Chapter- III

Theoretical Discourse

PART I - Performance Management and Performance Appraisal System

Introduction
The second chapter is organized into three parts dealing appraisal systems and performance evaluation (part one), 360-degree feedback evaluation method (part two) and survey of literature (part three).

The efforts of employees can determine the success and survival of an organization (Drucker, 1994; Barney, 1995), and appraisal is potentially one way in which those efforts can be aligned with the aims of an organization, employees can be motivated and their performance managed (Orpen, 1997; Martin and Bartol, 1998; Cook and Crossman, 2004). Performance appraisal is among the most important human resource (HR) practices (Boswell and Boudreau, 2002; Judge and Ferris, 1993; Yehuda Baruch, 1996) and one of the more heavily researched topics in work psychology (Fletcher, 2002), a subject of research for over 70 years (Landy and Farr, 1980)\(^1\)(Landy and Farr 1980).

Still, many organizations express dissatisfaction with their appraisal schemes (Fletcher, 1997). According to Fletcher (2001), this may signal a lack of success of performance appraisal as a mechanism for developing and motivating people. There is general consensus among performance appraisal researchers and practitioners that assessment of appraisal reactions is important (Keeping and Levy, 2000)\(^2\). (Keeping and Levy October2000) For instance, it is frequently argued that in order for performance appraisal to positively influence employee behavior and future development, employees must experience positive appraisal reactions. If not, any appraisal system will be doomed to failure (see, e.g. Cardy and Dobbins, 1994\(^3\); Murphy and Cleveland, 1995)(Cardy and Dobbins 1994; Murphy and Cleveland 1995). Performance appraisal satisfaction is the most frequently measured appraisal reaction (Giles and Mossholder, 1990\(^4\); Keeping and Levy, 2000\(^5\))(Giles and Kevin W. Mossholder August1990; Keeping and Levy October2000).

This paper is organized as follows: (I) Understanding the performance appraisal system, (II) Performance appraisal system and Performance Improvement and (III) Empirical Study in Lebanese firms.

I. Understanding the Performance Appraisal System

\(^1\)Landy and Farr 87: 72-107  
\(^2\)Keeping and Levy 708–723  
\(^3\)Cardy, Robert L., and Gregory H. Dobbins,  
\(^4\)Giles, William F. and Kevin W. Mossholder, pp371–377  
\(^5\)Keeping, Lisa M. and Paul E. Levy ,pp 708–723
Performance Appraisal System: Some Definitions

Performance Management

Performance management (PM)\(^6\) 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 (David and Giannetto 2009).

Performance management systems are one of the major focuses on 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 skill 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” (Kathryn Tyler August 2005). Organizations must take a more strategic approach to performance appraisal. Instead of using the familiar “check the box, write a comment”\(^7\) ritual, organizations need to integrate the company’s mission, vision, and values into their performance management systems.

Performance Appraisal

Performance appraisal\(^8\) (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 (Count January 2009).

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\(^6\) David F. Giannetto, 2009
\(^7\) Kathryn Tyler, pp 58–63
\(^8\) Make Staff Reviews Count, p12
PA is especially critical to the success of performance management. Although a performance appraisal is but one component of performance management, it is vital, in that it directly reflects 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 with 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. (Jeffrey Russell and Linda Russell, 2010) Managers do not like giving them and employees do not like receiving them. (Andy Houghton, 2010) In fact, in one survey, almost 80 percent of workers stated dissatisfaction with their PA process. 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. (Adrienne Fox, 2009) 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.

The term “performance appraisal” refers to the process by which an individual’s work performance is assessed.

Performance appraisal has been defined as the process of identifying, evaluating and developing the work performance of employees in the organization, so that the organizational goals and objectives are more effectively achieved, while at the same time benefiting employees in terms of recognition, receiving feedback, catering for work needs and offering career guidance. The performance appraisal is the formal process of observing and evaluating an employee’s performance.

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9 Jeffrey Russell and Linda Russell, pp42–48
10 Adrienne Fox, pp 52–56
According to Angelo S. DeNisi and Robert D. Pritchard\textsuperscript{11} (2006) “Performance appraisal” is a discrete, formal, organizationally sanctioned event, usually not occurring more frequently than once or twice a year, which has clearly stated performance dimensions and/or criteria that are used in the evaluation process. Furthermore, it is an evaluation process, in that quantitative scores are often assigned based on the judged level of the employee’s job performance on the dimensions or criteria used, and the scores are shared with the employee being evaluated (DeNisi and Robert D. Pritchard 2006).

2. Performance Appraisal System: Different 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.

Most appraisal methods used throughout the world today are based, to some extent at least upon the following techniques: Graphic rating scales; BARS\textsuperscript{12}, BOS\textsuperscript{13}; mixed standard rating scales; and MBO\textsuperscript{14}. Most commentators agree that goal-based appraisal systems, in which an employee’s work performance is measured against specific goals, are the most satisfactory (Dorfman et al., 1986; Locke and Latham, 1984; Latham and Wexley, 1981).

Lastly, in the past few years, there has been growing interest in the practice community for what has been termed “non-traditional” appraisal systems (e.g., Coens and Jenkins, 2000; Lawler, 2000). These systems are less structured than the more traditional systems, with less emphasis on ratings or rankings, and more emphasis on developmental meetings between supervisors and employees as needed. The study of Bladen (2001) indicated that these approaches have been growing in popularity, but most firms that have moved in this direction have developed hybrid models, which still retain some aspects of the traditional systems (Bladen 2001).

\textsuperscript{11}Angelo S. DeNisi and Robert D. Pritchard PP253–277, 1740-1776
\textsuperscript{12}behaviorally anchored rating scales
\textsuperscript{13}behavioral observation scales
\textsuperscript{14}management by objectives
According to Muezyk and Gahle (1987), an organization's success or failure may be determined by the ways in which performance is managed. Katsanis et al\textsuperscript{15}. (1996) provide several recommendations on the basis of their research for the development of performance appraisal methods:

\begin{itemize}
  \item Gain support of both human resources and top management;
  \item Use qualitative versus quantitative criteria;
  \item Allow for input when developing performance standards and criteria;
  \item Make sure the performance appraisal system is not dated;
  \item Ensure managers take ownership of the performance appraisal system;
  \item Attempt to eliminate internal boundary spanning by creating direct reporting relationships where possible;
  \item Utilize performance targeting (Halachmi\textsuperscript{16}, 1993) to appraise PMs;
  \item Be aware and act on environmental forces as they affect the organization(Halachmi 1993; Katsanis, Laurin et al. 1996).
\end{itemize}

**Rating Scales Method**

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 1.2, job-related factors include quality and quantity of work, 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

\textsuperscript{15} Katsanis, L.P. Laurin, J.-P.G. and Pitta, D.A. pp. 5-23
\textsuperscript{16} Halachmi, A pp. 323-344
weight given to each section. The final score (total points) for the employee is the total of each section’s point.

Some firms provide space for the rater to comment on the evaluation given to 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 1.2 has space for performance goals for the next period and self-development activities for the next appraisal period.

<table>
<thead>
<tr>
<th>Name</th>
<th>Job Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisor/Manager</td>
<td>Department</td>
</tr>
<tr>
<td>Appraisal Period:</td>
<td>From</td>
</tr>
<tr>
<td></td>
<td>To</td>
</tr>
</tbody>
</table>

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 for the preview performance review.

• Quality of work
• Quantity of work

<table>
<thead>
<tr>
<th>Total Points</th>
<th>Average Score (Divide the total points by the number of factors used)</th>
<th>Multiplied by 16</th>
</tr>
</thead>
</table>

Comments

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

• Leadership
• Interpersonal skills
• Developing others
• Customer service
• Teamwork

<table>
<thead>
<tr>
<th>Total Points</th>
<th>Average Score (Divide the total points by the number of applicable factors)</th>
<th>Multiplied by 2</th>
</tr>
</thead>
</table>

Comments

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

• Adaptability
• Judgment
• Appearance
• Attitude
• Initiative

<table>
<thead>
<tr>
<th>Total Points</th>
<th>Average Score (Divide the total points by 5)</th>
<th>Multiplied by 2</th>
</tr>
</thead>
</table>

Comments

Points from Part 1 + Part 2 + Part 3 = Total Points

Performance goals for next appraisal period:
Self-development activities of this employee

Employee comments

<table>
<thead>
<tr>
<th>Evaluated By:</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved</td>
<td>Title</td>
<td>Date</td>
</tr>
<tr>
<td>Employee’s Signature (Does not necessarily indicate agreement)</td>
<td>Title</td>
<td>Date</td>
</tr>
</tbody>
</table>
method is not only the most simple but also an acceptable approach to employee evaluation.

**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. The 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**

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 priest is ranked lower. 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 Rankin, 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**

The forced distribution method of performance appraisal requires the router to assign individuals in a Workgroup 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 (D.G. 2008). Forced

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17 D.G. p42
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 (Stephen Garcia\textsuperscript{18}, 2007)(Garcia September 13, 2007). 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. 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(October 2004). Some believe it fosters cutthroat competition, paranoia, and general ill will, and destroys employee loyalty. A Midwestern banker states that his company (Anne Fisher\textsuperscript{19}, 2002) “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”(Fisher December 9, 2002). 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 Method**

The behaviorally anchored rating scale (BARS\textsuperscript{20}) method is a performance appraisal method that combines elements of the traditional rating scales and critical

\textsuperscript{18}Stephen Garcia, 4-5
\textsuperscript{19} Anne Fisher ,p 244
\textsuperscript{20} The behaviorally anchored rating scale
incident methods; various performance levels are shown along a scale with each
described in terms of an employee’s specific job behavior. Table 1 illustrates a
portion of a BARS system that was developed to evaluate college recruiters. Suppose
the factor chosen for evaluation is the 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 the 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 rate 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 facilitates discussion of the rating
because it addresses specific behaviors, thus overcoming weaknesses in other
evaluation methods. Regardless of the apparent advantages of the BARS method,
reports on its effectiveness are mixed. A specific deficiency is that the behaviors used
are actively oriented rather than results oriented. Also, the method may not be
economically feasible for 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.

<table>
<thead>
<tr>
<th>Clearly Outstanding Performance</th>
<th>Makes an excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to the applicant and answers questions in a very positive manner.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent Performance</td>
<td>Makes a good impression on college recruits. Answers all questions and explains positive aspects of the company. Answers questions in a positive manner.</td>
</tr>
<tr>
<td>Good Performance</td>
<td>Makes a reasonable impression on college recruits. Listens to the applicant and answers questions in a knowledgeable manner.</td>
</tr>
<tr>
<td>Average Performance</td>
<td>Makes a fair impression on college recruits. Listens to apply and answers most questions in a knowledgeable manner.</td>
</tr>
<tr>
<td>Slightly Below Average</td>
<td>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</td>
</tr>
</tbody>
</table>
Performance questions.

**Poor Performance**
At times makes a poor impression on college recruits. Sometimes provides incorrect information to the applicant or goes down blind avenues before realizing the 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.

<table>
<thead>
<tr>
<th>Performance</th>
<th>questions.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poor Performance</strong></td>
<td>At times makes a poor impression on college recruits. Sometimes provides incorrect information to the applicant or goes down blind avenues before realizing the mistake.</td>
</tr>
<tr>
<td><strong>Very Poor Performance</strong></td>
<td>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.</td>
</tr>
</tbody>
</table>

**Table 1** BARS for The Factor: Ability to Present Positive Company Image

### 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.

### 3. Performance Appraisal System: the specific case of the 360-degree

Whatever method of performance appraisal is used, it’s necessary to decide whom to use as the source of the performance measures. Each source has specific strengths and weaknesses. We can identify five primary sources: managers, peers, subordinates, self and customers.

Now, we can clearly see the development of multi-source appraisals, initially as a means of initiating effective organizational change, but eventually as part of what has been termed 360-degree appraisals. By the 1990s, this type of appraisal was extremely widespread and growing in popularity in both the research and practice arenas (see for example, the review by Dalessio21, 1998) (Dalessio 1998).

Some studies have pointed out any issues regarding the design of the 360-degree appraisals. (See review in Seifert, Yukl, and McDonald, 2003)22, while others have raised questions about the overall effectiveness of this approach (e.g., Waldman, Atwater, and Antonioni23, 1998). Yet, research on multi-source and upward appraisals continues (e.g., Smither and Walker24, 2004)(Waldman, Atwater et al. 1998; Seifert, Yukl et al. 2003; Smither and Walker 2004).

Proponents of the 360-degree feedback approach offer it as a “progressive” means of conducting performance appraisal, a means that addresses many procedural justice concerns. Church and Bracken (1997) contend that 360-degree feedback

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22 Seifert, C. F., Yukl, G. and McDonald, R. A PP 561–569
24 Smither, J. W. and Walker, A. G PP575–581
systems and other forms of multi source or multi-rater assessment methods in organizations have evolved from an innovative “nice-to-have” technique administered only to the most senior levels to a “must-have” tool for integration into overall performance and human resource management strategies. These systems appear well suited for the flexible, team-based, change-oriented organizational cultures of many organizations today.

360-degree systems are gaining popularity because they tend to reduce the problems of previous generations of assessment methods (Antonioni, 1998)(Waldman, Atwater et al. 1998). Barnes (1997) notes that 360-degree appraisal moves the manager back into a “comfort zone” as she or he is now only one among a number of assessors. In addition, it greatly reduces the problems of central tendency, positive skewness, and “halo effects,” it reduces defensiveness on the part of the appraise because there are a variety of assessors, and it recognizes that subordinates are best placed to assess “leadership” or “people management” skills. The technique is said to be helpful in defending legal challenges of the outcome of appraisals, it meets the demands for employee empowerment and involvement, and it is a useful tool in tapping employee opinions and attitudes.

4. Performance Appraisal System: Different Purposes

Firms engage in the performance-evaluation process for numerous reasons. Managers may conduct appraisals to affect employee behavior through the feedback process, or to justify some sort of human resource management action (termination, transfer, promotion, etc.). However, many other benefits may also accrue from the information yielded by the appraisal. These benefits include increases in knowledge regarding the effectiveness of selection and placement programs, training and development needs, budgeting; human resource planning, and reward decisions (Cocanougher & Ivancevich, 1978; Dubinsky, Skinner, & Whittler, 1989; Thomas & Bretz, 1994; Wanguri, 1995). Perhaps the overriding reason for performance appraisals is provided by Ilgen and Feldman (1983). They contend that organizations cannot function effectively

25 Antonioni, D pp86–94
26 Cocanougher, B. A., & Ivancevich, J. M, pp87-95
28 Thomas, S. L., & Bretz, R. D., Jr, 28-37
29 Wanguri, D. M, pp267-293
without some means of distinguishing between good and poor performance (Ilgen and Feldman 1983; Wanguri 1995; Thomas and Bretz Spring 1994).

Cleveland and her associates (Cleveland et al., 1989) presented a classification of the reasons for conducting appraisals in organizations, and these included documentation, within-person decisions (feedback on strengths and weaknesses) and between-person decisions (who to promote).

According to Yehuda Baruch (1996), Performance Appraisal systems are used for two main purposes:
- To serve a variety of management functions such as decision-making about promotions, training needs, salaries, etc.
- To enhance developmental processes of employees or as an evaluation instrument (Cleveland 1989).

Wendy R. Boswell and John W. Boudreau (2000), examined two typical performance appraisal uses: evaluative and developmental. The evaluation function includes the use of performance appraisal for salary administration, promotion decisions, retention-termination decisions, recognition of individual performance, layoffs, and the identification of poor performance (Wendy, W. et al. 2000). This is similar to Ostroff's (1993) conceptualization of the administrative performance appraisal purpose. Developmental functions include the identification of individual training needs, providing performance feedback, determining transfers and assignments, and the identification of individual strengths and weaknesses.

It has been suggested that these purposes often conflict (Cleveland, Murphy, and Williams, 1989; Meyer, Kay, and French, 1965; Ostroff, 1993). This conflict may prevent the appraisal process from attaining its full usefulness to the organization, perhaps even contributing negatively to individual behavior and organizational performance (Cleveland, Murphy et al. 1989; Ostroff, C 1993). Other research has found that employees prefer appraisal ratings to be used for certain purposes rather than others (Jordan and Nasis, 1992).

II. Performance Appraisal System and Performance Improvement

31 Cleveland, J. N., Murphy, K. R., & Williams, R. E., pp 130-135
32 Cleveland, J. N., Murphy, K. R., & Williams, R. E., pp 130-135
33 Ostroff, C., pp 345-356
34 Jordan, J. L., & Nasis, D. B., pp 963-969
Performance management focuses on ways to motivate employees to improve their performance. The goal of the performance management process is performance improvement, initially at the level of the individual employee, and ultimately at the level of the organization.

The performance appraisal is a technique that has been credited with improving performance and building both job satisfaction and organizational commitment (which has been related to lower levels of turnover) (Babakus, Cravens, Johnston, & Moncrief\textsuperscript{35}, 1996; Babin & Boles, 1996; Brown & Peterson\textsuperscript{36}, 1994)(Brown and Peterson 1994; Babakus 1996).

Although the relationship between appraisals and performance may not be a direct and causal one, their impact on performance may be attributed to their ability to enhance: role clarity, communication effectiveness, merit pay and administration, expectancy and instrumentality estimates, and perceptions of equity. Duhinsky, Jolson, Michaels, Kotahe, and Lim (1993) discuss the concept that increases in role clarity can affect both the effort/performance expectancy and performance/reward instrumentality estimates. Thus, by reducing ambiguity performance appraisals may positively influence the levels of motivation exhibited by employees. More frequent appraisals and feedback help employees to see how they are improving, and this should increase their motivation to improve further (cf. Kluger and DeNisi\textsuperscript{37}, 1996)(Kluger and DeNisi 1996).

