total score)**  
 List mutually agreed-to performance factors from the job description and goals established from the preview performance review.

<ul style="list-style-type: none"><li>• _____</li><li>• _____</li><li>• _____</li><li>• _____</li><li>• _____</li><li>• Quality of work</li><li>• Quantity of work</li></ul>	<b>Points</b> _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____
<b>Total Points</b>	_____
<b>Average Score (Divide total points by number of factors used)</b>	_____ Multiplied by 16 = _____
<b>Comments</b> _____	
_____	

**Part 2—Personal Behaviors (10% of total score)**

<ul style="list-style-type: none"><li>• Leadership</li><li>• Interpersonal skills</li><li>• Developing others</li><li>• Customer service</li><li>• Teamwork</li></ul>	<b>Points</b> _____ _____ _____ _____ _____ _____
<b>Total Points</b>	_____
<b>Average Score (Divide total points by number of applicable factors)</b>	_____ Multiplied by 2 = _____
<b>Comments</b> _____	
_____	

**Figure 8.2**  
Continued

**Part 3—Personal Traits (10% of total score)**

- Adaptability \_\_\_\_\_
- Judgment \_\_\_\_\_
- Appearance \_\_\_\_\_
- Attitude \_\_\_\_\_
- Initiative \_\_\_\_\_

**Total Points** \_\_\_\_\_

**Average Score (Divide total points by 5)** \_\_\_\_\_ **Multiplied by 2 =** \_\_\_\_\_

**Comments** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Points from Part 1** \_\_\_\_\_ **+ Part 2** \_\_\_\_\_ **+ Part 3** \_\_\_\_\_ **= Total Points** \_\_\_\_\_

**Performance goals for next appraisal period:**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**Self-development activities for this employee**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Employee comments**

\_\_\_\_\_

\_\_\_\_\_

<b>Evaluated By:</b>	<b>Title</b>	<b>Date</b>
<b>Approved</b>	<b>Title</b>	<b>Date</b>
<b>Employee's Signature (Does not necessarily indicate agreement)</b>	<b>Title</b>	<b>Date</b>

whereas personal factors include such behaviors as interpersonal skills and traits, like *adaptability*. The rater (evaluator) completes the form by indicating the degree of each factor that is most descriptive of the employee and his or her performance. In this illustration, evaluators total and then average the points in each part. They then multiply this average by a factor representing the weight given to each section. The final score (total points) for the employee is the total of each section's points.

Some firms provide space for the rater to comment on the evaluation given for each factor. This practice may be especially encouraged, or even required, when the rater gives an extreme rating, either the highest or lowest. For instance, if an employee is rated *needs improvement* (a 1 on the sample form) on *teamwork*, the rater provides written justification for this low evaluation. The purpose of this requirement is to focus on correcting deficiencies and to discourage arbitrary and hastily made judgments.

The more precise the definition of factors and degrees, the more accurately the rater can evaluate worker performance. For instance, in order to receive an *outstanding* rating for a factor such as *quality of work*, a person must consistently go beyond the prescribed work requirements. When the various performance levels are described merely as *above expectations* or *below expectations* without further elaboration, what has the employee really learned? These generalities do not provide the guidance needed for improving performance. It is important that each rater interpret the factors and degrees in the same way. Raters acquire this ability through performance appraisal training. Many rating scale forms also provide for consideration of future behavior. Notice that the form shown as Figure 8.2 has space for performance goals for the next period and self-development activities for the next appraisal period.

### critical incident method

Performance appraisal method that requires keeping written records of highly favorable and unfavorable employee work actions.

### Critical Incident Method

The **critical incident method** is a performance appraisal method that requires keeping written records of highly favorable and unfavorable employee work actions.

When such an action, a “critical incident,” affects the department’s effectiveness significantly, either positively or negatively, the manager writes it down. At the end of the appraisal period, the rater uses these records along with other data to evaluate employee performance. With this method, the appraisal is more likely to cover the entire evaluation period and not focus on the past few weeks or months.

### essay method

Performance appraisal method in which the rater writes a brief narrative describing the employee’s performance.

### Essay Method

The **essay method** is a performance appraisal method in which the rater writes a brief narrative describing the employee’s performance.

This method tends to focus on extreme behavior in the employee’s work rather than on routine day-to-day performance. Ratings of this type depend heavily on the evaluator’s writing ability. Supervisors with excellent writing skills, if so inclined, can make a marginal worker sound like a top performer. Comparing essay evaluations might be difficult because no common criteria exist. However, some managers believe that the essay method is not only the most simple but also an acceptable approach to employee evaluation.

### work standards method

Performance appraisal method that compares each employee’s performance to a predetermined standard or expected level of output.

### Work Standards Method

The **work standards method** is a performance appraisal method that compares each employee’s performance to a predetermined standard or expected level of output.

Standards reflect the normal output of an average worker operating at a normal pace. Firms may apply work standards to virtually all types of jobs, but production jobs generally receive the most attention. An obvious advantage of using standards as appraisal criteria is objectivity. However, in order for employees to perceive that the standards are objective, they should understand clearly how the standards were set. Management must also explain the rationale for any changes to the standards.

### ranking method

Performance appraisal method in which the rater ranks all employees from a group in order of overall performance.

### Ranking Method

The **ranking method** is a performance appraisal method in which the rater ranks all employees from a group in order of overall performance.

