

PERFORMANCE APPRAISAL

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

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

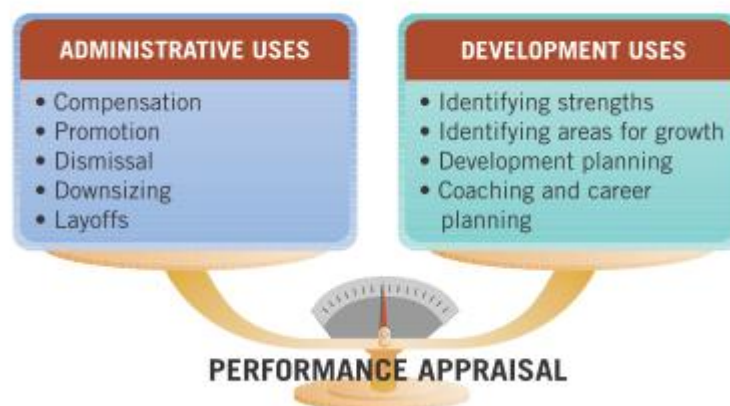
For situations in which an employer deals with a strong union, performance appraisals are usually conducted only on the salaried, nonunion employees. Generally, unions emphasize seniority over merit, which precludes the use of performance appraisal. Because unions officially view all members as equal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

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

Uses of Performance Appraisal

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

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



Administrative Uses

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

Productivity → performance appraisal → rewards

Compensation based on performance appraisal is at the heart of the idea that raises should be given for performance accomplishments rather than for seniority. Under performance-oriented systems, employees receive raises based on how well they perform their jobs. The manager's role historically has been as an evaluator of a subordinate's performance, which then leads to managers making compensation recommendations or decisions for employees. If any part of the process fails, the most productive employees do not receive the larger rewards, resulting in perceived inequity in compensation.

Development Uses

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

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

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

Who Conducts Appraisals?

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

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

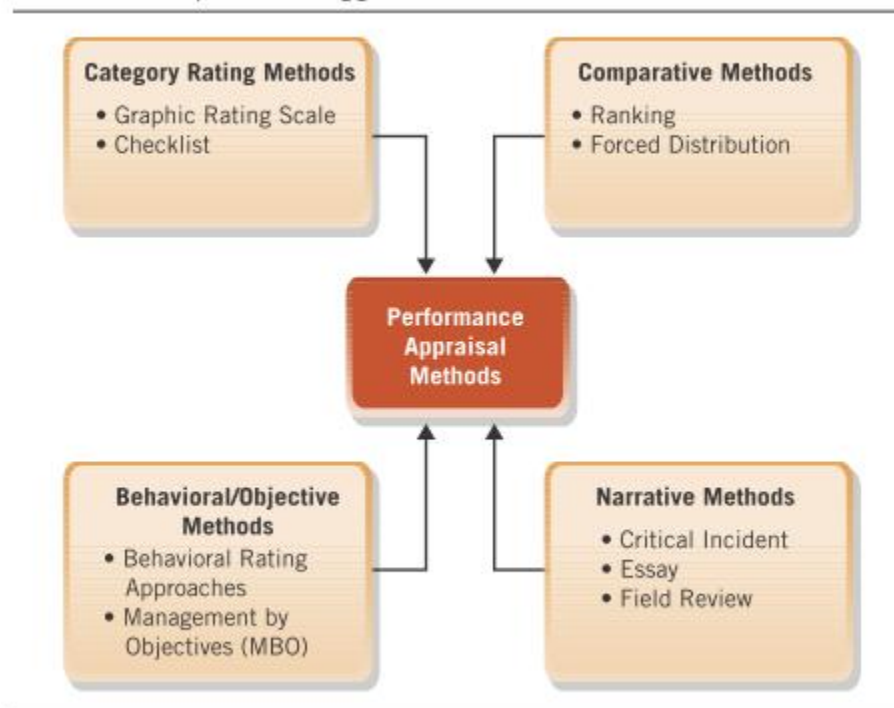
The first method is the most common. The immediate superior has the sole responsibility for appraisal in most organizations, although it is common practice to have the appraisal reviewed and approved by the supervisor's boss. Any system should include a face-to-face discussion between rater and ratee.

Because of the growing use of teams and a concern with customer input, two fast-growing sources of appraisal information are team members and sources outside the organization. Also, as highlighted in the chapter opening discussion, multisource appraisal (or 360° appraisal) is a combination of all the methods and has grown in usage recently.

Methods for Appraising Performance

Performance can be appraised by a number of methods. In Figure 12—7, various methods are categorized into four major groups.

