

7

Performance Management and Appraisal

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

- 1. Describe performance management.
- 2. Define performance appraisal.
- 3. Identify the uses of performance appraisal.
- 4. Discuss the performance appraisal process.
- 5. Identify the various performance criteria (standards) that can be established.
- 6. Identify who may be responsible for performance appraisal.
- 7. Explain the performance appraisal period.
- 8. Describe the various performance appraisal methods.
- 9. List the problems that have been associated with performance appraisal.
- 10. Explain the characteristics of an effective appraisal system.
- 11. Describe the legal considerations associated with performance appraisal.
- 12. Explain how the appraisal interview should be conducted.
- 13. Discuss how performance appraisal is affected by a country's culture.

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HR Web Wisdom

Performance Management

<http://www.opm.gov/perform/overview.asp>

Office of Personnel Management
Web site on performance
management.

OBJECTIVE 7.1

Describe performance
management.

performance management
(PM)

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

The tools we describe in this chapter and in Chapters 8 provide human resources (HR) professionals with a foundation to evaluate and improve the capability of a company's employees (human capital) to its competitive advantage. Let's consider a metaphor to bring the opening sentence to life. Think about, for example, a delivery vehicle. Many factors contribute to fuel efficiency, two of which include low tire pressure or an air conditioner that is low in refrigerant. In the former case, insufficient tire pressure creates greater drag on the vehicle, which raises fuel consumption. In the latter case, the air conditioner will not efficiently cool the car, and the compressor will continually run because it cannot keep the interior of the car at the desired lower temperature. Compressors are driven by the engine, which, of course, are fueled by gasoline.

Companies prefer to have fuel-efficient vehicles to maintain lower operating costs because they want to maximize profitability. Mechanics can use an air gauge to determine whether tire pressure falls within standard limits specified by the automobile manufacturer. Specialized thermometers can be used to determine the adequacy of refrigerant levels in air conditioning systems.

From an HR standpoint, delivery vehicles are capital, and we have learned that employees are human capital. Both help add value to companies. Fuel efficiency is a measure of performance. Lower-than-standard or expected fuel efficiency can be thought of as (lower) job performance. Air gauges and specialized thermometers can be thought of as performance appraisal techniques that help mechanics (managers or supervisors) judge two factors known to influence a vehicle's fuel efficiency (an employee's job performance). We take up the topics of performance management and performance appraisal in this chapter.

Performance Management

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

PM systems are one of the major focuses in business today. Although every HR function contributes to PM, training, performance appraisal, and compensation appraisal play a more significant role. Whereas performance appraisal occurs at a specific time, PM is a dynamic, continuous process. Every individual in the organization is a part of the PM system. Every component of the system is integrated to ensure continuous organizational effectiveness. With PM, every



worker's efforts should focus on achieving strategic goals. A well-developed job description is needed to determine whether performance expectations have been achieved. If workers' skills need improvement, additional training should be provided. In PM systems, training has a direct tie-in to achieving organizational effectiveness, as does pay and performance. A good PM system ensures that people make good, effective use of their time.

PM may be the single largest contributor to organizational effectiveness in recent years. An effective PM system should be the responsibility of everyone in the organization starting with the CEO and moving throughout the entire organization because companies that disregard PM do not prosper.¹

OBJECTIVE 7.2

Define performance appraisal.

performance appraisal (PA)
Formal system of review and evaluation of individual or team task performance.

Performance Appraisal

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

PA is especially critical to the success of PM. Although PA is but one component of PM, it is a vital one, 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 on the individual employee. Regardless of the emphasis, an effective appraisal system evaluates accomplishments and initiates plans for development, goals, and objectives.

Most managers rely on PA techniques as a basis to provide feedback, encourage performance improvement, make valid decisions, justify terminations, identify training and development needs, and defend personnel decisions such as why one employee received a higher pay increase than another employee. PA 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 over-reaction. Additionally, managers must be concerned about legal issues, which we consider later in this chapter. Developing an effective PA system has been and will continue to be a high priority for management.

OBJECTIVE 7.3

Identify the uses of performance appraisal.

Uses of Performance Appraisal

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

Human Resource Planning

In assessing a firm's HR, data must be available to identify those who have the potential to be promoted or for any area of internal employee relations. Through PA 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.