For example, the best employee in the group is ranked highest, and the poorest is ranked lowest. You follow this procedure until you rank all employees. A difficulty occurs when all individuals have performed at comparable levels (as perceived by the evaluator).

*Paired comparison* is a variation of the ranking method in which the performance of each employee is compared with that of every other employee in the group. A single criterion, such as overall performance, is often the basis for this comparison. The employee who receives the greatest number of favorable comparisons receives the highest ranking.

Some professionals in the field argue for using a comparative approach, such as ranking, whenever management must make human resource decisions. They believe that employees are promoted or receive the highest pay increases not because they achieve their objectives, but rather because they achieve them better than others in their work group.

### forced distribution method

Performance appraisal method in which the rater is required to assign individuals in a work group to a limited number of categories, similar to a normal frequency distribution.

### Forced Distribution Method

The **forced distribution method** of performance appraisal requires the rater to assign individuals in a work group to a limited number of categories, similar to a normal frequency distribution. The purpose of forced distribution is to keep managers from being excessively lenient and having a disproportionate number of employees in the “superior” category.<sup>29</sup>

Forced distribution systems have been around for decades and firms such as General Electric, Cisco Systems, EDS, Hewlett-Packard, Microsoft, Pepsi, Caterpillar, Sun Microsystems, Goodyear, Ford Motor, and Capital One use them today.<sup>30</sup> Proponents of forced distribution believe they facilitate budgeting and guard against weak managers who are too timid to get rid of poor performers. They think that forced rankings require managers to be honest with workers about how they are doing.

The forced distribution systems tend to be based on three levels. In GE’s system, the best performers are placed in the top 20 percent, the next group in the middle 70 percent, and the poorest performing group winds up in the bottom 10 percent. The underperformers are, after being given a time to improve their performance, generally let go.<sup>31</sup> If any of the underperformers are able to improve their performance, you might wonder if any in the 70 percent group would get nervous!

Although used by some prestigious firms, the forced distribution system appears to be unpopular with many managers. In a survey of HR professionals, 44 percent of respondents thought their firm’s forced ranking system damages morale and generates mistrust of leadership.<sup>32</sup> Some believe it fosters cutthroat competition, paranoia, and general ill will, and destroys employee loyalty. A Midwestern banker states that his company “began a rank-and-yank system that flies directly in the face of the ‘teamwork’ that senior management says it wants to encourage. Don’t tell me I’m supposed to put the good of the team first and then tell me the bottom 10 percent of us are going to lose our jobs because, team be damned, I’m going to make sure I’m not in that bottom 10 percent.”<sup>33</sup> Critics of forced distribution contend that they compel managers to penalize a good, although not a great, employee who is part of a superstar team. One reason employees are opposed to forced ranking is that they suspect that the rankings are a way for companies to rationalize firings more easily.

### behaviorally anchored rating scale (BARS) method

Performance appraisal method that combines elements of the traditional rating scale and critical incident methods; various performance levels are shown along a scale with each described in terms of an employee’s specific job behavior.

### Behaviorally Anchored Rating Scale Method

The **behaviorally anchored rating scale (BARS) method** is a performance appraisal method that combines elements of the traditional rating scales and critical incident methods; various performance levels are shown along a scale with each described in terms of an employee’s specific job behavior.

Table 8.1 illustrates a portion of a BARS system that was developed to evaluate college recruiters. Suppose the factor chosen for evaluation is *Ability to Present Positive Company Image*. On the *very positive* end of this factor would be “Makes excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to applicant and answers questions in a very positive manner.” On the *very negative* end of this factor would be “Even with repeated instructions continues to make a poor impression. This interviewer could be expected to turn off college applicants from wanting to join the firm.” As may be noted, there are several levels in between the very negative and the very positive. The rater is able to determine more objectively how frequently the employee performs in each defined level.

A BARS system differs from rating scales because, instead of using terms such as *high*, *medium*, and *low* at each scale point, it uses behavioral anchors related to the criterion being measured. This modification clarifies the meaning of each point on the scale and reduces rater bias and error by anchoring the rating with specific behavioral examples based on job analysis information. Instead of providing a space for entering a rating figure for a category such as *Above Expectations*, the BARS method provides examples of such behavior. This approach

**Table 8.1** BARS for Factor: Ability to Present Positive Company Image

Clearly Outstanding Performance	Makes excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to applicant and answers questions in a very positive manner.
Excellent Performance	Makes good impression on college recruits. Answers all questions and explains positive aspects of the company. Answers questions in a positive manner.
Good Performance	Makes a reasonable impression on college recruits. Listens to applicant and answers questions in a knowledgeable manner.
Average Performance	Makes a fair impression on college recruits. Listens to applicant and answers most questions in a knowledgeable manner.
Slightly Below Average Performance	Attempts to make a good impression on college recruits. Listens to applicants but at times could be expected to have to go to other sources to get answers to questions.
Poor Performance	At times makes poor impression on college recruits. Sometimes provides incorrect information to applicant or goes down blind avenues before realizing mistake.
Very Poor Performance	Even with repeated instructions continues to make a poor impression. This interviewer could be expected to turn off college applicant from wanting to join the firm.

facilitates discussion of the rating because it addresses specific behaviors, thus overcoming weaknesses in other evaluation methods. Regardless of apparent advantages of the BARS method, reports on its effectiveness are mixed. A specific deficiency is that the behaviors used are activity oriented rather than results oriented. Also, the method may not be economically feasible since each job category requires its own BARS. Yet, among the various appraisal techniques, the BARS method is perhaps the most highly defensible in court because it is based on actual observable job behaviors.