FIGURE 12—7 Performance Appraisal Methods



Category Rating Methods

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

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

There are actually two types of graphic rating scales in use today. They are sometimes both used in rating the same person. The first and most common type lists job criteria (quantity of work, quality of work, etc.). The second is more behavioral, with specific behaviors listed and the effectiveness of each rated.

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

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

_____ can be expected to finish work on time

_____ seldom agrees to work overtime

_____ is cooperative and helpful

_____ accepts criticism

_____ strives for self-improvement

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

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

Comparative Methods

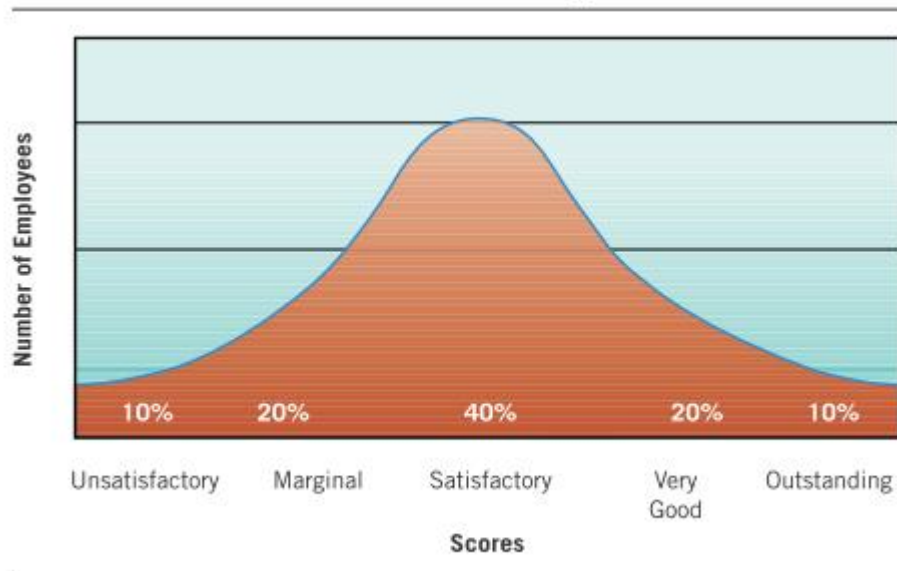
Comparative methods require that managers directly compare the performance of their employees against one another. For example, a data-entry operator's performance would be compared with that of other data-entry operators by the computing supervisor. Comparative techniques include ranking, paired comparison,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

RANKING The ranking method consists of listing all employees from highest to lowest in performance. The primary drawback of the ranking method is that the size of the differences among individuals is not well defined. For example, there may be little difference in performance between individuals ranked second and third, but a big difference in performance between those ranked third and fourth. This drawback can be overcome to some extent by assigning points to indicate the size of the gaps. Ranking also means that someone must be last. It is possible that the last-ranked individual in one group would be the top employee in a different group. Further, ranking becomes very unwieldy if the group to be ranked is very large.

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

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

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



Narrative Methods

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

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

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

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

FIELD REVIEW The field review has as much to do with who does the evaluation as the method used. This approach can include the HR department as a reviewer, or a completely independent reviewer

outside the organization. In the field review, the outside reviewer becomes an active partner in the rating process. The outsider interviews the manager about each employee's performance, and then compiles the notes from each interview into a rating for each employee. Then the rating is reviewed by the supervisor for needed changes. This method assumes that the outsider knows enough about the job setting to help supervisors give more accurate and thorough appraisals.

Behavioral/Objectives Methods

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

BEHAVIORAL RATING APPROACHES Behavioral rating approaches attempt to assess an employee's behaviors instead of other characteristics. Some of the different behavioral approaches are behaviorally anchored rating scales (BARS), behavioral observation scales (BOS), and behavioral expectation scales (BES). BARS match descriptions of possible behaviors with what the employee most commonly exhibits. BOS are used to count the number of times certain behaviors are exhibited. BES order behaviors on a continuum to define outstanding, average, and unacceptable performance. BARS were developed first and are used here as an example of behavioral rating approaches.

Behavioral rating approaches describe examples of employee job behaviors. These examples are "anchored," or measured, against a scale of performance levels. Figure 12—10 shows a behavioral observation rating scale that rates customer service skills. What constitutes various levels of performance is clearly defined in the figure.