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 to overcome this shortcoming. 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, training and development (T&D) programs can be developed that permit individuals to build on their strengths and minimize their deficiencies.

An appraisal system does not guarantee properly trained and developed employees. However, determining T&D needs is more precise when appraisal data are available.

Career Planning and Development

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. PA data is essential in assessing an employee's strengths and weaknesses and in determining the person's potential. Managers may use such information to counsel subordinates and assist them in developing and implementing their career plans.

Compensation Programs

PA 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 PM system. To encourage good performance, a firm should design and implement a reliable PA system and then reward the most productive workers and teams accordingly. Creators of total rewards systems want to ensure that individual performance supports organizational objectives.

Internal Employee Relations

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

Assessment of Employee Potential

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

OBJECTIVE 7.4

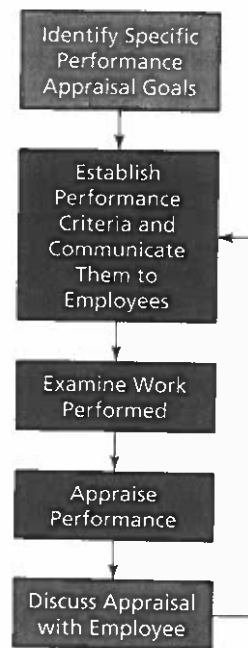
Discuss the performance appraisal process.

Performance Appraisal Process

As shown in Figure 7-1, the starting point for the PA process is identifying specific performance goals. An appraisal system probably cannot effectively serve every desired purpose, so management should select the specific goals it believes to be most important and realistically achievable. For example, some firms may want to stress employee development, whereas other organizations may want to focus on pay adjustments. Many firms rely on PA results to help inform decisions to terminate employment, particularly after a regular pattern of inadequate job performance. In any case, PA serves a developmental purpose, evaluative purpose, or both.

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 reviews work performance and evaluates it against established performance standards. This review helps determine how well employees have met these standards, determines reasons for deficiencies, and develops a plan to correct the problems. At this meeting, goals are set for the next evaluation period, and the cycle repeats.

FIGURE 7-1
Performance Appraisal Process



OBJECTIVE 7.5

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

Establish Performance Criteria (Standards)

Management must carefully select performance criteria as it pertains to achieving corporate goals.² The most common appraisal criteria are traits, behaviors, competencies, goal achievement, and improvement potential.

Traits, Behaviors, and Competencies

Traits, behaviors, and competencies are often used as PA standards. *Traits* represent an individual's predisposition to think, feel, and behave, and many traits are usually thought of as being biologically created. A personality trait is more ingrained with an individual as with a person being introverted or extroverted, or less conscientious or more conscientious.

Behaviors are typically viewed as resulting from a variety of sources including traits and situational context. For example, a highly conscientious person is more likely to engage in behaviors that lead to timely task completion than someone who is less conscientious because conscientiousness is associated with dutifulness. Employees who tend to be less conscientious may step up their game in situations where they have the opportunity to earn substantial performance-based bonuses than in situations where pay is the same regardless of performance differences.

A behavior may have been learned from parents, from significant friends, or from a certain work environment. A behavior can be changed, but traits are usually more established. Often a young person who joins the military will have many behavioral changes take place prior to returning to civilian life. 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, as we discussed in Chapter 4, refer to an individual's capability to orchestrate and apply combinations of knowledge, skills, and abilities consistently over time to perform work successfully in the required work situations. Competencies may be technical in nature, relate to interpersonal skills, or are business oriented. 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.

Many of these commonly used traits, behaviors, and competencies 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, behaviors, and competencies may relate to job performance and, if this connection is established, using them may be appropriate.

Goal Achievement

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

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

Improvement Potential

When organizations evaluate their employees' performance, many of the criteria used focus on the past. From a PM 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.

The HR Director of the California Health Foundation explains the nature of the company's PM system. The employee appraisal system is open-ended and includes just a few general categories, covering the employee's past performance with respect to their objectives set at the previous year's appraisal, and their future goals in the company. The following Watch It video describes California's PA system, including a review of the criteria for an employee receiving a good PA, and HR's methods of dealing with both positive and negative PAs and efforts to maintain a positive work culture that emphasizes a culture of personal responsibility, flexibility, and development.