Appraisals are generally considered to have a positive influence on performance, but they also may have a negative impact on motivation, role perceptions, and turnover when they are poorly designed or administered (Churchill et al\textsuperscript{38}, 1985)(Churchill, Ford et al. 1985).

The ultimate goal of performance appraisal should be to provide information that will best enable managers to improve employee performance. Thus, ideally, the performance appraisal provides information to help managers manage in such a way that employee performance improves (Angelo S. DeNisi and Robert D. Pritchard\textsuperscript{39}, 2006)(Pritchard 2006). Providing the employee with feedback is widely recognized as a crucial activity. Such feedback may encourage and enable self-development, and

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\textsuperscript{35} Babakus, E., Cravens, D. W., Johnston, M., & Moncrief, W. C., pp 33-46
\textsuperscript{36} Brown, S. P., & Peterson, R. A., pp 70-80
\textsuperscript{37} Kluger, A. N. and DeNisi, A. S., pp 254–284
\textsuperscript{38} Churchill, G. A., Jr., Ford, N. M., Hartley, S. W., & Walker, O. C, Jr, pp 103-118
\textsuperscript{39} Angelo S. DeNisi and Robert D. Pritchard, pp 253–277, 1740-8776
thus will be instrumental in the organization as a whole Yehuda Baruch (1996). Larson\textsuperscript{40} (1984) supports the importance of evaluations in terms of their effect on organizational effectiveness, stating that feedback is a critical portion of an organization's control system (Larson 1984).

1. Problems in Performance Appraisal

The performance appraisal systems tend to have several problems. Raters’ evaluations are often subjectively biased by their cognitive and motivational states, and supervisors often apply different standards to different employees which results in inconsistent, unreliable, and invalid evaluations (Folger et al\textsuperscript{41}, 1992)(Folger, Bowen et al. 1999). In order to create better systems, researchers have traditionally focused on the validity and reliability (Bretz et al\textsuperscript{42}, 1992) by designing newer “forms” of performance appraisals (e.g., behavior-based systems that better define specific essential job functions of employees or 360-degree feedback mechanisms that allow for cross-validation via multiple raters)(Bretz, Milkovich et al. 1992). However, despite these recent advances in evaluation design, critics continue to argue that performance appraisal systems are not consistently effective (DeNisi & Kluger\textsuperscript{43}, 2000)(DeNisi and Kluger 2000).

Thomas and Bretz\textsuperscript{44} (1994) argue that evaluations are often perceived by employees and supervisors with "fear and loathing." Two possible explanations for the fear and loathing are the absence of a "sense of ownership" and an absence of rewards for properly completing the process(Thomas and Bretz Spring1994). Cardy\textsuperscript{45} (1998) describes the appraisal process as "a difficult and error-ridden task." However, Cardy also points out that it is an important task that affects both the individual and the organization. (Cardy 1998) As suggested by Drenth (1984), evaluation is a sensitive matter, often eliciting negative psychological responses such as resistance, denial, aggression, or discouragement, particularly if the assessment is negative. Thus high perceptions of evaluative performance appraisal use may result in negative feelings about the appraisal(Drenth 1984).

\textsuperscript{40} Larson, James R , pp 42–76
\textsuperscript{41} Folger, R . Bowen, D.&Gilliland, S, pp 7-23
\textsuperscript{42} Bretz, RD., Milkovich, G.T. and Read, W,pp 321-352
\textsuperscript{43} DeNisi, A. S. and Kluger, A. N ,pp 129–139
\textsuperscript{44} Thomas, S. L., Bretz, R. D., Jr,pp28-37
\textsuperscript{45} Cardy, R. L,pp132-162
The employee reactions to appraisals can be an important condition to improve the employee’s performance. Recently, scholars have begun to argue that employee emotions and perceptions are important in determining the efficacy of performance appraisal systems.

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.

In fact, appraisal reactions such as satisfaction, acceptability, and motivation to use feedback, are cited as an important trend in the appraisal research during the past ten years in a recent review of that literature (Levy and Williams\(^46\), 2004)(Levy and Williams 2004).

**Appraiser Discomfort**

Conducting performance appraisals are often a frustrating human resource management task. One management guru, Edward Lawler\(^47\) (1994), noted the considerable documentation showing that performance appraisal systems neither motivate individuals nor effectively guide their development. Instead, he maintains, they create conflict between supervisors and subordinates and lead to dysfunctional behaviors\(\)Edward and III May/June 1994). 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

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\(^46\) Levy, P. E. Williams, J. R, pp881–905
\(^47\) Edward E. Lawler III, p16
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 (Pirkle February 2010). For example, Rodney Pirkle\(^{48}\) (2010), 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 compensations, development and succession planning.”\(^{36}\) 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 rate 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

\(^{48}\) Rodney Pirkle, p6
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 continually 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 short-changes the stronger employees. This can have a demoralizing effect on the morale and motivation of the top-performing people.

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 (Tom Krattenmaker, 2009) (Krattenmaker May 2009).

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

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49 Tom Krattenmaker, pp3-5
weeks before the scheduled evaluation. It is only natural for a rater to remember the 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. 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 the 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. In order to justify this action, the supervisor may give the employee an undeserved high performance evaluation and perhaps a less favored, but productive, employing a lower rating. 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.

**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. 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.

2. Performance Appraisal Satisfaction

Employee satisfaction with performance appraisal would be positively related to work performance. Because performance appraisal often includes equipping employees with new knowledge and skills, it may also contribute to employees’ perceived investment in employee development. Using a social exchange lens (e.g., Coyle-Shapiro and Conway, 2004; Eisenberger et al., 1990; Lee and Bruvold, 2003), employees who believe their organization is committed to providing them with developmental activities may feel an obligation to „repay” the organization through high work performance.

Since Performance appraisal systems will allow to communicate strategies, goals and vision, employees should experience higher levels of commitment to superordinate organizational goals and, therefore, become more effectively committed to their organization. Moreover, a developmental performance appraisal is also about increasing employees’ perceptions of being valued and being part of an organizational team (Levy and Williams50, 2004), perceptions that are central to affective commitment. (Levy and Williams 2004) Also, if performance appraisal satisfaction reflects perceived investment in employee development, employees will probably reciprocate by way of higher affective commitment to the organization. Finally, research on sales people suggests that organizational commitment is positively associated with the use of explicit evaluative criteria and openness to discussing the appraisal and negatively related to role ambiguity (Babakus et al51, 1996).And, since performance appraisal satisfaction is enhanced by employee participation and perceived clarity of goals (Roberts and Reed, 1996), it may also be positively related to affective commitment.

The arguments about communication of superordinate goals, the capacity of performance appraisal to increase employees’ perceptions of being valued and being part of an organizational team (Levy and Williams, 2004), and the social exchange argument, may also apply to turnover intention. In addition, Poon (2004) recently reported findings indicating that dissatisfaction with performance appraisal influenced

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50 Levy, P. E. Williams, J. R, pp 881–905
51 Babakus, E., Cravens, D. W., Johnston, M., Moncrief, W. C, pp 33-46
employees’” intention to quit through reduced job satisfaction (Levy and Williams 2004).

**a. The role of the feedback:**

One of the most important conditions is to provide clear, performance-based feedback to employees (Carroll and Schneier, 1982; Ilgen et al. 52, 1979; Larson 53, 1984). Almost 50 years ago, Maier (1958) highlighted the crucial role of appraisal feedback in the performance appraisal process (Maier 1958; Carroll and Schneier 1982; Larson 1984; Ilgen, Fisher et al. August 1979).

According to Levy and Williams (2004), “… If participants do not perceive the system to be fair, the feedback to be accurate, or the sources to be credible then they are more likely to ignore and not use the feedback they receive” (Levy and Williams 2004).

Indeed, the significance of feedback to the appraisal process as well as to the broader management process has been widely acknowledged (Bernardin and Beatty, 1984; Ilgen et al., 1979; Lawler, 1994; Murphy and Cleveland, 1995). First, from the organization’s point of view, feedback keeps both its members’ behavior directed toward desired goals and stimulates and maintains high levels of effort (Lawler, 1994; Vroom, 1964). From the individual’s point of view, feedback satisfies a need for information about the extent to which personal goals are met (Nadler, 1977), as well as a need for social comparison information about one’s relative performance (Festinger, 1954) (Vroom 1964; Nadler 1977; Bernardin and Beatty 1984; Lawler 1994; Murphy and Cleveland 1995; Ilgen, Fisher et al. August 1979).


Performance feedback should include information on how to improve performance, along with information about what areas of performance need

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52 Ilgen, Cynthia D. Fisher, and Susan M. Taylor, pp 349–371
53 Larson, James R, pp 42–76
54 Kluger, A. N. DeNisi, A. S, pp 254–284
55 Ilgen, Richard B. Peterson, Beth A. Martin, and Daniel A. Boeschen, pp 311–330
56 Taylor, Susan M., Cynthia D. Fisher, and Daniel R. Ilgen, pp 81–124
improvement. The frequency of feedback is also important. The rating scales should focus on results as much as on processes.

Thus, feedback is not only important to individuals but also to organizations because of its potential influence on employee performance and a variety of attitudes and behaviors of interest to organizations.

In summary, the central role of feedback in the appraisal process and the importance of examining ratees” satisfied with appraisal feedback are widely acknowledged (Ilgen et al., 1979; Keeping and Levy57, 2000; Murphy and Cleveland, 1995)(Murphy and Cleveland 1995; Ilgen, Peterson et al. December1981; Keeping and Levy October2000).

Some of the relevant characteristics that may influence the effectiveness of the appraisal process include the frequency of the appraisals, the nature of the appraisal (i.e., written vs. unwritten), the perceived fairness of the evaluation process (Huffman & Cain58, 2000), and the degree to which the evaluation results are discussed with the employees being evaluated (Dipboye & de Pontbriand59, 1981; Landy, Barnes, & Murphy60, 1978). (Landy, Barnes et al. 1978; Dipboye and de Pontbriand 1989; Huffman and Cain 2000)

Reactions to feedback are presumed to indicate the overall system viability (Bernardin and Beatty, 1984; Cardy and Dobbins, 1994; Carroll and Schneier, 1982) and to influence future job performance (Kluger and DeNisi, 1996), as well as job and organizational attitudes (Taylor et al., 1984)(Carroll and Schneier 1982; Bernardin and Beatty 1984; Taylor, Cynthia D. Fisher et al. 1984; Cardy and Dobbins 1994; Kluger and DeNisi 1996).

Satisfaction with appraisal feedback is one of the most consequential of the reactions to appraisal feedback (Dorfman et al61, 1986; Giles and Mossholder62, 1990; Keeping and Levy, 2000). Several researchers (Giles and Mossholder, 1990; Organ63, 1988) have asserted that using satisfaction as a measure of employees’ reactions affords a broader indicator of reactions to appraisal feedback than more specific cognitively oriented criteria. In fact, cognitively oriented measures, such as

57 Keeping, Lisa M. Paul E. Levy,pp 708–723
58 Huffman, C, & Cain, L. B ,pp 799- 833
59 Dipboye, R. L., de Pontbriand, R,pp 248-251
60 Landy, F. J., Barnes, J. L., & Murphy, K. R, pp 751-754
61 Dorfman, Peter W., Walter G. Stephan, and John Loveland, pp 579–598
63 Organ, Dennis W ,pp 547–557
perceived utility and perceived accuracy, are positively related to satisfaction with appraisal feedback (Keeping and Levy, 2000). In addition, because appraisals form the basis of several important decisions, satisfaction with feedback signifies recognition, status, and future prospects within the organization (Dorfman, G. et al. 1986 Autumn; Organ 1988 December; Giles and Mossholder 1990 August; Keeping and Levy October 2000).

These various psychological implications of satisfaction with feedback make it a significant determinant of future behavior and job and organizational attitudes (Taylor et al., 1984) (Taylor, Cynthia D. Fisher et al. 1984).

Rate participation in appraisal feedback discussion was investigated as a predictor because it has been emphasized in several models (Klein et al., 1987) and reviews of the appraisal feedback literature (Klein, H. J., Snell et al. 1987).

The central role of the rater to the feedback process has been acknowledged by several researchers (Ilgen et al., 1979; Klein et al., 1987). Therefore, satisfaction with rater was included as a potential predictor of satisfaction with appraisal feedback (Klein, H. J., Snell et al. 1987; Ilgen, Fisher et al. August 1979).

b. The organizational justice

The organizational justice literature addresses three principal types of justice - procedural, interactional and distributive justice.


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64 Klein, H. J., Snell, S. A., & Wextey, K., N, pp 267-280
65 Greenberg, J., pp 249-256
66 Alexander, S. and Ruderman, M, pp 177-198
68 Fryxell, G.E. and Gordon, M.E. pp 851-866
69 Folger, R. and Konovsky, M.A, pp 115-130
70 Cropanzano, R.S. and Randall, M.L. pp 3-20
71 Taylor, M.S., Tracy, K.B., Renard, M.K., Harrison, J.K. and Carroll, S.J. pp 495-523
The distributive justice: The study of distributive justice deals with the perceived fairness of the outcomes or allocations that individuals in organizations receive (Folger and Cropanzano, 1998). In the case of performance appraisal, distributive justice requires that “performance appraisal ratings meet employee expectations, outcomes are based on the ratings, and outcomes meet the expectations of employees” (Bowen et al., 1999) (Folger and Cropanzano 1998; Bowen, Gilliland et al. 1999).

The procedural justice: The study of procedural justice focuses on the fairness of the methods that are used in organizations to arrive at distributive justice. It addresses “fairness issues concerning the methods, mechanisms, and processes used to determine outcomes” (Folger and Cropanzano, 1998). Perceptions of procedural justice reflect an appraisal of the process by which an allocation decision is (or was) made (Folger and Cropanzano, 1998)(Folger and Cropanzano 1998). Leventhal and colleagues have been credited with importing the concept of organizational settings from the legal literature (Leventhal, 1980). Leventhal’s theory of procedural justice focused on six criteria that a procedure should meet if it is to be perceived as fair(Leventhal 1980). Procedures should:

a- be applied consistently across people and time,
b- be free from bias,
c- ensure that accurate information is collected and used in making decisions,
d- have some mechanism to correct flaws or inaccurate decisions,
e- conform to personal or prevailing standards of ethics or morality,
f- ensure that the opinions of various groups affected by a decision have been taken into account (Colquitt et al., 2001) (Colquitt, Conlon et al. 2001).

Applied to questions of performance appraisals, procedural justice underlies two theories: control theory and the group-value model.

In control theory (Thibaut & Walker, 1975) it is assumed that individuals prefer to be in control of decision-making processes rather than be passive recipients. For

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72 Bowen, D., Gilliland, S. and Folger, R., pp 7-23  
example, in a recent study of computer-based performance monitoring, Douthitt and Aiello (2001) reported that employee participation (providing input related to the expression of work process preferences) had a positive impact on perceptions of procedural justice. However, they showed that the ability to control the computer monitoring (if it was on or off) did not significantly influence perceptions of justice. Their findings suggest that various forms of control (decision and process) may partially determine the perceived fairness.

Performance appraisal systems (Thibaut and Walker 1975).

Proponents of the group-value model (Lind & Tyler, 1988) hold that individuals want to be respected and valued members of groups and that individuals perceive higher procedural justice when they feel valued and accepted by group members (Lind and Tyler 1988). One recent study (Robbins et al., 2000) showed that group-value concerns explained unique variance in organizational commitment, turnover intentions, as well as in both employee and group-performance. Moreover, group-value concerns explained more unique variance in organizational commitment and performance than did distributive justice or control-based procedural justice. These findings suggest that group-value concerns correlate with key organizational outcomes, and that perception of group membership is important in determining whether a performance appraisal system is fair.

- The interactional justice: Interactional justice refers to 'justice appraisals based on the quality of the interpersonal treatment [people] receive' (Bies and Moag74, 1986, as quoted in Cropanzano and Randall, 1993). A concern with interactional justice, therefore involves raising questions about the type of "interpersonal sensitivity" and other aspects of social conduct that characterize social exchange between parties, including the explanation offered for certain decisions made about the individual (Folger and Cropanzano, 1998). It focuses on "how formal agents of the organization treat those who are subject to their authority, decisions and actions" (Cobb et al75, 1995). Such a distinction allows us "to include non procedurally dictated aspects of interaction such as explanation content and the persuasive features of communication efforts" (Folger and Cropanzano, 1998)(Bies and Moag 1986; Cropanzano and Randall 1993; Cobb and Folger 1995; Folger and Cropanzano 1998).

74 Bies, R. J. and Moag, J. S, pp 43–55
While we acknowledge that some authors (e.g., Bies & Moag, 1986; Colquitt et al., 2001; Greenberg, 1993) have suggested additional justice constructs and some have argued that these constructs are distinct from procedural justice the presentation that follows is in keeping with those who contend that distributive and procedural concerns are of primary significance (Bies and Moag 1986; Greenberg 1993; Colquitt, Conlon et al. 2001).

c. The role of the appraiser

Attitudes toward the appraiser are important, particularly because the person providing the performance appraisal is often the employee's supervisor (Milkovich and Boudreau, 1997). The feelings created during the performance appraisal may endure and affect the employee-supervisor relationship in general (Wendy R. Boswell John W. Boudreau, 2000). These authors considered that evaluation may create negative feelings toward the appraiser (the immediate supervisor) and could arguably be detrimental to the relationship. This may be particularly true if the employee receives a low PA rating or perceives injustice (Milkovich and Boudreau 1997; Wendy, W. et al. 2000).