#### results-based system

Performance appraisal method in which the manager and subordinate jointly agree on objectives for the next appraisal period; in the past a form of *management by objectives*.

### Results-Based System

The manager and subordinate jointly agree on objectives for the next appraisal period in a **results-based system**, in the past a form of *management by objectives*.

In such a system, one objective might be, for example, to cut waste by 10 percent. At the end of the appraisal period, an evaluation focuses on how well the employee achieved this objective.

#### OBJECTIVE 8.8

List the problems that have been associated with performance appraisal.

## Problems in Performance Appraisal

As indicated at the beginning of this chapter, performance appraisal is constantly under a barrage of criticism. The rating scales method seems to be the most vulnerable target. Yet, in all fairness, many of the problems commonly mentioned are not inherent in this method but, rather, reflect improper implementation. For example, firms may fail to provide adequate rater training or they may use appraisal criteria that are too subjective and lack job-relatedness. The following section highlights some of the more common problem areas.

### Appraiser Discomfort

Conducting performance appraisals is often a frustrating human resource management task. One management guru, Edward Lawler, noted the considerable documentation showing that performance appraisal systems neither motivate individuals nor effectively guide their





### HR Web Wisdom

#### Appraisal News

<http://www.performance-appraisal.com/home.htm>

Performance appraisal news and general PA information is provided.

#### halo error

Evaluation error that occurs when a manager generalizes one positive performance feature or incident to all aspects of employee performance, resulting in a higher rating.

#### horn error

Evaluation error that occurs when a manager generalizes one negative performance feature or incident to all aspects of employee performance, resulting in a lower rating.

#### leniency

Giving an undeserved high performance appraisal rating to an employee.

#### strictness

Being unduly critical of an employee's work performance.

development. Instead, he maintains, they create conflict between supervisors and subordinates and lead to dysfunctional behaviors.<sup>34</sup> This caveat is important. If a performance appraisal system has a faulty design, or improper administration, employees will dread receiving appraisals and the managers will despise giving them. In fact, some managers have always loathed the time, paperwork, difficult choices, and discomfort that often accompanies the appraisal process. Going through the procedure cuts into a manager's high-priority workload and the experience can be especially unpleasant when the employee in question has not performed well.

### Lack of Objectivity

A potential weakness of traditional performance appraisal methods is that they lack objectivity. In the rating scales method, for example, commonly used factors such as attitude, appearance, and personality are difficult to measure. In addition, these factors may have little to do with an employee's job performance. Although subjectivity will always exist in appraisal methods, employee appraisal based primarily on personal characteristics may place the evaluator and the company in untenable positions with the employee and equal employment opportunity guidelines. The firm may be hard-pressed to show that these factors are job-related.

### Halo/Horn

A **halo error** occurs when a manager generalizes one positive performance feature or incident to all aspects of employee performance, resulting in a higher rating.<sup>35</sup>

For example, Rodney Pirkle, accounting supervisor, placed a high value on neatness, a factor used in the company's performance appraisal system. As Rodney was evaluating the performance of his senior accounting clerk, Jack Hicks, he noted that Jack was a very neat individual and gave him a high ranking on this factor. Also, consciously or unconsciously, Rodney permitted the high ranking on neatness to carry over to other factors, giving Jack undeserved high ratings on all factors. Of course, if Jack had not been neat, the opposite could have occurred. This phenomenon is known as the **horn error**, an evaluation error that occurs when a manager generalizes one negative performance feature or incident to all aspects of employee performance, resulting in a lower rating.

### Leniency/Strictness

Some managers are too generous with praise or too hard on a person. Dick Grote, a performance management expert and president of Grote Consulting Corporation, a management consulting firm in Dallas, said, "It is not OK to have performance rated differently from manager to manager because these decisions impact compensation, development and succession planning."<sup>36</sup>

Giving undeserved high ratings to an employee is referred to as **leniency**. This behavior is often motivated by a desire to avoid controversy over the appraisal. It is most prevalent when highly subjective (and difficult to defend) performance criteria are used, and the rater is required to discuss evaluation results with employees. When managers know they are evaluating employees for administrative purposes, such as pay increases, they are likely to be more lenient than when evaluating performance to achieve employee development. Leniency, however, may result in failure to recognize correctable deficiencies. The practice may also deplete the merit budget and reduce the rewards available for superior employees. In addition, an organization will find it difficult to terminate poor-performing employees who continuously receive positive evaluations.

Being unduly critical of an employee's work performance is referred to as **strictness**. Although leniency is usually more prevalent than strictness, some managers, on their own initiative, apply an evaluation more rigorously than the company standard. This behavior may be due to a lack of understanding of various evaluation factors. The worst situation is when a firm has both lenient and strict managers and does nothing to level the inequities. Here, the weak

performers get relatively high pay increases and promotions from a lenient boss, whereas the strict manager shortchanges the stronger employees. This can have a demoralizing effect on the morale and motivation of the top-performing people.