FIGURE 12—10 Customer Service Skills

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

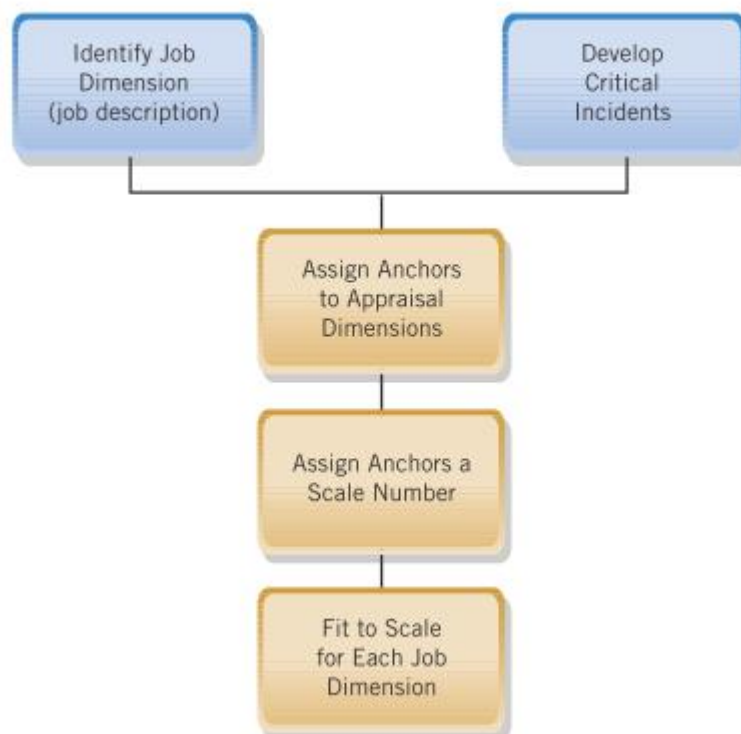
The customer service representative:

Outstanding	5	← Used positive phrases to explain product.
	4	← Offered additional pertinent information when asked questions by customer.
Satisfactory	3	← Referred customer to another product when requested item was not available.
	2	← Discouraged customer from waiting for an out-of-stock item.
Unsatisfactory	1	← Argued with customer about suitability of requested product.

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

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

FIGURE 12—11 Development Process for Behavioral Anchors



Management by Objectives (MBO)

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

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

Second, if the objectives are identified clearly and precisely, the employee will do a better job of achieving the desired results. Ambiguity and confusion—and therefore less effective performance—may result when a superior determines the objectives for an individual. By setting their own objectives, the employee gains an accurate understanding of what is expected.

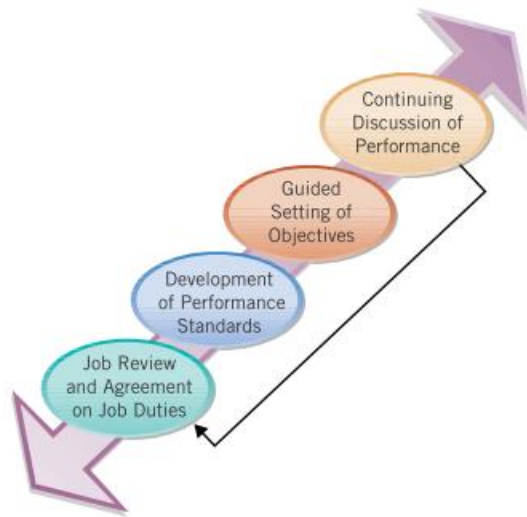
Third, performance objectives should be measurable and should define results. Vague generalities such as “initiative” and “cooperation,” which are common in many superior-based appraisals, should be avoided. Objectives are composed of specific actions to be taken or work to be accomplished. Sample objectives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

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

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

1. Job review and agreement: The employee and the superior review the job description and the key activities that comprise the employee’s job. The idea is to agree on the exact makeup of the job.
2. Development of performance standards: Specific standards of performance must be mutually developed. In this phase a satisfactory level of performance that is specific and measurable is determined. For example, a quota of selling five cars per month may be an appropriate performance standard for a sales-person.
3. Guided objective setting: Objectives are established by the employee in conjunction with, and guided by, the superior. For the automobile salesperson, an objective might be to improve performance; the salesperson might set a new objective of selling six cars per month. Notice that the objective set may be different from the performance standard. Objectives should be realistically attainable.
4. Continuing performance discussions: The employee and the superior use the objectives as bases for continuing discussions about the employee’s performance. Although a formal review session may be scheduled, the employee and the manager do not necessarily wait until the appointed time to discuss performance. Objectives are modified mutually, and progress is discussed during the period.

FIGURE 12-12 MBO Process



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