Although negative feelings may upset the relationship between the evaluator and the individual being evaluated (Drenth, 1984), evaluation may lead to positive outcomes, such as pay increases or promotions, and ultimately a positive reaction toward the person providing the feedback (Drenth 1984).

Russell and Goode (1988), for example, found that satisfaction with the appraisal positively associated with satisfaction with the appraisal source: the supervisor (Russell J and Goode 1988).

The Gosselin and colleagues (1997) research suggests that many employees not only prefer developmental performance appraisal uses such as career planning but also prefer that their immediate supervisor provide the performance appraisal feedback.

d. Performance appraisal purposes and attitudes

Previous research has shown that performance appraisal purpose affects rating processes and outcomes (Murphy, Garcia, Kerkar, Martin, and Baher, 1982; Shore,

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77 Russell J , S,,& Goode, D, L, pp 63-67
78 Murphy, K., Garcia, M., Kerkar, S., Martin, C, & Balzer, W, pp 320-325
Adams, and Tashchian⁷⁹. 1998; Williams, DeNisi. Blencoe, and Cafferty⁸⁰. 1985) and employees indicate a preference for certain performance appraisal uses, it is conceivable that employee attitudes may vary depending on perceptions of how the performance appraisal is used. If people perceive performance appraisal purposes differently, as has been suggested (Balzer and Sulsky⁸¹, 1990), then attitudes may vary depending on that perception(Murphy, Garcia et al. 1982; Williams, DeNisi et al. 1985; Balzer, K. et al. 1990; Shore. T. H, Adams et al. 1998).

Prince and Lawler (1986) study showed a positive effect on employee satisfaction with the performance appraisal when this one is used for salary discussion.

Gosselin⁸², Werner, and Halle, a 1997 study found that although employees did not indicate a preference for administrative (that is, evaluative) or developmental performance appraisal use, 29 percent of the respondents ranked using appraisals for promotion decisions their preferred performance appraisal use and 11 percent of respondents ranked appraisals used for salary administration as a "favored" choice of appraisal use(Gosselin, Werner et al. 1997).

It has also been proposed that evaluation is often of a negative nature (Meyer⁸³, Kay, and French, 1965), whereas development is more likely to be viewed positively because of its futuristic and helpful focus (Milkovich and Boudreau, 1997)(Meyer, Kay et al. 1965; Milkovich and Boudreau 1997).

In the study of Gosselin, Werner, and Halle (1997), over half the respondents ranked salary increases as their last or second to last (out of five) preferred use of the appraisal. Salary increases may even lead to negative feelings if the increase is perceived as inequitable or minimal (Wendy R. Boswelljohn W. Boudreau, 2000)(Wendy, W. et al. 2000).

Development provided by the immediate supervisor has been shown to be an important and common use of performance appraisal (Cleveland, Murphy, and Williams, 1989; Meyer, Kay, and French, 1965). Prince and Lawler⁸⁴ (1986) found that the constructs "work planning and goal setting " and "discuss performance attributes" exerted a positive influence on employees' satisfaction with and perceived

⁸¹ Balzer, William K. and Lorne M. Sulsky , pp 133–156
⁸⁴ Prince, J , B., & Lawler. E, E, pp 357-375
utility of the performance appraisal. In contrast, the construct "career development" showed little influence on performance appraisal satisfaction (Meyer, Kay et al. 1965; Prince and Lawler. E 1986; Cleveland 1989).

In the Gosselin and colleagues’ study (1997), no clear preference for one use over the other was found. In fact, many respondents actually preferred developmental uses such as career planning and training and development (36 percent and 25 percent, respectively).

Dipboye and de Pontbriand (1981) similarly showed that employees were more satisfied and had greater acceptance of the performance appraisal when employee development and performance improvement were emphasized in it. Related research on performance appraisal objectivity, fairness, and accuracy has shown that performance improvement discussions have a positive effect on these variables (for example, Fulk. Brief, and Barr85. 1985; Goodson and McGee86, 1991)(Fulk, Brief et al. 1985; Dipboye and de Pontbriand 1989; Goodson and McGee 1991).

Previous research on 360-degree feedback has found that ratees approve of these appraisals when they are used for developmental purposes but are not as accepting when they are used for evaluation (for example, Ash87, 1994; McEvoy88, 1990; McEvoy, Buller, and Roghaar89, 1988)(McEvoy, Buller. P et al. 1988; McEvoy 1990; Ash 1994).

The relationship between performance appraisal use and performance appraisal satisfaction has been found to be strongest for low performers, where low performers were more satisfied when the salary discussion was included in the PA than when it was not (Prince and Lawler, 1986). In contrast, it is conceivable that better performers are happier with the appraisal and are also the employees who were provided development (Wendy R. Boswelljohn W. Boudreau, 2000)(Prince and Lawler. E 1986; Wendy, W. et al. 2000).

The Performance Appraisal Process

85 Fulk, J., Brief, A. P., & Barr. S, H ,pp301-313
87 Ash, A. pp 237-256
88 McEvoy, G. pp 201-212
89 McEvoy, G. M., Buller, P. F. Boghaar, S. R. pp 94-101
Exhibit 1 illustrates the performance appraisal (PA) process. Note the connection between the organization’s mission and objectives and the performance appraisal process. Here we briefly discuss each step of the process:

**Step 1. Job analysis**

This is logically our first step because if we don’t know what a job consists of, how can we possibly evaluate an employee’s performance? We should realize that the job must be based on the organizational mission and objectives, the department, and the job itself.

**Step 2. Develop standards and measurement methods**

If we don’t have standards of acceptable behavior and methods to measure performance, how can we assess performance? We will discuss performance measurement methods in the next part of this section, and in the major section “How Do We Use Appraisal Methods and Forms?” we will discuss these topics in more detail.

**Step 3. Informal performance appraisal—coaching and disciplining**

Performance appraisal should not be simply a once- or twice-yearly formal interview. As its definition states, performance appraisal is an ongoing process. While a formal evaluation may only take place once or twice a year, people need regular feedback on their performance to know how they are doing. We will briefly discuss coaching in the “Critical Incidents Method” subsection of “How Do We Use Appraisal Methods and Forms?” and in more detail along with teaching how to discipline in the next chapter.

**Step 4. Prepare for and conduct the formal performance appraisal**

The common practice is to have a formal performance review with the boss once or sometimes twice a year using one or more of the measurement forms we will be learning about. Later in this chapter we will discuss the steps of preparing for and conducting the performance appraisal.

In the major sections to come, we discuss “why” we assess performance, “what” we assess, “how” we assess, and “who” conducts the performance appraisal. Then we discuss performance appraisal problems and how to avoid them, and we end the
performance appraisal process with the actual formal review session. But before we leave this section, we need to understand a critically important part of each step in the performance appraisal process—accurate performance measurement.

Exhibit 1 The Performance Appraisal Process

**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.

A. **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 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.

b. 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. Also, invalidating selection tests, employee ratings may be used as the variable against which test scores are compared. In this instance, the determination of the selection test’s validity would depend on the accuracy of appraisal results.

c. 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.

d. Career Planning and Development

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.
e. 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.

f. 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 at the same level, as is required in the consideration of transfers. When the performance level is unacceptable, demotion or even termination may be appropriate.

g. 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.

Performance Appraisal Environmental Factors

External and internal environmental factors can influence the appraisal process. For example, legislation requires that appraisal systems are 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 well as individual contributions. A no trusting 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.

Performance Appraisal Process

The starting point of 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.

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 the 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.

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\textsuperscript{90} (Hugh, Watson et al. 2009). 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 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

\textsuperscript{90}Hugh J. Watson & Jim Hill, pp 4–7
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 SHRM\(^91\) and the Global Consulting Alliance determined that success in HR is dependent on competency and specific skills in the following five key areas (Susan Meisinger, 2003)\(^92\):

- 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 (Meisinger July 2003).

Goal Achievement

If organizations consider ends more important than the 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

\(^{91}\) Human Resource Management

\(^{92}\) Susan Meisinger, p8
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 to 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.

**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 fear 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 peer 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 (2007), vice-president of HR at Nickelodeon, said, “The fascinating thing is that employees are usually tougher on themselves than you will ever be” (Falcone July 12, 2007). Also, because employee development is self-development, employees who appraise their own performance may become more highly motivated. The self-appraisal provides employees with a means of keeping the supervisor informed about everything the worker has made during the appraisal period (Joan Lloyd93, 2009) (Lloyd March 2009). 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**

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93 Joan Lloyd, pp 8-10
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 (Jena McGregor94, 2009)(McGregor July 6, 2009). 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(February 2007). 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.

94 Jena McGregor, pp 50-52
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 (Kevin J. Sensenig, 2009). 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

95 Kevin J. Sensenig, pp54-57
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 a 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 (Jay Forte, 2009) (Forte February 2009). 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

96 Jay Forte ,pp 3-4
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 are 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.

**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 for 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 critical, 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 development and commitment to 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 (October 2009). 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 (April 2010).
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 the 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 (March 2010).

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 hasn't 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. (October 2009) Criticism, even if warranted, is especially difficult to give. The employee may not 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 (Charlene Kesee97, 2010) (Kesee March/April 2010). 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.

OVERCOMING APPRAISAL INTERVIEW DIFFICULTIES

Feedback, perhaps the greatest tool a manager has for changing behavior, must be given in an appropriate manner. There is a greater chance that the performance appraisal will have a positive outcome if certain conditions are present before, during, and after the interview.

Before the Interview

* Make sure that the conditions mentioned previously have been met (e.g., the employee knows the standard by which his or her work will be evaluated), and he or she has a copy of the appraisal form.

97 Charlene Kesee, pp14-17
• Select an appropriate time for the appraisal conference. Do not choose a time when the employee has just had a traumatic personal event or is too busy at work to take the time needed for a meaningful conference.

• Give the employee a two- to three-day advance notice of the scheduled appraisal conference so he or she can be prepared mentally and emotionally for the interview.

• Be personally prepared mentally and emotionally for the conference. If something should happen to interfere with your readiness for the interview, it should be canceled and rescheduled.

• Schedule uninterrupted interview time. Hold the interview in a private, quiet, and comfortable place. Forward your telephone calls to another line and ask another manager to answer any pages you may have during the performance appraisal.

• Plan a seating arrangement that reflects collegiality rather than power. Having the person seated across a large desk from the appraiser denotes a power–status position; placing the chairs side by side denotes collegiality.

**During the Interview**

• Greet the employee warmly, showing that the manager and the organization have a sincere interest in his or her growth.

• Begin the conference with a pleasant, informal note.

• Ask the employee to comment on his or her progress since the last performance appraisal.

• Avoid surprises in the appraisal conference. The effective leader coaches and communicates informally with staff on a continual basis, so there should be little new information at an appraisal conference. Cohen98 (2000) goes so far as to assert that if the employee first hears about a performance concern during the appraisal, the manager has not been doing his or her job(Cohen 2000).

• Use coaching techniques throughout the conference.

• When dealing with an employee who has several problems—either new or long-standing—don’t overwhelm him or her at the conference. If there are too many problems to be addressed, select the major ones.

• Conduct the conference in a nondirective and participatory manner. Input from the employee should be solicited throughout the interview; however, the manager must recognize that employees from some cultures may be hesitant to provide this type of

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98 Cohen, S.p8
input. In this situation, the manager must continually reassure the employee that such input is not only acceptable but desired.

- Focus on the employee’s performance and not on his or her personal characteristics.
- Avoid vague generalities, either positive or negative, such as “your skills need a little work” or “your performance is fine.” Be prepared with explicit performance examples. Be liberal in the positive examples of employee performance; use examples of poor performance sparingly. Use several examples only if the employee has difficulty with self-awareness and requests specific instances of a problem area.
- When delivering performance feedback, be straightforward and state concerns directly. Indirectness and ambiguity are most likely to inhibit communication than enhance it, and the employee is left unsure about the significance of the message.
- Never threaten, intimidate, or use status in any manner. The appraiser must make sure that the person’s self-esteem is not threatened, because this will prevent the nurturing of a meaningful and constructive relationship between the manager and employee.
- Let the employee know that the organization and the manager are aware of his or her uniqueness, special interests, and valuable contributions to the unit. Remember that all employees make some special contribution to the workplace.
- Make every effort to ensure that there are no interruptions during the conference.
- Use terms and language that are clearly understood and carry the same meaning for both parties. Avoid words that have a negative connotation. Do not talk down to employees or use language that is inappropriate for their level of education.
- Mutually set goals for further growth or improvement in the employee’s performance. Decide how goals will be accomplished and evaluated and what support is needed.
- Plan on being available for employees to return retrospectively to discuss the appraisal review further. There is frequently a need for the employee to return for elaboration if the conference did not go well or if the employee was given the unexpected new information. This is especially true for the new employee.

**After the Interview**

- Both the manager and employee need to sign the appraisal form to document that the conference was held and that the employee received the appraisal information. This does not mean that the employee is agreeing to the information in the appraisal; it merely means the employee has read the appraisal.
• End the interview on a pleasant note.
• Document the goals for further development that have been agreed on by both parties. The documentation should include target dates for accomplishment, support needed, and when goals are to be reviewed. This documentation is often part of the appraisal form.
• If the interview reveals specific long-term coaching needs, the manager should develop a method of follow-up to ensure such coaching takes place.

Evaluating the HR function

The potential for the HR function to play a significant role in increasing added value and achieving competitive advantage may be considerable. But how can the effectiveness of the function be measured at both the strategic level and at the level of support and service provision? Such measurements have to be made to ensure that value-added contribution is being made and to indicate where improvements or changes in direction are needed.

Approaches to evaluation

The research conducted by Armstrong and Long\(^99\) established from discussions with chief executives and other directors that the most popular basis for qualifying HR practitioners was their judgment related to factors such as:

• Understanding of the organization - its mission, values, critical success factors, product-marketing strategies, technology or method of operation and distinctive competences;

• Effectiveness of contributions to top management team decision-making on corporate/business issues;

• The extent to which inventory, realistic and persuasive proposals were made on HR strategies, policies and programs;

• The capacity to deliver as promised;

• The quality of the advice and services they provided, assessed mainly in subjective terms - e.g., it is practical, it meets my needs, it solves my problem, they (the services) are efficient, they respond quickly to requests for help or advice;

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\(^99\) Armstrong and Long (1994)
• The ability to build and maintain stable and cooperative relationships with trade unions;
• The ability to handle difficult situations such as downsizing;
• In very general terms, the contribution they make to developing the corporate culture, their influence on management style and their abilities as facilitators and managers of change;
• Their overall credibility and ability to work as a full member of the top management team (Armstrong and Long 1994).

These largely subjective evaluations were supplemented by the analysis of key employment ratios such as turnover, absenteeism, suggestions received and acted upon, health and safety statistics and the outcome of customer satisfaction surveys.

In some organizations formal surveys were made of the opinions of line managers about the services they received from the HR function, and employee attitude surveys were also used as a means of evaluation.

But this problem should not deter anyone from making a determined attempt to measure HR effectiveness, and there are a number of approaches which can be adopted as discussed below.

Overall methods of evaluation

An important distinction is made by Tsui and Gomez-Mejia (1988) between:

• Process criteria - how well things are done; and
• Output criteria - the impact made by the process of organizational and operational performance, is the effectiveness of the end-result (Tsui and Gomez-Mejia 1988).

This is broadly the old 100 distinction between efficiency and effectiveness - IE doing things right in terms of what you do (efficiency) rather than doing the right things in terms of the results you achieved (effectiveness). In terms of personal effectiveness, it means determining the extent to which HR policies, programs and practices and the advice and support provided by the HR function enable line managers to achieve business objectives and meet operational requirements (Drucker 1967).

100 Peter Drucker, 1967
When deciding on how the HR function should be evaluated it is also necessary to distinguish between quantitative criteria such as turnover or absenteeism figures, and qualitative criteria such as line managers' opinions of the HR function or the outcome of employee attitude surveys.

**Types of performance measures**

The types of performance measures that can be used to evaluate the HR function are:

- **Money measures**, which include maximizing income, minimizing expenditure and improving rates of return.

- **Time measures** express performance against work timetables, the amount of backlog and speed of activity or response.

- **Measures of effect** include attainment of a standard, changes in behavior (of colleagues, staff, clients or customers), physical completion of the work and the level of take-up of a service.

- **Reaction** indicates how others judge the function or its members and is therefore a less objective measure. Reaction can be measured by peer assessments, performance ratings by internal or external clients or customers or the analysis of comments and complaints.

**Evaluation criteria**

It has been suggested by Guest and Peccei (1994)\textsuperscript{101} that the effectiveness of HRM can be measured by reference to:

- **Organizational effectiveness** - but it may not be possible to separate HR and organizational effectiveness, which will be affected by external events, and this approach does not provide a base for decisions about HR policy and practice;

- **Specified goals** - this is a plausible method, if good measures of goal attainment can be used and if allowance is made for unanticipated events;

- **Specified quantified measures** - labor costs, turnover and productivity have high credibility but may be difficult to interpret and can be affected by non-HRM factors and are insufficient on their own;

\textsuperscript{101}Guest and Peccei pp 219-42
• Stakeholder perspective - this uses the subjective views of key interest groups, eg the board's, on personal effectiveness, and is probably the most satisfactory method (Guest and Peccei 1994).