### central tendency error

Evaluation appraisal error that occurs when employees are incorrectly rated near the average or middle of a scale.

## Central Tendency

**Central tendency error** is an evaluation appraisal error that occurs when employees are incorrectly rated near the average or middle of a scale. This practice may be encouraged by some rating scale systems that require the evaluator to justify in writing extremely high or extremely low ratings. With such a system, the rater may avoid possible controversy or criticism by giving only average ratings. However, since these ratings tend to cluster in the *fully satisfactory* range, employees do not often complain. Nevertheless, this error does exist and it influences the accuracy of evaluations. Typically, when pay raises are given, they will be based on an employee's performance. When a manager gives an underachiever or overachiever, an average rating, it undermines the compensation system.<sup>37</sup>

## Recent Behavior Bias

Anyone who has observed the behavior of young children several weeks before Christmas can readily identify with the problem of recent behavior bias. Suddenly, the wildest kids in the neighborhood develop angelic personalities in anticipation of the rewards they hope to receive from Old Saint Nick. Individuals in the workforce are not children, but they are human. Virtually every employee knows precisely when a performance review is scheduled. Although his or her actions may not be conscious, an employee's behavior often improves and productivity tends to rise several days or weeks before the scheduled evaluation. It is only natural for a rater to remember recent behavior more clearly than actions from the more distant past. However, formal performance appraisals generally cover a specified time, and an individual's performance over the entire period should be considered. Maintaining records of performance throughout the appraisal period helps avoid this problem.

## Personal Bias (Stereotyping)

This pitfall occurs when managers allow individual differences to affect the ratings they give. If these are factors to avoid such as gender, race, or age, not only is this problem detrimental to employee morale, but it is blatantly illegal and can result in costly litigation. The effects of cultural bias, or stereotyping, can definitely influence appraisals.<sup>38</sup> Managers establish mental pictures of what are considered ideal typical workers, and employees who do not match this picture may be unfairly judged.

Discrimination in appraisal can be based on other factors as well. For example, mild-mannered employees may be appraised more harshly because they do not seriously object to the results. This type of behavior is in sharp contrast to the more outspoken employee, who often confirms the adage: *the squeaky wheel gets the grease*.

## Manipulating the Evaluation

In some instances, managers control virtually every aspect of the appraisal process and are therefore in a position to manipulate the system. For example, a supervisor may want to give a pay raise to a certain employee or the supervisor may just "favor" one worker more than another.<sup>39</sup> In order to justify this action, the supervisor may give the employee an undeserved high performance evaluation and perhaps a less favored, but productive, employee a lower rating.<sup>40</sup> Or, the supervisor may want to get rid of an employee and so may give the individual an undeserved low rating. In either instance, the system is distorted and the goals of performance appraisal cannot be achieved. In addition, in the latter example, if the employee is a member of a protected group, the firm may wind up in court. If the organization cannot adequately support the evaluation, it may suffer significant financial loss.



## ETHICAL DILEMMA

### Abdication of Responsibility

**Y**ou are the new vice president for human resources of a company that has not been performing well, and everyone, including yourself, has a mandate to deliver results. The pressure has never been greater. Shareholders are angry after 31 months of a tough market that has left their stock underwater. Many shareholders desperately need stock performance to pay for their retirement. Working for you is a 52-year-old manager with two kids in college. In previous evaluations, spineless executives told him he was doing fine, when he clearly was not, and his performance is still far below par.

If you are to show others in the company that you are willing to make tough decisions, you feel you must fire this individual. The question is who's going to suffer: the firm

and ultimately shareholders whose retirements are in jeopardy, or a nice guy who's been lied to for 20 years.

*What would you do?*<sup>43</sup>

One study revealed that more than 70 percent of responding managers believe that inflated and lowered ratings are given intentionally. Table 8.2 shows these managers' explanations for their rationale. The results suggest that the validity of many performance appraisal systems is flawed, although another study indicated that appraisal data are valid 75 percent of the time.<sup>41</sup> Yet, having invalid appraisal data 25 percent of the time would be nothing to brag about. It seems obvious that evaluator training emphasizing the negative consequences of rater errors would pay for itself many times over.

### Employee Anxiety

The evaluation process may also create anxiety for the appraised employee. This may take the form

of discontent, apathy, and turnover. In a worst-case scenario, a lawsuit is filed based on real or perceived unfairness.<sup>42</sup> Opportunities for promotion, better work assignments, and increased compensation may hinge on the results. This could cause not only apprehension, but also outright resistance. One opinion is that if you surveyed typical employees, they would tell you performance appraisal is management's way of highlighting all the bad things they did all year.

**Table 8.2** Reasons for Intentionally Inflating or Lowering Ratings

#### Inflated Ratings

- The belief that accurate ratings would have a damaging effect on the subordinate's motivation and performance
- The desire to improve an employee's eligibility for merit
- The desire to avoid airing the department's dirty laundry
- The wish to avoid creating a negative permanent record of poor performance that might hound the employee in the future
- The need to protect good performers whose performance was suffering because of personal problems
- The wish to reward employees displaying great effort even though results are relatively low
- The need to avoid confrontation with certain hard-to-manage employees
- The desire to promote a poor or disliked employee up and out of the department

#### Lowered Ratings

- To scare better performance out of an employee
- To punish a difficult or rebellious employee
- To encourage a problem employee to quit
- To create a strong record to justify a planned firing
- To minimize the amount of the merit increase a subordinate receives
- To comply with an organization edict that discourages managers from giving high ratings

*Source:* Clinton Longenecker and Dean Ludwig, "Ethical Dilemmas in Performance Appraisal Revisited," *Journal of Business Ethics* 9 (December 1990): 963. Reprinted by permission of Kluwer Academic Publishers.