Practical methods of evaluation

The approach that in practice are adopted by organizations to evaluate HR effectiveness are:

• Quantitative - macro (organizational);
• Quantitative - micro (specified aspects of employee behavior or reaction);
• Quantitative/qualitative - achievement of specified goals;
• Quantitative I qualitative - achievement of standards set in service level agreements;
• Qualitative - macro - an overall and largely subjective assessment of the personnel function;
• Qualitative - client satisfaction is 'stakeholder perspective';
• Qualitative - employee satisfaction, also 'stakeholder perspective';
• Utility analysis;
• Benchmarking.

Organizational quantitative criteria

At the organizational level, the quantitative criteria that can be used include:

• Added value per employee;
• profit per employee;
• Sales value per employee;
• Costs per employee;
• Added value pair £ of employment costs.

Added value pair £ of employment costs was used in two of the organizations covered by the Armstrong and Long (1994) (Armstrong and Long 1994) research (Pilkington
Optronics and Rover Group) and has the advantage of bringing together both benefits (added value) and costs (of employment).

Another reason for using quantified macro-measures, as pointed out by Tyson (1985)\textsuperscript{102}, is that

... the business objectives become 'sold' as part of the personnel policy. The discipline of sitting down to look at training objectives, for example in terms of sales value or added value, brings out what can be assessed and raises the useful question of why we are proposing this program, if we are unable to relate it to the business (Tyson 1985).

**Specific quantified criteria**

Specified quantified criteria can be classified into two categories: those relating to measurable aspects of employee behaviors and those relating to the type, level and costs of the services provided by the HR department to its clients.

**Employee behavior criteria**

Employee behavior criteria include:

- Employee retention and turnover rates;
- Absenteeism rate;
- Ratio of suggestions received by the number of employees;
- Number of usable proposals from quality circles or improvement groups;
- Cost savings arising from suggestions and/or quality circle recommendations;
- Frequency/severity rate of accidents;
- Ratio of grievances to number of employees;
- Time lost through disputes;
- Number of references to industrial tribunals on unfair dismissal, equal opportunity, equal pay, harassment, racial discrimination issues etc. and the outcome of such references.

\textsuperscript{102} Tyson, s pp 35 - 39
In some of these areas, for example employee retention and absenteeism rates, the HR function cannot be held entirely accountable. But it is a shared responsibility and the measures will indicate problem areas which may be related to the quality of the advice or services provided by the function.

**HR department service-level criteria**

The quantifiable criteria available to measure the level and value of service provision by the HR function include:

- Average time to fill vacancies;
- Time to respond to applicants;
- Ratio of acceptance to offers made;
- Cost of advertisements per reply/engagement;
- Training hours/days per employee;
- Time to respond to and settle grievances;
- Cost of induction training per employee;
- Cost of benefits per employee;
- Measurable improvements in productivity as a direct result of training;
- Measurable improvements in individual and organizational performance as a direct result of the operation of performance-related pay and performance management schemes;
- Ratio of HR department costs to profit, sales turnover or added value;
- Personnel costs in relation to budget;
- Ratio of HR staff to employees.

The usefulness of those measures is variable, as is the practice of collecting reliable information. Figures on training days per employee do not mean much in themselves unless there is some measure of the relevance and impact of that training. To rely on this measure would be like rewarding sales representatives on the basis of the sales volume they generate rather than the contribution their sales make to profit and fixed costs.
It is also possible that the costs of collecting and analyzing some sorts of information may not be justified by the benefits that they could theoretically produce the shape of improved performance. It is a matter of judgment to select the criteria which are likely to be the most relevant, and this will depend on the circumstances of the organization and the particular pressures to which it and its personnel function are being subjected. It may be appropriate to highlight some criteria for a period and then, if the problem has been resolved, focus attention on other areas.

**Achievement of specified goals**

This approach involves measuring achievements against agreed objectives - it could be the final outcome or a measure of progress towards a goal as indicated by the extent to which specified 'milestones' have been reached.

The specified objectives could be expressed in terms such as:

- All employees have received training on the implementation of equal opportunities policies by 1 June;
- An agreement with the various trade unions to setting up single table bargaining to be reached by the end of the year;
- The competence analysis program to be completed within 12 months;
- Salary surveys to be conducted and a report on the implications on salary scales to be submitted by 1 September;
- The new performance management system to be fully operational within the next six months.

'Project' objectives set along these lines should include some indication of the standard of achievement expected, for example:

The effectiveness of the performance management system will be judged on:

(a) An evaluation of user reactions (managers and individuals);
(b) An assessment of the quality of the performance review processes;
(c) An analysis of the outputs of the system in terms of development and improvement plans;
(d) The number of upheld appeals on assessments;
(e) The impact the scheme is making on motivation, performance and commitment (as measured by a structured questionnaire to managers and individuals).

Service level agreements

An SLA\textsuperscript{103} is an agreement between the provider of a service and the customers who use the service. It quantifies the level of service required to meet the business needs. SLAs are most commonly found in the public sector but the principles of such agreements could apply equally well in other sectors. The starting point in drawing up an SLA is to clarify precisely what the customer's needs are and which elements are most important. The aim in setting service targets is that they should be stretching but achievable - although the approach adopted by some service providers is to under-promise so that they can appear to over-achieve. A service level agreement set out:

- The nature of the function or service provided;
- The volumes and quality to be achieved for each of these services;
- The response times to be achieved by the provider when receiving requests for help.

For an HR function, service level standards could be drawn up for such activities as:

- Response to requests for help or guidance in specific areas, e.g. recruitment, training, handling discipline cases and grievances and health and safety;
- The time taken to prepare job descriptions, fill vacancies or conduct a job evaluation;
- The amount of time lost through absenteeism or work-related sickness or accidents;
- The proportion of disciplinary and grievance issues settled at the time of the first involvement of HR;
- The number of appeals (successful and unsuccessful) against job evaluation decisions;
- The results of evaluations by participants of the training provided by the

\textsuperscript{103} service level agreement
Organizations that charge out the services of the HR function to users (and this is happening increasingly in local authorities) may set standards in terms of the costs of providing recruitment, training and other services. This could take such forms as a unit charge for each person recruited, a per capita charge for each training day, a fixed price sum for undertaking projects such as a pay review, a daily or hourly consultancy rate for work done on an occasional basis, or a lump sum retainer fee for maintaining a general availability to provide advice or services.

To make service level agreements work as a basis for evaluation it is essential they should be agreed with both providers and customers (purchasers). They should be reasonably simple, especially to begin with (not too many headings), and it should be possible to measure performance against the standards fairly easily - an over-bureaucratic system is likely to defeat the purpose of the agreement. If these requirements can be satisfied, a service level agreement can provide a good basis for evaluation.

**Subjective overall evaluation**

Perhaps the most common method of evaluating the HR function is a subjective assessment of the chief executive or the board which will be related to such general factors as:

- The quality of the advice and services provided as observed or experienced directly by the evaluator;
- The degree to which members of the function are more proactive rather than reactive (if that is what the management wants, which is not always the case);
- Feedback from line managers obtained on a haphazard basis as to whether or not they think HR is 'a good thing' and is 'doing a good job'.

The dangers of relying on subjective and ad hoc measures like these are obvious, but they are much used.

**User reaction measures**

Rather than relying on a haphazard and highly subjective assessments, this approach involves identifying the key criteria for measuring the degree to which clients of the HR
function in the shape of directors, managers and team leaders are satisfied with the quality of advice and services they provide.

Areas in which the quality of services provided by the HR function can be assessed include:

- Understanding of strategic business imperatives;
- Anticipation of business and management needs;
- Ability to function as a 'business partner' in the team;
- Quality of advice given in terms of its relevance to the problem or issue, the clarity and conviction with which the advice is given, the practicality of the recommendations;
- The quality of the back-up advice and services offered to implement recommendations, the extent to which ultimately the proposals worked;
- Speed of response to requests for advice or services;
- Promptness in dealing with grievances and appeals;
- Help to managers in identifying and meeting training needs;
- The extent to which training and development programs meet company/Individual needs;
- Delivery of advice and services that make a significant impact on improving the quality and performance of staff;
- Development of programs and processes that address short- and long-term business needs, that are 'owned' by line managers, and that produce the anticipated impact on motivation, commitment and performance.

Assessments of the contribution of the HR function in areas such as those listed above can be made by conducting surveys of client opinion (Armstrong 2005).

Employee satisfaction measures
The degree to which the employee stakeholders are satisfied with HR policies and practices as they affect them can be measured by attitude surveys that obtain opinions and perceptions of employees on:

- The extent to which they believe promotion, job evaluation, performance appraisal, performance-related pay and grievance processes and procedures operate fairly;
- The degree to which they are satisfied with pay and benefits;
- The extent to which they feel they are involved in decisions that affect them;
- How well they feel they are kept informed on matters of importance to them;
- The consistency with which HR policies concerning pay, equal opportunity, etc. are applied;
- The opportunities available to them for training and development;
- The degree to which their work makes the best use of their skills and abilities;
- The extent to which they are clear about what is expected of them;
- The support and guidance they receive from their managers and team leaders;
- Their working environment from the point of view of health and safety, and the
  General conditions under which they work;
- The facilities (restaurant, car parking etc) with which they are provided;
- Generally, the climate and management style of the organization.

Individual evaluation

The evaluation approaches listed above are directed at both the HR function as a whole and its individual members. But it is also necessary specifically to agree the overall objectives and standards of performance expected from members of the function as a basis for assessment.

Utility analysis
Utility analysis provides a decision support framework that explicitly considers the costs and benefits of HR decisions. The aim is to predict, explain and improve the utility or 'usefulness' of those decisions. It focuses on personnel programs, i.e. sets of activities or procedures that affect HR value. Utility analysis as described by Boudreau (1988) requires:

- A problem - gap between what is desired and what is currently being achieved;
- A set of alternatives to address the problem;
- A set of attributes - the variables that describe the important characteristics of the alternatives (such as effects on productivity, costs and employee attitudes);
- A utility function, or a system to combine the attributes into an overall judgment of each alternative’s usefulness.

Utility analysis focuses on:

- Quantity - the effect of work behaviors over time;
- Quality - the production of large improvements or the avoidance of large reductions in the quality of those work behaviors;
- Cost - the minimization of the costs of developing, implementing and maintaining programs (Boudreau 1988).

These are, rightly, in line with the factors used by any other function. It is accepted that at all the variables to be assessed may not be capable of being measured precisely, the uncertainty of this kind takes place in all aspects of management (e.g. Measuring consumer preferences).

Utility analysis depends on good management information and the possible limitations of such management information and the costs of collecting it should be recognized. Detailed management information will only prove useful if it serves the following purposes:

- It is likely to correct decisions that otherwise would have been incorrect.
- The corrections are important and produce large benefits.

Boudreau (1988)
• The cost of conducting the information does not outweigh the expected benefit of correcting decisions.

**Benchmarking**

The methods of measuring HR effectiveness listed above all rely on collecting and analyzing internal data and opinions. But it is also desirable to 'benchmark', i.e., compare what the HR function is doing within the organization with what is happening elsewhere. This will involve gaining information on 'best practice' which, even if it is not transferable in total to the organization conducting the survey, should at least provide information on areas for development or improvement.

**Preferred approach**

Every organization will develop its own approach to evaluating the effectiveness of the HR function and its members. There are no standard measures.

Perhaps, as a Guest and Peccei (1994)\textsuperscript{105} suggest:

The most sensible and the most important indicator of HRM effectiveness will be the judgments of key stakeholders... The political, stakeholder, perspective on effectiveness in organizations acknowledges that it is the interpretation placed on quantified results and the attributions of credit and blame that are derived from them that matter most in judging effectiveness. In other words, at the end of the day, it is always the qualitative interpretation by those in positions of power that matters most(Guest and Peccei 1994).

But they recognized 'the desirability of also developing clearly specified goals and quantitative indicators, together with financial criteria.

**Auditing the HR function**

Like any other function, the performance and contribution of HR should be audited regularly. The questions to which answers should be obtained are:

1. What strategic contribution is being made by HR to the achievement of business/corporate objectives?

2. To what extent are there well-articulated and agreed HR strategies which are aligned to the business strategy and which are integrated with one another?

\textsuperscript{105} Guest and Peccei (1994)
3. What role is HR currently playing? Is this role appropriate in the context of the organization?

4. To what extent has the responsibility for HR issues been devolved to line management?

5. How well does HR reconcile the need for devolution with the need to ensure that organizational, ethical and legal obligations and requirements are being met consistently?

6. What evidence exists that HR is being innovative in a practical and business-like way, based on an analysis of the business and people needs of the organization and benchmarking?

7. How well is HR performing by reference to quantitative measures such as added value per employee, absenteeism and attrition?

8. How well is HR performing in terms of service delivery in fields such as recruitment, training, reward management, health and safety, the management of equal opportunity and diversity, advice on employment law and legal obligations, the provision of employee assistance programs and the maintenance and use of personnel information systems?

9. To what extent does HR express proper concern for ethical considerations, the interests of all stakeholders (employees as well as management), enhancing the quality of working life and achieving a satisfactory work/life balance?

10. What contribution has HR made to the improvement of the employee relations climate?

11. How well is HR regarded by its customers - management, line managers, employees generally, employee representatives, as measured by formal assessments or opinion surveys?

12. Is the HR function well-organized and properly staffed with qualified professionals who are actively concerned with continuous professional development?

The basis of performance management

Performance management is covered in this chapter under the following headings:
• Definition;
• Purpose;
• Principles;
• Concerns;
• Scope of performance management;
• Ethical considerations;
• Background;
• The basic performance management processes

**Performance management defined**

Performance management can be defined as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors.\(^{106}\)

Performance management is strategic in the sense that it is concerned with the! Broader issues facing the business if it is to function effectively in its environment and with the general direction in which it intends to go to achieve longer-term goals. It is integrated in four senses:

- Vertical integration - linking or aligning business, team and individual objectives;
- Functional integration - linking functional strategies in different parts of the business;
- HR integration - linking different aspects of HRM, especially organizational development, HR development and reward, to achieve a coherent approach to the management and development of people; and
- The integration of individual needs with those of the organization, as far as this is possible(Armstrong and Baron 1998).

The meaning of performance

\(^{106}\) Armstrong and Baron, 1998
Performance management is, of course, about performance. But what is meant by that word? It is important to clarify what it means because if performance cannot be defined, you can't measure or manage it. It has been pointed out by Bates and Holton (1995)\textsuperscript{107} that: 'Performance is a multi-dimensional construct, the measurement of which varies depending on a variety of factors.' They also state that it is important to determine whether the measurement objective is to assess performance outcomes or behavior (Bates and Holton 1995).

There are different views on what performance is. It can be regarded as simply the record of outcomes achieved. On an individual basis, it is a record of the person's accomplishments. Kane\textsuperscript{108} argues that performance 'is something that the person leaves behind and that exists apart from the purpose (Kane 1996). Bernadin et al (1995)\textsuperscript{109} are concerned that: 'Performance should be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction, and economic contributions. The Oxford English Dictionary defines performance as: The accomplishment, execution, carrying out, working out of anything ordered or undertaken (Bernadin, Kane et al. 1995).

This refers to outputs/outcomes (accomplishment) but also states that performance is about doing the work as well as being about the results achieved. Performance could therefore be regarded as a behavior - the way in which organizations, teams and individuals get work done. Campbell (1990)\textsuperscript{110} believes that: 'Performance is behavior and should be distinguished from the outcomes because they can be contaminated by system factors (Campbell 1990).

A more comprehensive view of performance is achieved if it is defined as embracing both behavior and outcomes. This is well put by Brumbach\textsuperscript{111} (1988):

Performance means both behavior and results. Behaviors emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviors are also outcomes in their own right - the product of mental and physical effort applied to tasks - and can be judged apart from the results (Brumbach 1988).

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{107} Bates and Holton pp 267-88
\item \textsuperscript{108} Kane pp 123-145
\item \textsuperscript{109} Bernadin et al (1995)
\item \textsuperscript{110} Campbell (1990)
\item \textsuperscript{111} Brumbach pp387-402
\end{itemize}
\end{footnotesize}
The definition of performance leads to the conclusion that when managing the performance of teams and individuals both inputs (behavior) and outputs (results) to be considered. This is the so-called 'mixed model' (Hartle, 1995) of performance management which covers competency levels and achievements as well as objective setting and review (Hartle 1995).

Purpose of performance management

Performance management is a means of getting better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements. It is a process for establishing a shared understanding about what is to be achieved, and an approach to managing and developing people in a way that increases the probability that it will be achieved in the short and longer term. It is owned and driven by line management.

Principles of performance management

The principles of performance management have been well summarized by IRS (1996) as follows:

- It translates corporate goals into individual, team, department and divisional goals,
- It helps to clarify corporate goals.
- It is a continuous and evolutionary process, in which performance improves over time.
- It relies on consensus and cooperation rather than control or coercion.
- It encourages self-management of individual performance.
- It requires a management style that is open and honest and encourages two-way communication between superiors and subordinates.
- It requires continuous feedback.
- Feedback loops enable the experiences and knowledge gained on the job by individuals to modify corporate objectives.
- It measures and assesses all performances against jointly agreed goals.
• It should apply to all staff; and it is not primarily concerned with linking performance to financial reward (IRS 1996).

**Concerns of performance management**

Performance management is basically concerned with performance improvement in order to achieve organizational, team and individual effectiveness. Organizations, as I started by Lawson (1995), have ‘to get the right things done successfully (Winstanley and Stuart-Smith Summer1996).