**OBJECTIVE 8.9**

Explain the characteristics of an effective appraisal system.

## Characteristics of an Effective Appraisal System

The basic purpose of a performance appraisal system is to improve performance of individuals, teams, and the entire organization. The system may also serve to assist in making administrative decisions concerning pay increases, promotions, transfers, or terminations. In addition, the appraisal system must be legally defensible. Although a perfect system does not exist, every system should possess certain characteristics. Organizations should seek an accurate assessment of performance that permits the development of a plan to improve individual and group performance. The system must honestly inform people of how they stand with the organization. The following factors assist in accomplishing these purposes.

### Job-Related Criteria

Job-relatedness is perhaps the most basic criterion needed in employee performance appraisals. The *Uniform Guidelines on Employee Selection Procedures* and court decisions are quite clear on this point. More specifically, evaluation criteria should be determined through job analysis. Subjective factors, such as initiative, enthusiasm, loyalty, and cooperation may be important; however, unless clearly shown to be job-related, they should not be used.

### Performance Expectations

Managers and subordinates must agree on performance expectations in advance of the appraisal period.<sup>44</sup> How can employees function effectively if they do not know what they are being measured against? On the other hand, if employees clearly understand the expectations, they can evaluate their own performance and make timely adjustments as they perform their jobs, without having to wait for the formal evaluation review. The establishment of highly objective work standards is relatively simple in many areas, such as manufacturing, assembly, and sales. For numerous other types of jobs, however, this task is more difficult. Still, evaluation must take place based on clearly understood performance expectations.

### Standardization

Firms should use the same evaluation instrument for all employees in the same job category who work for the same supervisor. Supervisors should also conduct appraisals covering similar periods for these employees. Regularly scheduled feedback sessions and appraisal interviews for all employees are essential.

Formal documentation of appraisal data serves several purposes, including protection against possible legal action. Employees should sign their evaluations. If the employee refuses to sign, the manager should document this behavior. Records should also include a description of employee responsibilities, expected performance results, and the role these data play in making appraisal decisions. Although performance appraisal is important for small firms, they are not expected to maintain performance appraisal systems that are as formal as those used by large organizations. Courts have reasoned that objective criteria are not as important in firms with only a few employees because in smaller firms top managers are more intimately acquainted with their employees' work.

### Trained Appraisers

A common deficiency in appraisal systems is that the evaluators seldom receive training on how to conduct effective evaluations. Unless everyone evaluating performance receives training in the art of giving and receiving feedback, the process can lead to uncertainty and conflict. The training should be an ongoing process in order to ensure accuracy and consistency. The training should cover how to rate employees and how to conduct appraisal interviews. Instructions should be rather detailed and the importance of making objective and unbiased ratings should be emphasized. An e-learning training module may serve to provide information for managers as needed.

### Continuous Open Communication

Most employees have a strong need to know how well they are performing. A good appraisal system provides highly desired feedback on a continuing basis. There should be few surprises in the performance review. Managers should handle daily performance problems as they occur and not allow them to pile up for six months or a year and then address them during the performance appraisal interview. Continuous feedback is vitally important to help direct, coach, and teach employees to grow and improve performance.<sup>45</sup> When something new surfaces during the appraisal interview, the manager probably did not do a good enough job communicating with the employee throughout the appraisal period. Even though the interview presents an excellent opportunity for both parties to exchange ideas, it should never serve as a substitute for the day-to-day communication and coaching required by performance management.

### Conduct Performance Reviews

In addition to the need for continuous communication between managers and their employees, a special time should be set for a formal discussion of an employee's performance. Since improved performance is a common goal of appraisal systems, withholding appraisal results is absurd. Employees are severely handicapped in their developmental efforts if denied access to this information. A performance review allows them to detect any errors or omissions in the appraisal, or an employee may disagree with the evaluation and want to challenge it.

Constant employee performance documentation is vitally important for accurate performance appraisals. Although the task can be tedious and boring for managers, maintaining a continuous record of observed and reported incidents is essential in building a useful appraisal. The appraisal interview will be discussed in a later section.

### Due Process

Ensuring due process is vital. If the company does not have a formal grievance procedure, it should develop one to provide employees an opportunity to appeal appraisal results that they consider inaccurate or unfair. They must have a procedure for pursuing their grievances and having them addressed objectively.

### Legal Implications

Employee lawsuits may result from negative evaluations. Employees often win these cases, thanks in part to the employer's own performance appraisal procedures. A review of court cases makes it clear that legally defensible performance appraisal systems should be in place. Perfect systems are not expected, and the law does not preclude supervisory discretion in the process. However, the courts normally require these conditions:

- Either the absence of adverse impact on members of protected classes or validation of the process.
- A system that prevents one manager from directing or controlling a subordinate's career.
- The appraisal should be reviewed and approved by someone or some group in the organization.
- The rater, or raters, must have personal knowledge of the employee's job performance.
- The appraisal systems must use predetermined criteria that limit the manager's discretion.