Secondly, performance management is concerned with employee development,” Performance improvement is not achievable unless there are effective processes of continuous development. This addresses the core competences of the organization and the capabilities of individuals and teams. Performance management should really be called performance and development management.

Thirdly, performance management is concerned with satisfying the needs and expectations of all the organization's stakeholders - owners, management, employees, customers, suppliers and the general public. In particular, employees are treated as partners in the enterprise whose interests are respected and who have a voice on matters that concern them, whose opinions are sought and listened to. Performance management should respect the needs of individuals and teams as well as those of the organization, recognizing that they will not always coincide.

Finally, performance management is concerned with communication and involvement. It creates a climate in which a continuing dialogue between managers and the members of their teams takes place to define expectations and share information on the organization's mission, values and objectives. This establishes mutual understanding of what is to be achieved and a framework for managing and developing people to ensure that it will be achieved. Performance management can contribute to the development of a high-involvement organization by getting teams and individuals to participate in defining their objectives and the means to achieve them.

**Ethical considerations**

Performance management should operate in accordance with the following ethical principles as defined by Winstanley and Stuart-Smith (1996).112

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112 Winstanley and Stuart-Smith pp 66-84
• Respect for the individual - people should be treated as 'ends in themselves' and not merely as 'means to other ends';

• Mutual respect - the parties involved in performance management processes should respect each other's needs and preoccupations;

• Procedural fairness - the procedures incorporated in performance management should be operated fairly to limit the adverse effect on individuals;

• Transparency - people affected by decisions emerging from the performance management process should have the opportunity to scrutinize the basis upon which decisions were made (Winstanley and Stuart-Smith Summer 1996).

**The scope of performance management**

Performance management is about managing the organization. It is a natural process of management, not a system or a technique. (Fowler Jul 1990) It is also about managing within the context of the business (its internal and external environment). This will affect how it is developed, what it sets out to do and how it operates. The context is very important, and Jones goes as far as to say manage context, not performance (Jones Fall 1995).

Performance management concerns everyone in the business - not just managers. It rejects the cultural assumption that only managers are accountable for the performance of their teams and replaces it with the belief that responsibility is shared between managers and team members. In a sense, managers should regard the people who report to them as customers for the managerial contribution and services they can provide. Managers and their teams are jointly accountable for results and are jointly involved in agreeing what they need to do and how they need to do it, in monitoring performance and in taking action.

Performance management processes are part of a holistic approach to managing for performance which is the concern of everyone in the organization.

**The holistic approach to performance management**

Holistic means all-embracing, covering every aspect of a subject. In the case of performance management this concerns the whole organization. It takes a comprehensive view of the

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113 Fowler, A pp 47 -51
114 Jones pp425-442
constituents of performance, how these contribute to desired outcomes I the organizational, departmental, team and individual levels, what needs to be done to improve these outcomes. Performance manager in its fullest sense is based on the belief that everything that people do at work at any level contributes to achieving the overall purpose of the organization. It is therefore concerned with what people do (their work), how they do (their behavior) and what they achieve (their results). It embraces all for an informal measure adopted by an organization to increase corporate, team and individual effectiveness and continues to develop knowledge, skill competence. It is certainly not an isolated system run by the personnel department, which functions once a year (the annual appraisal) and is then forgotten. The combined impact of a number of related aspects of performance management may be expected to achieve more to improve organizational effectiveness the various parts if they functioned separately. When designing and operational performance management it is necessary to consider the interrelationships of each process.

The concept of performance management as an integrating force

As stated by Hartle (1995), performance management 'should be integrated into I way the performance of the business is managed and it should link with other key I processes such as business strategy, employee development, and total quality management. (Hartle 1995)

Vertical integration

Integration is achieved vertically with the business strategy and business plans and goals. Team and individual objectives that support the achievement of corporate goals are agreed. These take the form of interlocking objectives from the corporate level to the functional or business unit level and down into teams and the individual level. Steps need to be taken to ensure that these goals are in alignment. This can be a cascading process so that objectives flow down from the top and at each level team or I individual objective are defined in the light of higher-level goals. But it should also be a bottom-up process, individuals and teams being given the opportunity to formulate their own goals within the framework provided by the overall purpose and values of the organization. Objectives should be agreed, not set, and this agreement should be reached through the open dialogues that take place between managers and individuals throughout the year. In
other words, this needs to be seen as a partnership in which responsibility is shared and mutual expectations are defined.

**Horizontal integration**

Horizontal integration means aligning performance management strategies with other HR strategies concerned with valuing, paying, involving and developing people. It can act as a powerful force in integrating these activities.

**Background to performance management**

The concept of performance management has been one of the most important and positive developments in the sphere of human resource management in recent years. The phrase was first coined by Beer and Ruh in 1976 but it did not become recognized as a distinctive approach until the mid-1980s, growing out of the realization that a more continuous and integrated approach was needed to manage and reward performance. All too often, crudely developed and hastily implemented performance-related pay and appraisal systems were not delivering the results that, somewhat naively, people were expecting from them (Beer and Ruh Jul-Aug 1976).

Performance management has risen like a phoenix from the old-established but somewhat discredited systems of merit rating and management by objectives. Many of the more recent developments in performance appraisal have also been absorbed into the concept of performance management, which aims to be a much wider, more comprehensive and more natural process of management. Performance appraisal too often operates as a top-down and largely discredited bureaucratic system owned by the personnel department rather than by line managers.

**The process of performance management**

Performance management is a continuous and flexible process that involves managers and those whom they manage acting as partners within a framework that sets out how they can best work together to achieve the required results. It focuses on future performance planning and improvement rather than on retrospective performance appraisal. It provides the basis for regular and frequent dialogues between managers and individuals or teams about performance and development needs.

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115 Beer and Ruh pp 59-66
management is mainly concerned with individual performance and development but it can also be applied to teams.

Performance management reviews provide the inputs required to create personal or team development plans, and to many people performance management is essentially a developmental process and they prefer to talk about performance and development reviews rather than performance management. Performance reviews can, however, produce data in the form of individual ratings, which may be used as the basis for performance-related pay decisions. There are, however, strong arguments against linking performance management with performance-related.

Performance management is a process for measuring outputs in the shape of delivering performance compared with the expectations expressed as objectives. In this respect, it focuses on targets, standards and performance measures or indicators. But it is also concerned with inputs - the knowledge, skills and competencies required to produce the expected results. It is by defining these input requirements and assessing the extent to which the expected levels of performance have been achieved by using skills and competencies effectively that developmental needs are identified.

**Performance management processes**

Performance management is concerned with improving individual and team performance. This chapter provides an overview of the key performance management activities and then deals with the main performance management processes of performance agreements, managing performance throughout the year, performance reviews, documentation, and its introduction and evaluation (Armstrong 2005).

**Key activities**

Performance management can be described as a continuous self-renewing cycle, as illustrated in Figure 2.2 The main activities are:

- Role profile, in which the key result areas and competency requirements are agreed.
- The performance agreement or contract, which defines expectations - what the individual has to achieve in the form of objectives, how performance will be measured and the competencies needed to deliver the required results. This could
• The personal development plan, which sets out the actions people intend to take to develop themselves in order to extend their knowledge and skills, increase their levels of competence and to improve their performance in specified areas. This is the performance development stage.

• Managing performance throughout the year, which is the stage in which action is taken to implement the performance agreement and personal development plan as individuals carry on with their day-to-day work and their planned learning activities. It includes a continuous process of providing feedback on performance, conducting informal progress reviews, updated objectives and, where necessary, dealing with performance problems and counseling.

• Performance review, which is the formal evaluation stage when a review of performance over a period takes place, covering achievements, progress and problems as the basis for a revised performance agreement and personal development plan. It can also lead to performance ratings.

Figure 2.2 The performance management cycle
Role profile

- The role profile or definition provides the framework for performance management. It sets out:
  - The purpose of the role, which summarizes its overall aim - what the role holder is expected to do, and provides a foundation for the performance agreement.
  - The key result areas or principal accountabilities, which define the main output areas of the role and provide the headings against which objectives and performance standards are agreed.
  - The key competencies, which indicate what the role holder has to be able to do and the behavior required to perform the role effectively. They provide the basis for drawing up personal development plans and for assessing the input aspect of performance - what the individual brings to the role. This constitutes the competence profile for the role, which may refer to organizational core competencies as well as generic competence profiles developed for similar roles. It may also incorporate competencies specific to the role.

Performance agreements

Contents

Performance agreements, also known as performance contracts, define expectations - the results to be achieved and the competencies required to attain these results. The agreements cover the following points:

- Objectives and standards of performance - the results to be achieved defined in terms of targets and standards,
- Performance measures and indicators - to assess the extent to which objectives and standards of performance have been achieved.
- Competency assessment - how levels of competency will be assessed, including discussions to clarify expectations by reference to the competence profile in the role definition and agreements on the sort of evidence that will be useful in assessing competency.
- Core values or operational requirements - the performance agreement may also refer to the core values of the organization for quality, customer service, team working,
employee development etc., which individuals are expected to uphold in carrying out their work. Certain general operational requirements may also be specified in such areas as health and safety, budgetary control, cost reduction and security.

The objectives, performance standards and performance measurement aspects of performance agreements are discussed below.

**Objectives**

Objectives describe something that has to be accomplished - a point to be aimed at,

Objectives or goals (the terms are interchangeable) define what organizations, towns, departments and individuals are expected to achieve over a period of time. Objectives are expressed as:

- **Targets** - quantifiable results to be attained, which can be measured in such terms as return on capital employed, output, throughput, sales, levels of service! Delivery, cost reduction, reduction of rejecting rates;

- **Tasks/projects** - to be completed by specifying dates to achieve defined results.

Objectives can be work related, referring to the results to be attained or the contribution to be made to the achievement of organizational, functional or team goals. They can also be personal, taking the form of developmental or learning objectives, which are concerned with what individuals should do to enhance their knowledge, skills and potential and to improve their performance in specified areas.

**Integrating objectives**

The integration of objectives is important in order to achieve a shared understanding of the performance requirements throughout the organization, thus providing for everyone to make an appropriate contribution to the attainment of team, departmental and corporate goals and to upholding core values.

The integration process is not just about cascading objectives downwards. There should also be an upward flow which provides for participation in goal setting and the opportunity for individuals to contribute to the formulation of their own objectives and to the objectives of their teams, functions and, ultimately, the organization.

**Characteristics of good objectives**
Objectives are intended to bring about change. They should cover all the important aspects of the job (the key result areas) and not focus on one area at the expense of the others.

Objectives should be 'SMART', IE:

S = Specific/stretching - clear, unambiguous, straightforward, understandable and challenging.

M = Measurable - quantity, quality, time, money. A = Achievable - challenging, but within the reach of a competent and committed person.

R = Relevant - relevant to the objectives of the organization so that the goal of the individual is aligned to corporate goals.

T = Time framed - to be completed within an agreed time scale.

**Defining objectives**

Information on objectives can be obtained by asking these questions:

- What do you think are the most important things you do?
- What do you believe you are expected to achieve in each of these areas?
- How will you - or anyone else - know whether or not you have achieved them?

**Performance standards**

A performance standard can be defined as a statement of the conditions that exist when a job is being performed effectively. Performance standards are used when it is not possible to set time-based targets. Standards are sometimes described as standing or continuing objectives, because their essential nature may not change significantly from one review period to the next if the key task remains unaltered, although they may be modified if new circumstances arise.

A performance standard definition should take the form of a statement that performance will be up to standard if a desirable, specified and observable result happens. It should preferably be quantified in terms, for example, of the level of service or speed of response. Where this is not possible, a more qualitative approach may have to be adopted, in which case the standard of performance definition would in effect state: 'this job or task will have been well done if... (the following things happen).'. Junior or more routine jobs are likely to have a higher proportion of
standing objectives to which performance standards are attached than senior and more flexible or output-orientated jobs.

**Performance measures**

Performance measures are agreed when setting objectives. It is necessary to define not only what is to be achieved but how those concerned will know that it has been achieved. Performance measures should provide evidence of whether or not the intended result has been achieved and the extent to which the job holder has produced that result. This will be the basis for generating feedback information for use not only by managers but also by individuals to monitor their own performance. The following are guidelines for defining individual performance measures:

- Measures should relate to results, not efforts.
- The results must be within the job holder's control.
- Measures should be objective and observable.
- Data must be available for measurement.
- Existing measures should be used or adapted wherever possible.

Measures can be classified under the following headings:

- Finance - income, economic value added, shareholder value, added value, rates of return, costs;
- Output - units produced or processed, throughput, new accounts;
- Impact - attainment of a standard (quality, level of service etc), changes in behavior (internal and external customers), completion of work/project, level of take-up for a service, innovation;
- Reaction - judgment by others, colleagues, internal and external customers;
- Time - speed of response or turnaround, achievements compared with timetables, amount of backlog, time to market, delivery times.

Individual measures will be more meaningful if they are linked to one or another of the organizational measures described below(Armstrong 2005).

**The balanced scorecard**
The concept of the balanced scorecard was originally developed by Kaplan and Norton (1992)\(^{116}\). They took the view that 'what you measure is what you get', and they emphasize that 'no single measure can provide a clear performance target or focus attention on the critical areas of the business. Managers want a balanced presentation of both financial and operational measures.' They therefore devised what they called the 'balanced scorecard' - a set of measures that gives managers a fast but comprehensive view of the business. Their scorecard requires managers to answer four basic questions, which means looking at the business from four related perspectives:

- How do customers see us? (Customer perspective);
- What must we excel at? (Internal perspective);
- Can we continue to improve and create value? (Innovation and learning perspective);

Businesses such as NatWest and Halifax PLC have modified this framework by measuring performance against four dimensions: financial results, customer service, internal processes (how well things are done) and people management. The balanced scorecard approach has then been extended to the measurement of individual performance, which is thus integrated with the organizational measures. The performance management cycle in Halifax is illustrated in Figure 3.2.

Another framework is provided by the European Foundation for Quality Management (EFQM) model as in Figure 4.2. This indicates that customer satisfaction, people (employee) satisfaction and impact in society are achieved through leadership. This drives the policy arid strategy, people management, resources and processes leading to excellence in business results and can be used as a basis for measuring individual as well as organizational performance.

\(^{116}\)Kaplan, R S and Norton, O P pp 71-79
Managing performance throughout the year

Perhaps one of the most important concepts of performance management is that it is a continuous process which reflects normal good management practices of setting direction, monitoring and measuring performance, and taking action accordingly. Performance management should not be imposed on managers as something 'special' they have to do. It should be treated as a natural process that all good managers follow. The sequence of performance management activities as described in this chapter
does no more than provide a framework within which managers, individuals and teams work together in whatever ways best suit them to gain better understanding of what is to be done, how it is to be done and what has been achieved. This framework and the philosophy that supports it can form the basis for training newly appointed or would-be managers in this key area of their responsibilities. It can also help in improving the performance of managers who are not up to standard in this respect.

Conventional performance appraisal systems are usually built around an annual event, the formal review, which tended to dwell on the past. This was carried out at the behest of the personnel department, often perfunctorily, and then forgotten. Managers proceeded to manage without any further reference to the outcome of the review and the appraisal form was buried in the personnel record system.

A formal, often annual review is still an important part of a performance management framework but it is not the most important part. Equal, indeed more, prominence is given to the performance agreement and the continuous process of performance management.

The continuing process of performance management

Performance management should be regarded as an integral part of the continuing process of management. This is based on a philosophy that emphasizes:

- The achievement of sustained improvements in performance;
- Continued development of skills and overall competence;
- The importance of organizational learning.

Managers and individuals should be ready to define and meet development and improvement needs as they arise. Learning and work should be integrated. Everyone should be encouraged to learn from the successes, challenges and problems inherent in their everyday work.

The process of continuing assessment should be carried out by reference to agreed objectives and performance standards and to work, development and improvement plans. Progress reviews can take place informally or through an existing system of team meetings. But there should be more formal interim reviews at predetermined points in the year, e.g. twice yearly. For some teams or individual jobs these points could be related to 'milestones' contained in project and work plans. Deciding when
such meetings should take place would be up to individual managers in consultation with their staff and would not be a laid-down part of a 'system'.

The issues that may arise in the course of managing performance throughout the year are:

- Updating objectives and work plans;
- Continuous learning;
- Dealing with performance problems.

**Updating objectives and work plans**

Performance agreements and plans are working documents. New demands, new situations arise, and provision therefore needs to be made for updating or amending objectives and work and personal development plans.

This involves:

- Discussing what the job holder has done and achieved;
- Identifying any shortfalls in achieving objectives or meeting standards;
- Establishing the reasons for any shortfalls, in particular examining changes in the circumstances in which the job is carried out, noting new pressures and demands and considering aspects of the behavior of the individual or the manager that have contributed to the problem;
- Agreeing any changes required to objectives and work plans in response to changed circumstances;
- Agreeing any actions required by the individual or the manager to improve performance.

Any changes in duties and responsibilities should also be incorporated in the role definition as they arise. Role definitions are part of the performance management process and should be regarded as working documents.

**Managing continuous learning**
Performance management aims to enhance what Alan Mumford\textsuperscript{117} (1994) calls 'delirote learning from experience', which means learning from the problems, challenges and successes inherent in people's day-to-day activities. The premise is that every task individuals undertake presents them with a learning opportunity. This happens if they reflect or are helped to reflect on what they have done and how they have done it and draw conclusions as to their future behavior if they have to carry out a similar task. Any occasion when managers issue instructions to individuals or agree with them what needs to be achieved, followed by a review of how well the task was accomplished, provides a learning opportunity(Mumford 1994).