Mistakes in appraising performance and decisions based on invalid results can have serious repercussions. For example, discriminatory allocation of money for merit pay increases can result in costly legal action. In settling cases, courts have held employers liable for back pay, court costs, and other costs related to training and promoting certain employees in protected classes.

An employer may also be vulnerable to a *negligent retention* claim if an employee who continually receives unsatisfactory ratings in safety practices, for example, is kept on the payroll and he or she causes injury to a third party. In these instances, firms might reduce their liability if they provide substandard performers with training designed to overcome the deficiencies.

It is unlikely that any appraisal system will be immune to legal challenge. However, systems that possess the characteristics discussed above are more legally defensible. At the same time, they can provide a more effective means for achieving performance management goals.

#### OBJECTIVE 8.10

Describe the legal implications of performance appraisal.

**OBJECTIVE 8.11**

Explain how the appraisal interview should be conducted.

## Appraisal Interview

The appraisal interview is the Achilles' heel of the entire evaluation process. In fact, appraisal review sessions often create hostility and can do more harm than good to the employee–manager relationship. To minimize the possibility of hard feelings, the face-to-face meeting and the written review must have performance improvement, not criticism, as their goal. The reviewing manager must use all the tact he or she can muster in discussing areas needing improvement. Managers should help employees understand that they are not the only ones under the gun. Rating managers should emphasize their own responsibility for the employee's development and commitment for support.

The appraisal interview definitely has the potential for confrontation and undermining the goal of motivating employees. The situation improves considerably when several sources provide input, including perhaps the employee's own self-appraisal. Regardless of the system used, employees will not trust a system they do not understand.

### Scheduling the Interview

Supervisors usually conduct a formal appraisal interview at the end of an employee's appraisal period. It should be made clear to the employee as to what the meeting is about.<sup>46</sup> Employees typically know when their interview should take place, and their anxiety tends to increase if their supervisor delays the meeting. Interviews with top performers are often pleasant experiences for all concerned. However, supervisors may be reluctant to meet face-to-face with poor performers. They tend to postpone these anxiety-provoking interviews.

### Interview Structure

A successful appraisal interview should be structured in a way that allows both the supervisor and the subordinate to view it as a problem-solving rather than a fault-finding session. The manager should consider three basic purposes when planning an appraisal interview:

1. Discuss the employee's performance. Focus on specific accomplishments.<sup>47</sup>
2. Assist the employee in setting goals and personal-development plans for the next appraisal period.
3. Suggest means for achieving established goals, including support from the manager and firm.

For instance, a worker may receive an average rating on a factor such as *quality of production*. In the interview, both parties should agree to the specific improvement needed during the next appraisal period and specific actions that each should take.<sup>48</sup>

During performance reviews, managers might ask employees whether their current duties and roles are effective in achieving their goals. In addition to reviewing job-related performance, they might also discuss subjective topics, such as career ambitions. For example, in working on a project, perhaps an employee discovered an unrealized aptitude. This awareness could result in a new goal or serve as a springboard to an expanded role in the organization.

The amount of time devoted to an appraisal interview varies considerably with company policy and the position of the evaluated employee. Although costs are a consideration, there is merit in conducting separate interviews for discussing: (1) employee performance and development and (2) pay. Many managers have learned that as soon as the topic of pay emerges in an interview, it tends to dominate the conversation, with performance improvement taking a back seat. For this reason, if pay increases or bonuses are involved in the appraisal, it might be advisable to defer those discussions for one to several weeks after the appraisal interview.

### Use of Praise and Criticism

As suggested at the beginning of this section, conducting an appraisal interview requires tact and patience on the part of the evaluator. Praise is appropriate when warranted, but it can have limited value if not clearly deserved. If an employee must eventually be terminated because of poor performance, a manager's false praise could bring into question the "real" reason for being fired.<sup>49</sup> Criticism, even if warranted, is especially difficult to give. The employee may not



## A GLOBAL PERSPECTIVE

### Two Cultures' Views of Performance Appraisal

**P**erformance appraisal is an area of human resource management that has special problems when translated into different cultural environments. Chinese managers often have a different idea about what performance is than do Western managers, as Chinese companies tend to focus appraisals on different criteria. Chinese managers appear to define performance in terms of personal characteristics, such as loyalty and obedience, rather than outcome measurement.

Chinese performance appraisals place great emphasis on moral characteristics. Western performance appraisal seeks to help achieve organizational objectives, and this is best obtained by concentrating on individual outcomes and behaviors that are related to the attainment of those objectives.<sup>51</sup>

Chinese organizational objectives often differ widely from the objectives of Western firms. Chinese firms have had to fulfill state political objectives such as maximizing employment, and internal HR management practices are oriented to serve these objectives. Many overseas Chinese business practices are grounded in the traditions of Chinese family business, in which a primary objective is to maintain family control of the business. Even when the business is incorporated and publicly traded, the family often maintains majority control, and this is a major organizational objective even to the extent of tolerating less-than-optimal performance. One implication of this is that performance appraisals would tend to favor workers who supported the family over workers who challenged family authority. These differing objectives will influence the way in which appraisal judgments are made.<sup>52</sup>