**Dealing with performance problems**

The five basic steps required to handle performance problems are:

1. **Identify and agree the problem.** Analyze the feedback and, as far as possible, obtain agreement from the individual on what the shortfall has been. Feedback may be provided by managers, but it should be built into the job. This takes place when individuals are aware of their targets and standards, know what performance measures will be used and either receives feedback/control information automatically or have easy access to it. They will then be in a position to measure and assess their own performance and take action. In other words, a self-regulating feedback mechanism exists. This is a situation that managers should endeavor to create on the grounds that prevention is better than cure.

2. **Establish the reason(s) for the shortfall.** When seeking the reasons for any shortfalls the manager should not crudely be trying to attach blame. The aim should be for the manager and the individual jointly to identify the facts that have contributed to the problem. It is on the basis of this factual analysis that decisions can be made on what to do about it by the individual, the manager or the two of them working together. It is necessary first to identify any causes that are external to the job and outside the control of either the manager or the individual. Any factors that are within the control of the individual and/or the manager can then be considered. What should be determined is the extent to which the reason for the problem is because the

\textsuperscript{117}Mumford, A 1994
individual:

- Did not receive adequate support or guidance from his/her manager;
- Did not fully understand what he/she was expected to do;
- Could not do it - ability;
- Did not know how doing it - skill;
- Would not do it - attitude.

3. Decide and agree on the action required. Action may be taken by the individual, the manager or both parties. This could include:

- Changing behavior - this is up to individuals as long as they accept that their behavior needs to be changed; the challenge for managers is that people will not change their behavior simply because they are told to do so.
- Changing attitudes - this may be more difficult to change than behavior because attitudes are likely to be deep-rooted; it is often best to change behavior first and encourage attitude changes thereafter.
- Clarifying expectations - job requirements, objectives and standards.
- Jointly developing abilities and skills - joint in the sense that individuals may be expected to take steps to develop themselves but managers may provide help in the form of coaching, additional experience or training. Whatever action is agreed, both parties must understand how they will know that it has succeeded. Performance measures and feedback arrangements should be agreed.

4. Resource the action. Provide the coaching, training, guidance, experience or facilities required to enable agreed actions to happen.

5. Monitor and provide feedback. Take steps to monitor performance, ensure that feedback is provided or obtained and analyzed, and agree on any further actions that may be necessary. Individuals should be encouraged to monitor their own performance and take further action as required. This can be described as a 'self-managed learning process'.
Performance reviews

Performance review discussions enable a perspective to be obtained on performance as a basis for making plans for the future. An overall view is taken of the progress made. Examples are used to illustrate that overview, and the analysis of performance concentrates not only on what has happened but also on why it happened so that data are obtained for planning purposes. Obtaining a historical perspective through analysis is a necessary part of a performance review, but reaching agreement about what should be done in the future is what the discussion should be about.

Performance and development reviews provide those involved with the opportunity to reflect on past performance as a basis for making development and improvement plans. The purpose of performance and development reviews is to enable those concerned to get together so that they can engage in a dialogue about the individual's performance and development and the support provided by the manager - and such support is an essential part of performance management. They are not occasions for top-down appraisals, although some feedback will be provided. Neither are they interviews in which one person asks the questions and the other provides the answers. They should be more like free-flowing, open meetings where views are exchanged so that agreed conclusions can be reached. A performance and development review should be regarded as a conversation with a purpose, which is to reach firm and agreed conclusions about the individual's development, and, if applicable, any areas for improvement and how such improvements will be achieved.

The basis of the performance review

The performance review discussion provides the means through which the five key elements of performance management can be achieved. These are:

1. Measurement - assessing results against agreed targets and standards.
2. Feedback - giving people information on how they are doing.
3. Positive reinforcement - emphasizing what has been done well so that it will be done even better in the future; only making constructive criticisms, i.e. those that point the way to improvement.
4. Exchange of views - ensuring that the discussion involves a full, free and frank
exchange of views about what has been achieved, what needs to be done to achieve more and what individuals think about their work, the way they are guided and managed and their aspirations. Performance and development reviews provide those involved with the opportunity to reflect on the past.

5. Performance as a basis for making development and improvement plans. Obtaining historical perspective through analysis is a necessary part of the review but reaching agreement about what should be done in the future is what it is all about. The performance review should take the form of a dialogue, not a top-down interview or 'appraisal'.

6. Agreement on action plans to be implemented by individuals alone or by individuals with the support of their managers.

**Preparation**

Both parties should prepare for the meeting so that consideration should be given to the points for discussion. The manager (the reviewer) should consider how well the individual (the review) has done in achieving objectives and meeting performance standards since the last review meeting and the extent to which personal development plans have been implemented. An analysis should be made of the factors that have affected performance (some could be beyond the individual's control) and the reasons for success or failure. Consideration should also be given to the feedback to be provided at the meeting, the evidence that will be used to support the feedback, any actions that might be taken to improve performance and possible objectives for the next review period.

The individual (the review) should consider achievements and progress in meeting objectives and implementing personal development plans and be prepared to explain the reason for any shortfalls. More positively, thought should be given to development and training needs, any requirements for better support or guidance, aspirations for the future and possible objectives for the next review period.

**Self-assessment**

Preparation by the review as described above is, in effect, self-assessment or self-appraisal. This is getting people to analyze and assess their own performance as the basis for discussion and action. The advantages of self-assessment are that:
• It helps to generate less inhibited and more positive discussion;
• It involves reviewing actively in the review process;
• It is likely to reduce defensive behavior;
• It provides scope to run the review meeting as a constructive and open dialogue by reducing the top-down element of traditional performance appraisals and minimizing their unilateral nature.

Guidelines for the meeting

Reviewing performance is not something that managers do to their subordinates. It is something that they carry out together. The meeting is essentially about:

• What individuals have learned or need to learn;
• What they believe they know and can do;
• Where they have got to;
• Where they are going;
• How they are going to get there;
• What help or guidance can be provided for them by the organization or their manager.

Agenda setting

Whoever sets the agenda directs the meeting. But the whole point of the review is that it should be a joint affair. Neither party should dominate. The agenda is therefore set by both the reviewer and the review, ideally through their pre-meeting analyses. It can consist of the following items:

1. A review of each key element in the job (key result areas or main activities); discussing what has gone well and what has gone less well, and why.

2. A point-by-point examination of the results of the objectives, actions and personal development plans agreed at the last meeting.

3. A discussion and agreement on the performance objectives for the next period in the shape of targets and standards of performance.
4. A discussion and agreement on the review's developmental objectives.

5. A discussion and agreement on the actions to be taken to ensure that the performance and developmental objectives are achieved, this will include the formulation of a personal development plan.

6. A general discussion of any other matters of concern, including the review's aspirations.

7. A check that there is mutual understanding of the objectives and action plans.

8. An agreement on action plans to conclude the meeting.

An alternative approach would be to structure the discussion around forms to be completed in advance by the reviewer and the review, covering the preparation points listed earlier.

**Conducting a constructive review meeting**

A constructive review meeting is more likely to take place if reviewers:

- Encourage reviews to do most of the talking;
- Listen actively to what they say;
- Allow scope for reflection and analysis;
- Analyze performance, not personality - concentrate on what reviews have done, not the sort of people they are;
- Keep the whole period under review, not concentrating on isolated or recent events;
- Adopt a 'no surprises' approach - performance problems should have been identified and dealt with at the time they occurred;
- Recognize achievements and reinforce strengths;
- End the meeting positively with agreed action plans and an understanding of how progress in implementing them will be reviewed.

**Performance rating**

Performance appraisal schemes almost always included an overall rating of the individual's performance. Early performance management systems normally incorporated
rating, especially when they were associated with performance-related pay, as was frequently the case. It is interesting to note, however, that the research conducted by Armstrong and Baron (1998) for the IPD found that 43 percent of all the organizations with performance management did not require an overall rating (Armstrong and Baron 1998).

**Methods of rating**

**How many levels?**

Englemann and Roesch (1996) accept that the number of levels in a rating scale is probably one of the most controversial issues in performance management design. The possibility is posed that the degree to which discriminatory judgments can be made will increase if there are more levels than, say, five. But the American Compensation Association (ACA) asks the question: 'How does one objectively differentiate performance at each of the five levels?' and comments that it is difficult to communicate the rationale for ratings in a way that ensures that employees understand performance expectations at different rating levels (Engelmann and Roesch 1996).

The first choice is between having an odd number of levels, e.g. three or five, or an even number, e.g. four or six. The argument in favor of an odd number is that it represents the normal distribution of ability, with most people being in the middle. The argument used to support an even number is that this will frustrate the tendency of managers to centralize ratings. The most typical number of levels is four or five,” but some organizations favor three on the grounds that this is the limit to which accurate discrimination is possible.

There has been much debate on what constitutes the 'best' number of rating levels. Milkovich and Wigdor (1991), in their report on a research project, came to the conclusion that:

The weight of evidence suggests the reliability of rating drops if there are fewer than three or more rating categories. Recent work indicates that there is little to be gained from having more than five response categories. Within this range (three to five) there is no evidence that there is one best number of scale points in terms of scale quality.

**Describing the levels**
A rating scale format can be either behavioral, with examples of good, average and inadequate performance, or graphic, which simply presents a number of scale points along a continuum. The scale points or anchors in the latter may be defined alphabetically (a, b, c etc), numerically (1, 2, 3 etc) or by means of initials (ex for excellent etc) which purport to disguise the hierarchical nature of the scale. The scale points may be further described adjectivally; for example: excellent (A), highly acceptable (B), acceptable (C), not entirely acceptable (D) and unacceptable (E).

Some organizations just rely on verbal descriptions in order to minimize the 'putting people into boxes' problem. It is preferable to avoid the use of above average - 'above average, average, below average' - what is average? And should one really label anyone for the next 12 months as 'below average'?

The tendency is to avoid negative descriptions in the levels and to leave out an 'unsatisfactory' or 'unacceptable' level. The argument for this approach is that anyone in this category should have been dealt with at the time the performance problem emerged under the normal disciplinary procedure - action should not be delayed until the performance review.

An increasingly popular method is to have a rating scale that provides positive reinforcement at each level. This is in line with a policy of continuous improvement. The example given below emphasizes the positive and improvable nature of individual performance:

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly effective</td>
<td>Frequently exceeds agreed targets and standards and consistently performs in a thoroughly proficient manner beyond normal expectations.</td>
</tr>
<tr>
<td>Effective</td>
<td>Achieves agreed targets and standards and meets the normal expectations of the role.</td>
</tr>
<tr>
<td>Developing</td>
<td>A contribution that is stronger in some aspects of the role than others, where most objectives and standards are met but in some areas further development is required to become fully effective in meeting performance expectations.</td>
</tr>
<tr>
<td>Improvable</td>
<td>A contribution that generally meets or almost meets the standards expected but there is clearly room for improvement in a number of definable areas.</td>
</tr>
</tbody>
</table>
Note that these definitions ask raters to focus on definitions that compare performance to performance expectations and avoid ratings that compare employees, such as 'average' or 'below average.

**Arguments for rating**

The arguments for rating are that:

- It is not possible to have performance-related pay without an overall rating (assuming performance-related pay is wanted or needed).
- It provides a convenient means of summing up judgments so that high or low performances can easily be identified (as long as the judgments are consistent and fair).
- It can provide a basis for predicting potential on the somewhat dubious assumption that people who perform well in their existing jobs will perform well in the future in different jobs. This is dubious because past performance is only a predictor of future performance when there is a connecting link, IE there are elements of the present job which are also important in a higher-level job.
- They let people know where they stand, at least in the mind of their manager. (But this is only desirable if the manager's opinion is honest, justified and fair, and the numbers or letters convey what is really felt and have real meaning in themselves.)

**Arguments against ratings**

The arguments against ratings are that:

- To sum up the total performance of a person with a single rating is a gross oversimplification of what may be a complex set of factors influencing performance, some of which, such as system factors, may be beyond the person's control.
- Consistency between raters is difficult if not impossible to achieve.
- Ratings are likely to be based on largely subjective judgments (explicit standards against which these judgments are made are absent). They could therefore well be
unfair and discriminatory.

- Managers might find it difficult to answer the question: 'What do I have to do to get a higher rating?' if there are no explicit definitions in the rating scale of the standards of performance expected of anyone in that particular role, which is most unlikely.

- Rating encourages managers to be dishonest. Either they rate everyone in the middle of a five-point range or the second point down in a four-point range (the central tendency), or they decide first on what they want a performance-related pay increase to be and rate accordingly.

- Rating can turn what may - should - have been an open, positive and constructive discussion into a top-down judgmental exercise.

- The positive developmental aspects of the review may be overshadowed by the knowledge that the end-product will be a rating that will inform a pay decision. In practice, the review and the preparation for the review may be entirely dominated by its pay implications, thus destroying its main purpose.

- To label people with a letter or a number is both demeaning and demotivating.

- Ratings convey opinions about past performance. They say nothing about the future.

These are powerful arguments supported by much of the evidence collected in the IPD research. One group personnel director, for example, said that: 'It denigrates the whole performance management process.' Some organizations that do not have performance related pay reject ratings altogether because of the objections listed above (Armstrong 2005).

The following comment on ratings was made by Englemann and Roesch (1996): To reduce the subjectivity of performance management systems and increase the focus on continuous improvement, organizations have tended to move away from rating categories or labels toward summary statements that are behavior orientated and more focused on future improvements (Engelmann and Roesch 1996).
And Fletcher (1993)\textsuperscript{118} made the point that in the UK: The use of ratings to compare individuals (even overall performance ratings), for so long a central element of appraisal forms and processes, is now declining (Fletcher 1993).

Some organizations recognize the problem but say: We’ve got to do it because we have PRP. In fact, many organizations manage PRP quite effectively without ratings at the time of the performance review.

\textbf{Achieving consistency}

If, in spite of these objections, it is felt that the system must have ratings, then the main concern is how to achieve an acceptable degree of consistency, equity and fairness in the ratings. It can be very difficult, if not impossible without very careful management, to ensure that a consistent approach is adopted by managers responsible for rating. It is almost inevitable that some people will be more generous than others, while others will be harder for their staff. Ratings can, of course, be monitored and questioned if their distribution is significantly out of line, and computer-based systems have been introduced for this purpose in some organizations. But many managers want to do the best for their staff, either because they genuinely believe that they are better or because they are trying to curry favor. It can be difficult in these circumstances to challenge them, and it could be argued that if responsibility for human resource management is being genuinely devolved to line management, it is up to them to decide how they are going to distribute their ratings.

There are six ways of attempting to achieve a degree of consistency or at least avoid what is believed to be an unacceptable distribution in the ratings:

- Forced distribution. This requires managers to conform to a pattern, which quite often corresponds to the normal curve of distribution on the rather dubious assumption that performance levels will be distributed normally in each part of the organization. A typical distribution would be $A = 5\%$, $B = 15\%$, $C = 60\%$, $D = 15\%$, $E = 5\%$. But managers and employees correctly resent being forced into predetermined categories and it produces win/lose situations. This approach

\textsuperscript{118} Fletcher, C (1993)
sometimes takes the form of a quota system, which allocates the number of ratings managers are allowed to award in each category. This is also an arbitrary process and is universally resented by managers and their staff.

- Ranking. Staff is ranked in order of merit and then performance ratings are distributed through the rank order; for example: the top 5% get an A rating, the next 15% a B rating and so on. This is another form of forced distribution, which still depends on the objectivity and fairness of the rankings.

- Training. 'Consistency' workshops are run for managers to discuss how ratings can be objectively justified and test rating decisions on case study performance review data. This can build a level of common understanding about rating levels.

- Peer reviews or moderating discussions. Groups of managers meet to review the pattern of each other's rating and challenge unusual decisions or distributions. This process of moderation is time-consuming but it can be a good way of achieving a reasonable degree of consistency, especially when the moderating group members share some knowledge of the performances of each other's staff as internal customers.

- Monitoring. The distribution of ratings is monitored by a central department. This is usually HR, which challenges any unusual patterns and identifies and questions what appear to be unwarrantable differences between departments' ratings.

- Behaviorally anchored rating scales (BARS). These are designed to reduce the rating errors, which it was assumed are typical of conventional scales. They include a number of performance dimensions such as teamwork, and managers rate each dimension on a scale as in the following example:

  A. Continually contributes new ideas and suggestions. Takes a leading role in group meetings but is tolerant and supportive of colleagues and respects other people's points of view. Keeps everyone informed about own activities and is well aware of what other team members are doing in support of team objectives.

  B. Takes a full part in group meetings and contributes useful ideas frequently. Listens to colleagues and keeps them reasonably well
informed about own activities while keeping abreast of what they are doing.

C. Delivers opinions and suggestions at group meetings from time to time but is not a major contributor to new thinking or planning activities. Generally receptive to other people's ideas and willing to change own plans to fit in. Does not always keep others properly informed or take sufficient pains to know what they are doing.

D. Tendency to comply passively with other people’s suggestions. May withdraw at group meetings but sometimes shows personal antagonism to others. Not very interested in what others are doing or in keeping them informed.

E. Tendency to go own way without taking much account of the need to make a contribution to team activities. Sometimes uncooperative and unwilling to share information.

F. Generally uncooperative. Goes own way, completely ignoring the wishes of other team members and taking no interest in the achievement of team objectives (Armstrong 2005).

It is believed that the behavioral descriptions in such scales discourage the tendency to rate on the basis of generalized assumptions about personality traits (which were probably highly subjective) by focusing attention on specific work behaviors. But they do take a considerable amount of effort to develop properly and there is still room for making subjective judgments based on different interpretations of the definitions of levels of behavior.

**Documentation**

It is the processes of performance management as practiced jointly by managers and individuals that are important, not the content of the system; and the content often seems to consist largely of documents. Performance management is about managing and improving performance. It is not about completing forms.

A case could be made for having no forms at all. The parties involved could be encouraged to record the conclusions of their discussion and their agreements on
blank sheets of paper to be used as working documents during the continuing process of managing performance throughout the year.

But there is much to be said for having a format, which can help in the orderly presentation of plans and comments. And the mere existence of a form or a set of forms does demonstrate that this is a process that everyone is expected to take seriously.

**Performance management forms as working documents**

The main function of performance management forms is to act as working documents. They should be completed jointly by managers and individuals. The manager should never deliver a completed form to an individual and say 'What do you think?' In the past, merit ratings were sometimes not shown to the individuals concerned at all, which was a remarkable denial of the whole reason for reviewing performance.

Forms should be in continual use as reference documents on objectives and plans when reviewing progress. They should also record agreements on performance achievements and actions to be taken to improve performance or develop competence and skills. They should be dog-eared from much use - they should not condemn to molder away in a file.

It can be argued that for this reason the forms should be owned by the manage and the individual (both parties should have a copy) and not the HR department. Any information that the HR department needs on ratings (for performance-related pay or career planning purposes), or requests for training, would be incorporate separate form for their use.

Individuals can be protected against unfair assessments and ratings by providing for their manager's manager (the so-called 'grandparent') to see and comment on the completed report. These comments could be shown to individuals who should have the right to appeal through a grievance procedure if they are still unhappy about the report.

There is, however, a case for the personnel department having sight of completed review forms for quality assurance purposes, especially in the earlier days of operating performance management.

A typical set of forms used by a large housing association in association with competency framework is shown in Figure 5.2

**Introducing performance management**
Performance management processes need to be introduced with great care. Too many ambitious schemes fail because this seemingly obvious requirement has neglected.

When planning the program of introducing the following points need to cover:

- Where and how should performance management be introduced?
- Who should be covered?
- When should reviews take place?
- What sort of reviews should be held?
- What use should be made of pilot tests?
- What briefing arrangements should be made?

Performance management planning and review for

This performance management planning and review form should be completed jointly by the manager and the individual. It contains sections for planning performance and development and for reviewing outcomes. It covers three areas: (1) what is to be done - the expected results, (2) how it is to be done the expected behavior by reference to the Trust's generic competence framework, and (3) what further development the individual needs.

<table>
<thead>
<tr>
<th>Name of manager:</th>
<th>Job title</th>
<th>Date of review:</th>
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</table>

(1) WHAT IS TO BE DONE

(2) HOW IT IS TO BE DONE

<table>
<thead>
<tr>
<th>Key</th>
<th>Agreed results to be achieved</th>
<th>Joint review of results achieved</th>
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</table>
*Indicate level of competency expected for role by reference to competence framework.

(3) PERSONAL DEVELOPMENT PLAN

<table>
<thead>
<tr>
<th>Competency area</th>
<th>Profile*</th>
<th>Joint assessment</th>
<th>Development need</th>
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<tbody>
<tr>
<td>Knowledge and skills</td>
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<td>Manage oneself</td>
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<td>Manage customer service</td>
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<td>Manage continuous improvement</td>
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<td>Manage resources</td>
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</tbody>
</table>

*Indicate level of competency expected for role by reference to competence framework.

(3) PERSONAL DEVELOPMENT PLAN

<table>
<thead>
<tr>
<th>Key result area/competence</th>
<th>Development need</th>
<th>Method of meeting need</th>
<th>Target date</th>
<th>Review of achievement</th>
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COMMENTS:

Line manager:
Where and how should performance management be introduced?

Performance management is usually introduced in an organization-wide basis, starting at the top. In many cases the philosophy, principles and key procedures and processes are developed centrally.

In a highly decentralized organization, separate business units may be allowed to decide for themselves whether or not they want performance management and if they do, develop it on their own.

An intermediate approach adopted by some decentralized organizations is for the centre (top management) to require all divisions and business units to introduce performance management in accordance with certain general principles, which have been discussed and agreed with local management and, preferably, staff. The business units proceed to develop their own processes, but the Centre provides help as required and may monitor the introduction of performance management on each division to ensure that it is happening according to plan and in line with corporate principles and values.
The most common and best method of introduction is to set up a project team or working group for this purpose with management and staff representatives. This provides for different opinions and experiences to be considered, serves as a base for wider consultation and communications to take place and generally helps to achieve understanding and acceptance of the process. More general consultation is very desirable. As many people as possible should be brought into the discussions. Workshops and focus groups can be used to develop and discuss ideas. The aim is to get the maximum amount of input to the new process as possible.

**Who should be covered?**

Another important decision to be made at the outset is who should be covered by performance management. At one time, most schemes were restricted to managers, but performance management is now more generally being extended to all professional, administrative, technical and support staff. Some organizations also include shop-floor workers, especially high-tech firms, those that rely on production by high-performance work teams, companies with integrated pay structures and terms and conditions of employment (often high-tech and/or international firms) and companies with performance-related pay for manual workers. There is much to be said for having a universal scheme as part of a completely integrated terms and conditions of employment policy and as a means of increasing commitment by demonstrating that all employees are regarded as important.

While some organizations believe that it would be invidious to differentiate between levels so far as the essence of the approach is concerned, they might accept that different performance measures may be used.

Some organizations do distinguish between roles where quantified and updated short-term objectives will be set and those where continuing performance standards are more usual. In the former case they may refer to the key result areas the job as 'principal accountabilities'; in the latter they may use terms such as 'main tasks' or 'key activities'.

It may also be recognized that the objective setting and review process in routine jobs may not need to be as exhaustive as for those in managerial or professional roles (Armstrong 2005).

**When should reviews take place?**
The usual practice is to have an annual formal review with interim reviews, organizations require development reviews to be conducted on or about the anniversary of the day on which the employee joined the organization, they believe, spreads the load on managers. If there is performance pay, the review is carried out at a fixed time in the year and can be treated as a separate case (this is highly desirable if the pay review is not to contaminate the development review).

**What sort of reviews should be conducted?**

For the reasons given above, organizations frequently arrange for separate reviews; one that is concerned only with agreeing objectives and personal development plans and, if they have performance pay, one that is solely concerned with making pay decisions.

**Pilot tests**

Pilot testing of performance management is highly desirable - bearing in mind I the usual cycle lasts 12 months and it may therefore be difficult to pilot-test the whole process.

Examples of aspects of performance management that can be tested are drawing up performance agreements, objective setting and document completion.

**Prepare briefing papers**

It is advisable to issue an overall description of performance management to performance management processes employees, which sets out its objectives and method of operation and the benefits it is expected to provide for the organization and its managers and employees. Some organizations have prepared elaborate and lengthy briefing documents but fairly succinct documents often suffice as long as they are written in simple language and are well produced.

It is also advisable to supplement written with oral briefings through a briefing group system, if there is one, or a special briefing program. In a large or dispersed organization this briefing will have to be carried out by line managers and they should be issued with special briefing packs and, possibly, a list of typical questions and their answers.

**Monitoring and evaluating performance management**

It is important to monitor the introduction of performance management very carefully but it is equally vital to continue to monitor and evaluate it regularly, especially after its first year of operation.
The best method of monitoring and evaluation is to ask those involved - managers, individuals and teams - how it worked. As many as possible should be seen, individually and in groups, to discuss the points set out in the last section of this chapter. It is also desirable to scrutinize a sample of completed forms to check on how well and thoroughly they have been completed. The evaluation can be carried out by members of the project team and/or by the personnel function. An independent consultant or adviser can be used to conduct a special review.

Individual and group discussions can be supplemented by a special survey of reactions to performance management, which could be completed anonymously by all managers and staff. The results should be fed back to all concerned and analyzed to assess the need for any amendments to the processor further training requirements.

The ultimate test, of course, is analyzing organizational performance to establish the extent to which improvements can be attributed to performance management. It may be difficult to establish a direct connection but more detailed assessments with managers and staff on the impact of the process may reveal specific areas in which performance has been improved, which could be linked to an overall performance measure (Armstrong 2005).
Part II - 360-degree feedback

360-degree feedback is a relatively new feature of performance management. Although by no means common (only 11 percent of the organizations covered by the research conducted by Armstrong and Baron (1998) for the IPD used it), interest is increasing. This chapter starts with a definition of 360-degree feedback and goes on to describe how it is used and operated and to discuss its advantages and disadvantages and methods of introduction (Armstrong and Baron 1998).

360-Degree feedback defined

360-degree feedback has been defined by Ward\(^\text{119}\) (1995) as: The systematic collection and feedback of performance data on an individual or group derived from a number of the stakeholders on their performance\(^\text{119}\) (Ward Feb1995).

The data is usually fed back in the form of ratings against various performance dimensions. 360-degree feedback is also referred to as multi-source assessment or multi-rater feedback.

Performance data in a 360-degree feedback process can be generated for individuals (as shown in Figure 6.2) from the person to whom they report, their direct reports, their peers (who could be team members and/or colleagues in other parts of the organization) and their external and internal customers.

![Figure 6.2 360-degree feedback model](image)

The range of feedback could be extended to include other stakeholders - extend customers, clients or suppliers (this is sometimes known as 540-degree feedback), self-

\(^{119}\) Ward, P pp20-22
assessment process may also be incorporated using for comparison purposes (same criteria as the other generators of feedback).

Feedback can be initiated entirely by peers (in a team setting) or by both peer team leaders. It can also take the form of 180-degree or upward feedback where this is given by subordinates to their managers. Feedback may be presented directly to in individuals, or to their managers, or both. Expert counseling and coaching for individuals as a result of the feedback may be provided by a member of the HR department or by an outside consultant.

**Use of 360-degree feedback**

360-degree feedback is used for a number of purposes. Research conducted by Ashridge Management Research Group (Handy, Devine and Heath, 1996) found at typically, 360-degree feedback forms part of a self-development or management development program. The 45 users covered by the survey fell into the follow groups:

- 71 per cent used it solely to support learning and development;
- 23 per cent used it to support a number of HR processes such as appraisal, resourcing and succession planning;
- 6 per cent used it to support pay decisions (Handy, Devine et al. 1996).

A 1997 survey by the Performance Management Group (unpublished) of 22 organizations using 360-degree feedback found that:

- 77 percent either disagreed or strongly disagreed with the statement that it is 'a personal development tool and should not be used for wider HR or organizational purposes';
- 81 percent disagreed or strongly disagreed that 'the natural use of 360-degree feedback is to provide a basis for reward' (Armstrong 2005).

The research conducted by Armstrong and Baron (1998) for the IPD also found that the 51 organizations covered by the research predominantly used 360-degree feedback to help in assessing development needs, and as a basis for performance coaching. Only one-fifth of the respondents used it to determine a performance grade or pay award (Armstrong and Baron 1998).
Rationale for 360-degree feedback

The main rationale for 360-degree feedback has been expressed by Turnow\textsuperscript{120} (1993) as follows:

360-degree activities are usually based on two key assumptions: (1) that awareness of any discrepancy between how we see ourselves and how others see us increases self-awareness, and (2) that enhanced self-awareness is a key to maximum performance as a leader, and thus becomes a foundation block for management and leadership development programs (Turnow 1993).

London and Beatty\textsuperscript{121} (1993) have suggested that the rationale for 360-degree feedback is as follows:

- 360-degree feedback can become a powerful organizational intervention to increase awareness of the importance of aligning leader behavior, work unit results and customer expectations, as well as increasing employee participation in leadership development and work unit effectiveness.

- 360-degree feedback recognizes the complexity of management and the value of input from various sources - it is axiomatic that managers should not be assessing behaviors they cannot observe, and the leadership behaviors of subordinate may not be known to their managers.

- 360-degree feedback calls attention to important performance dimensions which may hitherto have been neglected by the organization (London and Beatty Summer 1993).

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 (Tracy Gallagher\textsuperscript{122}, 2008) (Gallagher December 2008). In this method, people all around the rated employee may provide ratings, including senior managers, the employee himself or herself, supervisors,

\textsuperscript{120} Turnow, W W pp 311-316
\textsuperscript{121} London M and Beatty, R W pp 353-72
\textsuperscript{122} Tracy Gallagher.p61
subordinates, peers, team members, and internal or external customers (Sean Drakes, 2008) (Drakes May 2008). As many as 90 percent of Fortune 500 companies use some form of 360-degree feedback for either employee evaluation or development (Tracy Maylette and Juan Riboldi, 2007) (Maylette and Riboldi September 2007). 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 the evaluation of 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, (Patrick J. Kiger, 2006) “We’ve found that use of the 360 is actually negatively correlated with financial results” (Kiger June 26, 2006). 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 (John F. Welch Jr., Jack, 2001) (John, Welch Jr. et al. 2001). 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

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123 Sean Drakes, pp58-59
124 Tracy Maylette and Juan Riboldi, pp48-52
125 Patrick J. Kiger, p42
126 General Electric
127 John F. Welch Jr., Jack, pp157-158
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”(Aliah D. Wright128, 2008) (Wright December2008). 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.”( Kathryn Tyler129, 2005) The biggest risk with 360-degree feedback is confidential. 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 (Tyler August 2005).

**How and When Did 360-degree Feedback Develop?**

The ideas behind 360-degree feedback are not new. Assessment centers developed by the German military during World War II recognized the value of gaining performance insights from multiple perspectives. In organizations, early methods of 360-degree feedback were by surveys used to gather employee opinions. The fundamental premise was that information gathered from multiple perspectives was thought to be more comprehensive and objective than the information obtained from only one source. Over the decades, these opinion surveys were used to gather information about various aspects of the organization, including compensation, benefits, leadership, and so forth. But the use of 360-degree instruments for individual assessment was rare prior to the 1980s. Because of the traditional hierarchical structure of most organizations during that time, performance appraisals typically were top-down, single-source assessments.

But things have changed. Information regarding an employee’s performance is now sought for more than just the annual performance evaluation for some of the following reasons (Hirsch, 1994; Holt, Noe, & Cavanaugh, 1996; Jones & Bearley, 1996). Because of changes in the business environment, employees who once felt satisfied and secure in their jobs now find themselves responsible for their own

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128 Aliah D. Wright pp56-57
129 Kathryn Tyler, pp58-63
careers (Nowack, 1993; O’Reilly, 1994; Romano, 1993). Also, empowerment has made leadership a necessary competency for all levels of employees (Crystal, 1994) and downsizing has made it important for even skilled managers to be aware of their own strengths and weaknesses to remain competitive (Hirsch, 1994; Hoffman, 1995). In addition, teams and partnering initiatives have made communication and managerial effectiveness vital to individual and organizational success (Melymuka, 1994; Peters, 1996) (Jones and Bearley 1996).

Partly because of these trends, a new concept was born: the utilization of organizational resources for individual development (Jones & Bearley, 1996; Peters, 1996). People desiring to become leaders began to study and to develop ways of becoming better employees. Individuals began to seek new sources of information that would allow them to see both their strengths and their shortcomings—strengths and developmental needs that might not be exposed in traditional performance evaluations (Budman & Rice, 1994; Dunnette, 1993; Hirsch, 1994). Managers realized that the first step in development is discovering what specifically needs to be developed. They understood that in order to gain more useful knowledge of themselves, they needed better tools to gather this information. The tools being used for these purposes are more and more often 360-degree-feedback assessments (Hirsch, 1994; Jones & Bearley, 1996; Lublin, 1994; McGarvey & Smith, 1993). With the success of this technique for developmental purposes, the idea emerged that 360-degree feedback could also be useful for performance appraisal and decision-making purposes (Edwards & Ewen, 1996).

What Are the Benefits of 360-degree Feedback?

It is becoming widely recognized that 360-degree feedback offers several advantages over single-source assessment (Budman & Rice, 1994; Dunnette, 1993; Hoffman, 1995; Jones & Bearley, 1996; Kaplan & Palus, 1994; Lublin, 1994; McGarvey & Smith, 1993; Nicholas, 1992; Nowack, 1993; Vinson, 1996). Its benefits can be grouped into four categories:

1. 360-degree assessments offer new perspectives by which an individual’s skills, behaviors, abilities, or performance can be judged (Denton, 1994; McCauley & Moxley, 1996; McGarvey & Smith, 1993; Milliman, Zawacki, Norman, Powell, & Kirksey, 1994; Mohrman, Resnick-West, & Lawler, 1990; Nicholas, 1992).

   Often, particular aspects of an individual’s performance or behavior are not
observable by or do not affect all employees, depending on their relationships with
the individual being evaluated. Because 360-degree assessments obtain input from
new and varied perspectives, the feedback creates a more complete picture of an
individual's performance and skills. Managers are able to see how their behavior
affects those around them and how others perceive their ability.

(2) 360-degree assessments alleviate some recognized deficiencies of top-down,
single-source assessments (Bracken, 1994; Budman & Rice, 1994; Harvey, 1994;
Hirsch, 1994; Jones & Bearley, 1996; Marchese & McGowan, 1995; Nicholas, 1992;
Vinson, 1996; Ward, 1995).