There are other well-known characteristics of the Chinese that also have a direct bearing on the practice of performance appraisal. Three such characteristics are face (*mianzi*), fatalism, and the somewhat broad term *Confucianism*. *Mianzi* is the social status that one has, and a person's *mianzi* will have an effect on that person's ability to influence others. It is particularly important that performance reviews be held in private, since a poor review in public will cause a subordinate to lose *mianzi*. It is for this reason that the Chinese tend to avoid the possibility of confrontation and loss of face that could result from a formal appraisal process. This concern with *mianzi* also makes it difficult to publicly act on performance problems.<sup>53</sup>

Fatalism also has a direct impact on performance appraisal. Research has indicated that Chinese individuals are more likely to blame their own problems on external factors, and since the outcome is due to things outside the individual's control, poor achievement will not lead to a loss of face. Such a defensive reaction is natural and occurs in all cultures, but appears to be stronger and more formally ritualized in mainland China.<sup>54</sup>

One legacy of Confucianism is an emphasis on morality as a basis for evaluation. Under the Confucian view, the most important characteristic of an individual was the moral basis of his or her character. A quotation from the Confucian classic *Da Xue* (Great Wisdom) says, "Cultivate oneself, bring order to the family, rule the country, and bring peace to the world." Thus, peace, harmony, and success all start with cultivating oneself, including the cultivation of one's moral character. In the view of the Chinese, a moral worker will also be an effective worker. Therefore, evaluation of performance and achievement carries strong elements of judgments of the employee's moral character.<sup>55</sup>

perceive it as being constructive. It is important that discussions of these sensitive issues focus on the deficiency, not the person. Effective managers minimize threats to the employee's self-esteem whenever possible. When giving criticism, managers should emphasize the positive aspects of performance; criticize actions, not the person; and ask the employee how he or she would change things to improve the situation. Also, the manager should avoid supplying all the answers and try to turn the interview into a win-win situation so that all concerned gain.

### Employees' Role

From the employees' side, two weeks or so before the review, they should go through their diaries or files and make a note of all projects worked on, regardless of whether or not they were successful.<sup>50</sup> The best recourse for employees in preparing for an appraisal review is to prepare a list of creative ways they have solved problems with limited resources. They will look especially good if they can show how their work contributes to the value of the company. This information should be on the appraising manager's desk well before the review. Reminding managers of information they may have missed should help in developing a more objective and accurate appraisal.

### Concluding the Interview

Ideally, employees will leave the interview with positive feelings about management, the company, the job, and themselves. If the meeting results in a deflated ego, the prospects for improved performance will be bleak. Although you cannot change past behavior, future performance is another matter. The interview should end with specific and mutually agreed-upon plans for the employee's development. Managers should assure employees who require additional training that it will be forthcoming and that they will have the full support of their supervisor. When management does its part in employee development, it is up to the individual to perform in an acceptable manner.

## Summary

1. **Define performance management and describe the importance of performance management.** Performance management is a goal-oriented process that is directed toward ensuring that organizational processes are in place to maximize productivity of employees, teams, and ultimately, the organization. Whereas performance appraisal is a one-time event each year, performance management is a dynamic, ongoing, continuous process.
2. **Define performance appraisal and identify the uses of performance appraisal.** Performance appraisal is a system of review and evaluation of an individual's or team's job performance. Performance appraisal data are potentially valuable for use in numerous human resource functional areas, including human resource planning, recruitment and selection, training and development, career planning and development, compensation programs, internal employee relations, and assessment of employee potential.
3. **Discuss the performance appraisal environmental factors.** Legislation requires that appraisal systems be nondiscriminatory. Unions have traditionally stressed seniority as the basis for promotions and pay increases. A firm's corporate culture can assist or hinder the process.
4. **Describe the performance appraisal process.** The identification of specific goals is the starting point for the PA process and the beginning of a continuous cycle. Then job expectations are established with the help of job analysis. The next step involves examining the actual work performed. Performance is then appraised. The final step involves discussing the appraisal with the employee.
5. **Identify the various performance criteria (standards) that can be established.** The most common appraisal criteria include traits, behaviors, task outcomes, goal achievement, and improvement potential.
6. **Identify who may be responsible for performance appraisal and the performance period.** People who are usually responsible for performance appraisal include immediate supervisors, subordinates, peers, groups, the employee, customers; and for the 360-degree feedback evaluation method, perhaps all of the above.
7. **Identify the various performance appraisal methods.** Performance appraisal methods include 360-degree feedback evaluation, rating scales, critical incidents, essay, work standards, ranking, forced ranking, forced distribution, behaviorally anchored rating scales, and results-oriented approaches.
8. **List the problems that have been associated with performance appraisal.** The problems associated with performance appraisals include appraiser discomfort, lack of objectivity, halo/horn error, leniency/strictness, central tendency error, recent behavior bias, personal bias (stereotyping), manipulating the evaluation, and employee anxiety.
9. **Explain the characteristics of an effective appraisal system.** Characteristics include job-related criteria, performance expectations, standardization, trained appraisers, continuous open communication, performance reviews, and due process.
10. **Describe the legal implications of performance appraisal.** It is unlikely that any appraisal system will be totally immune to legal challenge. However, systems that possess certain characteristics are more legally defensible.
11. **Explain how the appraisal interview should be conducted.** A successful appraisal interview should be structured in a way that allows both the supervisor and the subordinate to view it as a problem-solving rather than a fault-finding session.