Single-source assessments are subject to the biases and subjectivity of a single
individual. Relying on a single source (for example, the supervisor) for retrospective
evaluations, which often cover a year of performance information, may not provide
fair and valid feedback.

There are, however, some rating biases that may affect the validity of all
performance ratings, including those collected with 360-degree-feedback instruments.
One such error is known as “halo error,” where an individual is rated as good or poor
based on his or her reputation rather than on the actual level of performance (Yukl &
Lepsinger, 1995). Another source of error, “recency effects,” results from raters
giving too much weight to performance that occurred a few months before the
assessment. For example, an employee with poor performance over most of the year
is still rated highly because of a project successfully completed a few weeks before
the appraisal. Recency effects often occur in organizations that do not emphasize or
prioritize performance or developmental assessments (McGarvey & Smith, 1993).

Although it is true that all raters may be affected by these biases, the use of more
than one perspective permit the ratings to be averaged across a number of
respondents, which may provide a truer evaluation of the focal manager’s
performance (Denton, 1994). (3) 360-degree assessments provide the unique
opportunity for individuals to rate themselves (Dunnette, 1993; Hazucha, Hezlett, &
Schneider, 1993; London & Beatty, 1993; McCauley & Moxley, 1996; Nilson &
Campbell, 1993; Smither, London, Vasilopoulos, Reilly, Millsap, & Salvemini, 1995;
Tornow, 1993; Van Velsor & Leslie, 1991; Ward, 1995; Yammarino & Atwater,
1993).

Self-evaluations have been used for purposes other than 360-degree feedback;
however, these evaluations traditionally focused on job satisfaction or organizational
effectiveness, rather than on individual performance. With 360-degree feedback, self-evaluation adds yet another perspective from which performance and behaviors can be observed. The act of evaluating one’s own effectiveness can enhance the assessment process itself. For example, self-ratings can more fully involve the focal individual in the rating process (Crystal, 1994). This involvement can positively affect both the implementation and administration of the process, as well as the impact of the feedback. Employees tend to place more trust in a process in which they themselves are a factor (Edwards, 1995), which can lead to better acceptance of the feedback (Budman & Rice, 1994; Vinson, 1996).

In addition to generating “buy-in,” self-ratings offer unique insight into how self-perception affects managerial performance. In many 360-degree feedback instruments, self-ratings are compared to ratings from other groups. Some assessment systems compare self-ratings to normative data (Jones & Bearley, 1996). There have been a few studies, and more are emerging, on the comparison of self- and others’ ratings. For the purposes of this review, these studies are not presented in depth. There are, however, some practical implications that relate to the degree of agreement between self- and others’ ratings. The primary finding is that discrepancies between self- and others’ ratings can provide important insights about managerial and leadership effectiveness (Nilsen & Campbell, 1993). Although there is little research on the causes of these differences, many users of 360-degree assessments feel that understanding the differences between one’s self-view and the views of others is an essential step in leadership development (Dalton, 1996; McCauley & Moxley, 1996).

Adding self-awareness to the assessment, therefore, can lead to greater impact of the feedback. This type of impact can only be obtained when the assessment provides feedback from all perspectives relevant to a manager’s effectiveness, including self-ratings. 360-degree assessments can be used to reinforce organizational values and vision (Crystal, 1994; Heisler, 1996; London & Smither, 1995; O’Reilly, 1994; Parker-Gore, 1996; Shaver, 1995; Sweet, 1995).

According to Parker-Gore (1996), organizational cultures must be reinforced and developed. In this capacity, 360-degree feedback can reiterate the value of specific abilities, behaviors, or actions to overall organizational values (Heisler, 1996). For example, a manager who must be innovative in order to be successful can receive specific feedback on his or her ability to be creative and open to new ideas. When 360-degree assessments are aligned with organizational visions and values,
individual feedback may be more valid for use in that organization. Gebelein (1996) argues that the full impact of 360-degree feedback will not be realized if it only supports individual change and does not integrate that change into the organizational strategy.

**How Should 360-degree Feedback Be Used?**

Feedback received from 360-degree assessments can be used for almost any initiative that requires extensive information about an employee’s effectiveness (Crystal, 1994; Wall, 1995). These initiatives fall into two general categories: feedback for development and feedback for performance appraisal.

Ratings are gathered similarly for both uses of 360-degree feedback. The key difference is who owns the data that are collected (Dalton, 1996). When 360-degree feedback is used exclusively for development, the feedback is available only to the focal individual (and sometimes to the facilitator who provides the feedback). However, if the feedback is used for performance appraisal, the data must be available to the person conducting the appraisal, typically the employee’s supervisor. Deciding how the 360-degree feedback is to be used raises some important issues that can affect the whole process (Melymuka, 1994).

**Feedback for development only.** Many feel that 360-degree feedback should not be used for appraisal purposes (for example, Crystal, 1994; Dalton, 1996; Edwards, 1995). The main contention is that using 360-degree feedback for performance appraisal affects how the raters evaluate the focal individual (Antonioni, 1996; Marchese & McGowan, 1995). Research has shown that raters are affected by the knowledge that their ratings can influence another’s career (Lublin, 1994). Additionally, knowing that one’s boss will see the assessment results can affect how an employee rates him- or herself. A commonly reported effect of using feedback for an appraisal is that both self-ratings and the ratings of co-workers tend to be inflated when collected for decision-making purposes (Antonioni, 1996).

Another issue involves the content of the items that are rated in developmental assessments versus performance appraisals. Assessments that are used for development only tend to concentrate on skills or behaviors and often involve predictive evaluations. Performance appraisals differ in that they measure past performance and are specific to the employee’s particular job. Because performance appraisals are retrospective, they can be more easily affected by bias and may not
provide the information an individual needs to improve performance (Jones & Bearley, 1996).

**Feedback for performance appraisal.** Even when feedback is gathered from multiple sources for performance appraisal, the final decision about pay or promotion is typically made by a single person or management committee. It is the responsibility of the decision-makers to interpret the results of a 360-degree assessment and to use the data to make appropriate decisions. Although some feel that using 360-degree assessment in performance appraisal makes the evaluation more fair for the employee (Bernardin, Dahmus, & Redmon, 1993), these evaluations are subject to bias and, as with any human process, there will be errors in judgment. A possible advantage of using 360-degree feedback for appraisal purposes is that multiple sources of feedback may cancel out those biases and provide a more well-rounded picture of the employee’s past performance (McGarvey & Smith, 1993). Some also feel that using 360-degree assessment for appraisal will promote the acceptance of decisions because the information on which the decisions are based is more complete.

**Feedback for development and appraisal.** Some organizations are now attempting to incorporate 360-degree feedback into their appraisal and developmental processes (Dunnette, 1993; London & Beatty, 1993). This trend is evolving as companies attempt to maximize the potential of this method. The literature suggests, however, that 360-degree assessments first be used for only one purpose in order to acclimate employees to the system (Jones & Bearley, 1996). These assessments can then slowly be administered for other organizational purposes. This will ensure that the feedback will be accepted and effective for both developmental and decision-making purposes (Romano, 1993). It also may be necessary to develop separate assessments for each purpose, because feedback gathered for development is not necessarily applicable to pay or promotion decisions (Harvey, 1994; Yukl & Lepsinger, 1995). If 360-degree feedback is to be used in more than one way, it should be collected and interpreted according to its intended use.

**How Do You Integrate 360-degree Feedback into Organizational Development Systems?**

Whatever the use of the 360-degree feedback, there are three main stages of the implementation process: preparation, administration, and follow up. There are many points to consider at each stage that can affect the success of the process. Again, the
literature provides various recommendations relating to each issue.

Prepare the organization and employees. Preparation is the first step in the process of implementing 360-degree feedback (Bracken, 1994; Coates, 1996; Shaver, 1995). This is necessary regardless of the purpose of the feedback (Carey, 1995; Hirsch, 1994). For example, an organization may lack effective leaders and wish to develop managerial skills and improve managerial behavior. Or, some organizations may be dissatisfied with their current appraisal process and decide they need a process that is more fair.

After determining what organizational needs can be met by using 360-degree feedback, the logistics of implementing the process must be considered. One of the first decisions is what type of instrument to use. There are three types of 360-degree instruments, each with positive and negative aspects—the literature suggests that instrument design can affect the results of the assessment (Guinn, 1996; Marchese & McGowan, 1995). First, there are “off the shelf” feedback instruments that measure generic skills or competencies. Second, there are instruments that are developed by an outside group (such as a consulting firm) that focus on specific organizations and their assessment needs (that is, custom-designed). Third, there are 360-degree assessment systems that are developed internally and relate to specific positions or teams within the organization (Melymuka, 1994).

In choosing which of these to use, cost becomes a primary factor (Hirsch, 1994; Nowack, 1993; Van Velsor & Leslie, 1991). Off-the-shelf instruments are generally the least expensive, followed by customized instruments. Internally developed assessment systems generally involve more costs, such as the time and expertise required for development and design. Reliability and validity are important factors to consider in choosing which assessment instrument to use (Van Velsor, Leslie, & Fleenor, 1997). These qualities usually vary according to the expertise and experience of the instrument developer.

Preparing individual participants for a 360-degree process involves educating them about the assessment and the feedback (Shaver, 1995). First, employees should be informed of how their feedback will be used (Ward, 1995). Then, participants in the feedback assessment should be trained to avoid common rating errors. Training can also reinforce the role of the feedback in reinforcing company values and strategy (Gebelein, 1996). Participants should also be informed as to whether they will be held accountable for their ratings. This issue of rater confidentiality is key to preparing
participa-
ents, and the literature presents a variety of opinions on the subject (Crystal,
1994; Dalton, 1996; Holt et al., 1996; McCauley & Moxley, 1996; McGarvey &
Smith, 1993; Milliman et al., 1994; Nowack, 1993; Shaver, 1995; Sweet, 1995; Yukl
& Lepsinger, 1995).

Training generally should be extended not only to the raters but also to the
person being rated (Budman & Rice, 1994). If the feedback is being used for
development, the employee being rated should be prepared to receive and to act on
the feedback. If it is used for performance appraisal, the rate should be aware of how
the assessment results will affect decisions such as promotion and compensation. In
both cases, feedback obtained from multiple sources can often be surprising and
difficult to deal with for the recipient (Ludeman, 1995). This is especially true when
an employee learns that self-perceived strengths are seen as the developmental needs
of others. Preparing managers receive feedback from their subordinates is a complex
issuance that is unique to upward feedback.

**Administer the assessment.** After deciding what 360-degree instrument to use, how
to use its feedback, and preparing the participants for the process, the assessment
instrument can be administered (Bracken, 1994). According to Shaver (1995), design
and administration of the assessment can affect the outcome of the process. Most 360-
degree feedback instruments are questionnaires that use scaled items to assess
employees (Shaver, 1995; Yukl & Lepsinger, 1995), but some include sections for
open-ended responses. It is necessary to consider the medium for the data collection
in advance. An important factor to consider is who will be evaluated (Hirsch, 1994;
Sweet, 1995; Ward, 1995). Feedback for development has been gathered both for fast-
track, high-performing employees and for employees who lack the necessary skills to
be effective (Hirsch, 1994; Jones & Bearley, 1996). However, 360-degree systems are
now being used throughout organizations for every level of employee. Once the
employees to be assessed are decided upon, it is necessary to determine who will
provide the ratings (Mohrman et al., 1990).

Typically, to be effective, the raters should be in positions within the employee’s
circle of influence and should be able to observe the employee’s behavior and
performance. Sources to consider include peers, subordinates, direct reports, and
supervisors, as well as internal and external customers. Another decision to make is
how many raters include for each rate (Hirsch, 1994; Milliman et al., 1994). Issues
that affect the number of raters to use include confidentiality and rating bias. Also, in
the feedback, the ratings from each source should be presented individually, rather than combined into a single “others” rating (London & Smither, 1995).

The next step in implementing the 360-degree assessment involves providing feedback to the focal individual. Interpreting the feedback is another aspect that is treated in various ways (London & Beatty, 1993; McGarvey & Smith, 1993; Moses, Hollenbeck, & Sorcher, 1993; Sweet, 1995; Van Velsor & Leslie, 1991; Vinson, 1996; Yukl & Lepsinger, 1995).

Some instruments are accompanied by instructions and guidelines for interpreting the data. Other instruments use an outside consultant or facilitator to interpret the feedback for the employee. Whatever process is used, the goal of 360-degree feedback is to provide usable and relevant information, either for employee development or for appraisal by the organization. The feedback should be presented in a way that exposes weaknesses or shortcomings in performance or behavior, and should identify strengths as well. The comparison of self-ratings to the ratings of others can also be an important aspect of 360-degree feedback (Jones & Bearley, 1996; McCauley & Moxley, 1996; Nowack, 1993; Yammarino & Atwater, 1993).

Conduct the follow-up. Once the feedback is interpreted, the question arises: What next? The follow-up, or how the feedback is used by the ratee, is an important part of the 360-degree process (Shaver, 1995; Sweet, 1995).

This is especially true if the feedback is to be used for developmental purposes. In these cases, receiving feedback from multiple sources is only the first step in a larger development process (Dalton, 1996; McCauley & Moxley, 1996; Ward, 1995). Vinson (1996) indicates that once strengths and developmental needs are identified, the employee must decide how to use the information to facilitate improvement. In general, this stage involves creating some sort of development plan by using the feedback to set specific goals (Yukl & Lepsinger, 1995). The employee then must work to achieve those goals using this plan (Peters, 1996).

Using feedback from multiple sources is vital to the effectiveness of development plans for two reasons. First, it provides potentially accurate and diverse information on where employees stand in relation to where they should be in terms of skills and behaviors. Second, 360-degree feedback may increase self-awareness and provide insight into how employees’ behavior and performance affects those around them. Both of these aspects are thought to be important contributions of 360-degree feedback.
To use multi-rater feedback for development, certain factors should be considered relating to both the organization and the individual. On the organizational level, development should be encouraged and supported (Denton, 1994). After an individual’s developmental needs are identified, it is necessary for the organization to play an active role in the development process (Bracken, 1994). Organizational support can take various forms, from a simple show of support to extensive and specific training (Yukl & Lepsinger, 1995). Organizational support for individual development may require a shift in the culture of the organization, and it may take time for development based on 360-degree feedback to reach its maximum potential.

Using 360-degree feedback for performance appraisal also involves follow-up. If the feedback is linked to pay and promotion decisions, then an appeal process may be necessary (Mohrman et al., 1990). There should be an opportunity for the employee involved to react to the feedback and the associated decisions. This is especially true in the early stages of implementing a 360-degree system for performance appraisal. Because performance appraisal focuses on past performance and behavior, it should be followed by plans or suggestions to improve future performance (Hirsch, 1994). Essentially, performance appraisals evaluate what an employee has done, whereas feedback for development addresses how the employee gets things done (London & Beatty, 1993).

**What Are Future Trends and Research Needs for 360-degree Feedback?**

One trend in 360-degree feedback is the growing popularity of electronic methods, such as personal computers (PCs), for administration and feedback reporting. Software programs for administering instruments and producing feedback reports can be licensed or purchased from several vendors of 360-degree-feedback products. Instruments that are sold for use with PCs usually have scoring programs built into the software. Although computer PC administration may increase the price for the consumer, the method has many benefits, especially in the presentation of the feedback to the recipient. Instead of sifting through mounds of data to find, for example, the highest rated items, a manager can get the software program to sort and arrange the information in a fraction of the time (Van Velsor et al., 1997).

Instrument customization is another trend related to the electronic administration of 360-degree feedback. Advances in technology allow vendors to use what is called an open architecture approach in developing instruments. This approach permits clients to request that specific items and scales, which are relevant
to their organizations, be added to an instrument. These items are usually selected from a collection of items in the vendor's database known as an item bank. Although this trend began in order to meet customer demand, there is currently some disagreement among experts as to the degree to which this practice affects the validity of the instrument (Van Velsor et al., 1997).

A future trend to watch for is the administration of 360-degree feedback over the Internet. Several vendors are developing 360-degree-feedback processes that will be delivered over the World Wide Web (WWW). The method shows some promise because it eliminates the need for passing out and collecting paper forms or diskettes containing an instrument. A downside to this trend is that all employees do not yet have access to PCs or to the Internet.

Many of the publications annotated here call for further research on the 360-degree-feedback process. Not only is more research needed related to business initiatives and impact, there is a need for additional research on the psychological implications of giving and receiving 360-degree feedback (London & Beatty, 1993; Yammarino & Atwater, 1993). This research showed be targeted toward issues such as rater psychology, self-awareness, and feedback receptivity; it should also focus on the overall impact and design of 360-degree feedback, including the possible effects of electronic administration and customization of 360-degree-feedback instruments.

Every indication is that the use of 360-degree feedback will continue to grow (Bracken, 1994; Budman & Rice, 1994; Hirsch, 1994; Hoffman, 1995; McGarvey & Smith, 1993; Romano, 1993). Further experience with this technique will lead to new ideas and methods but also may identify pitfalls to avoid. There is still little agreement in the literature on the several issues surrounding 360-degree feedback. This lack of consensus, however, has not seemed to slow its growing popularity. To fairly evaluate 360-degree feedback, one must be aware of its benefits but also be cautious of its complexity. Because it can be such a powerful tool, the potential for error and misuse is increased. Adding to such potential drawbacks is the fact that 360-degree feedback is a relatively new method. Although it has been around in various forms for some time, only with its recent surge in popularity has it closely examined. As 360-degree feedback is used more for performance appraisal, the repercussions of errors in the process become greater (Jones & Bearley, 1996).