## Key Terms

employee engagement 234	critical incident method 247	results-based system 249
performance management (PM) 236	essay method 247	halo error 250
performance appraisal (PA) 236	work standards method 247	horn error 250
competencies 241	ranking method 247	leniency 250
360-degree feedback evaluation method 244	forced distribution method 248	strictness 250
rating scales method 245	behaviorally anchored rating scale (BARS) method 248	central tendency error 251

## Questions for Review

1. Define *performance management* and *performance appraisal*.
2. What are the uses of performance appraisal?
3. What are the steps in the performance appraisal process?
4. What aspects of a person's performance might an organization evaluate?
5. Many different people can conduct performance appraisals. What are the various alternatives?
6. Briefly describe each of the following methods of performance appraisal:
  - a. 360-degree feedback evaluation
  - b. Rating scales
  - c. Critical incidents
  - d. Essay
  - e. Work standards
  - f. Ranking
  - g. Forced distribution
  - h. Behaviorally anchored rating scales
  - i. Results-based systems
7. What are the various problems associated with performance appraisal? Briefly describe each.
8. What are the characteristics of an effective appraisal system?
9. What are the legal implications of performance appraisal?
10. Explain why the following statement is often true: "The *Achilles' heel* of the entire evaluation process is the appraisal interview itself."

### HRM INCIDENT 1

#### These Things Are a Pain

"The dreaded end of year appraisal is upon us!" Linda exclaimed. Like all employees in her organization, Linda was asked to fill out an appraisal form and submit it to the HR department. Linda's immediate supervisor was heard saying, "Here we go again, the paper pushing session!" All employees were required to look back and reflect on the tasks they did during the year, making sure that all value-added activities were documented and accounted for in the appraisal forms.

Linda's boss, Irene, had hinted that it seemed like a hassle to appraise her subordinates. The appraisal assessed employees on different criteria, including whether their goals are in line with the company's core values. Other criteria included efforts to improve teaching performance, participation in student and college activities, research, and personal attributes.

As Linda was a new lecturer in a private university in Malaysia, she felt nervous. She had undergone the mid-year appraisal and had a negative experience from it. As she filled in the appraisal form she wondered whether she had met all the targets set out for her. "Have I improved in the areas I was told I was weak in?" she thought. Indeed, thinking back to the mid-year performance review Irene had mentioned a few areas of weaknesses. Among them was the need to remain alert about her students' performance and to improve her teaching performance and classroom management. Linda felt that each of these criteria required a different measurement tool.

Linda put down that during the semester she had frequent discussions with her peers as an effort to improve her teaching performance. Linda thought about how would this could be

measured in the appraisal session. Most of the discussions with her peers seemed to be about problematic students and an activity that was done to improve the performance of students. Classroom management seemed more quantifiable. In her mind, the mix of students differs from semester to semester and it so happened that during her mid-year review, she had a class of rowdy students who presented some problems to her. These problems ranged from poor attendance to nonsubmission of work.

Being new, Linda felt that there were some instances where she had underperformed. As she was filling in the appraisal form, she realised that she hadn't participated in many college activities and had not undertaken much research.

Linda turned to her colleague, Paul, who had just finished his appraisal session. "How did it go?" she asked. Paul replied, "Thank god that's over. Irene's not in the best of moods. I hope that it doesn't affect my appraisal." Linda said, "Mine's tomorrow." Paul replied, "Well, good luck with it."

### Questions

1. Why does Linda have a negative impression about the appraisal session?
2. What would have made the appraisal session a more impressive session for Linda so that she could improve on her performance?

## HRM INCIDENT 2

### Performance Appraisal?

As the production supervisor for Sweeny Electronics, Nakeisha Joseph was generally well regarded by most of her subordinates. Nakeisha was an easygoing individual who tried to help her employees in any way she could. If a worker needed a small loan until payday, she would dig into her pocket with no questions asked. Should an employee need some time off to attend to a personal problem, Nakeisha would not dock the individual's pay; rather, she would take up the slack herself until the worker returned.

Everything had been going smoothly, at least until the last performance appraisal period. One of Nakeisha's workers, Bill Overstreet, had been experiencing a large number of personal problems for the past year. Bill's wife had been sick much of the time, and her medical expenses were high. Bill's son had a speech impediment, and the doctors had recommended a special clinic. Bill, who had already borrowed the limit the bank would loan, had become upset and despondent over his circumstances.

When it was time for Bill's annual performance appraisal, Nakeisha decided she was going to do as much as possible to help him. Although Bill could not be considered more than an average worker, Nakeisha rated him outstanding in virtually every category. Because the firm's compensation system was heavily tied to performance appraisal, Bill would be eligible for a merit increase of 10 percent in addition to a regular cost-of-living raise.

Nakeisha explained to Bill why she was giving him such high ratings, and Bill acknowledged that his performance had really been no better than average. Bill was very grateful and expressed this to Nakeisha. As Bill left the office, he was excitedly looking forward to telling his work buddies about what a wonderful boss he had. Seeing Bill smile as he left gave Nakeisha a warm feeling.

### Questions

1. From Sweeny Electronics' standpoint, what difficulties might Nakeisha's performance appraisal practices create?
2. What can Nakeisha do now to diminish the negative impact of her evaluation of Bill?

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