Watch It I

If your instructor has assigned this, go to MyManagementLab to watch a video titled *The California Health Foundation: Performance Management and respond to questions.*

OBJECTIVE 7.6

Identify who may be responsible for performance appraisal.

Responsibility for Performance Appraisal

Often the human resource department is responsible for coordinating the design and implementation of PA 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 developing the program if it is to succeed. In a recent survey of 1,143 U.S. employees, 53 percent get

feedback about their performance from their managers. But many would like to get an expanded view of their performance and receive input from others such as from peers, project leaders, and even clients.³ Several possibilities exist with regard to the person(s) 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 T&D 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.

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 managers (and instructors) will be caught up in a popularity contest or that employees will be fearful of reprisal. If this approach has a chance for success, one thing is clear: the evaluators must be guaranteed anonymity. Ensuring this might be particularly difficult in a small department and especially if demographic data on the appraisal form could identify raters.

Peers and Team Members

A major strength of using peers to appraise performance is that they work closely with the evaluated employee and probably have an undistorted perspective on typical performance, especially in team assignments. 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," which results in an unfair evaluation. Another problem concerns peers who interact infrequently and lack the information needed to make an accurate assessment.

Organizations are increasingly using teams, including those that are self-directed. Team members know each other's performance better than anyone and can, therefore, evaluate performance more accurately. Also, peer pressure is a powerful motivator for team members, and members who recognize that peers within the team will be evaluating their work show increased commitment and productivity. 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. Many times employees are tougher on themselves than the supervisor will be. Also because employee development is self-development, employees who

appraise their own performance may become more highly motivated. Self-appraisal provides employees with a means of keeping the supervisor informed about everything they have done during the appraisal period.⁴

Even if a self-appraisal is not a part of the system, the employee should at least provide the manager a list of his or her most important accomplishments and contributions over the appraisal period. This will prevent the manager from being blindsided when the employee complains, perhaps justifiably, “You didn’t even mention the Bandy contract I landed last December!”

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

Customer Appraisal

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

360-Degree Feedback

People all around the employee whose performance is being judged may provide input. Those sources, as we have already discussed, include senior managers, the employee himself or herself, a supervisor, subordinates, peers, team members, and internal or external customers. By shifting the responsibility for evaluation to more than one person, many of the common appraisal errors can be reduced or eliminated. Software is available to permit managers to give the ratings quickly and conveniently. Furthermore, including the perspective of multiple sources results in a more comprehensive and fair view of the employee’s performance and minimizes biases resulting from limited views of performance.

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.

In a survey of training participants, 84 percent said their 360-degree experience was useful.⁵ However, some managers believe that the 360-degree feedback method has problems. General Electric’s (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.⁶ 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 because so many firms use 360-degree feedback evaluation, it seems that many firms have found ways to avoid the pitfalls.

Significant risks with 360-degree feedback are confidentiality and possible legal ramifications. Many firms outsource the process to make participants feel comfortable that the information they share and receive is completely anonymous. Information is very sensitive, and in the wrong hands, could impact careers. In addition, Nesheba Kittling, an attorney at labor law firm Fisher & Phillips, states that “Employees’ performance reviews are an employers’ first line of defense against discrimination claims.”⁷ Detailed documentation of job performance “provides support for an employer’s contention that it had legitimate, non-discriminatory reasons” for adverse action against an employee such as a demotion or termination.⁸

As an important aside, the **360-degree feedback evaluation method** is based on the reliance of multiple sources to provide information about an employee’s performance.



HR Web Wisdom

360-Degree Evaluation
<http://www.custominsight.com/360-degree-feedback/what-is-360-degree-feedback.asp>

360-Degree Evaluation—
 Delivering Feedback

360-degree feedback
 evaluation method

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. The 360-degree feedback provides an all-inclusive view of each employee. As many as 90 percent of *Fortune* 500 companies use some form of 360-degree feedback for either employee evaluation or development. Many companies use results from 360-degree programs not only for conventional applications but also for succession planning, training, and professional development.⁹

OBJECTIVE 7.7

Explain the performance appraisal period.

Performance 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, firms may want to consider monitoring performance more often. 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. Southwest Airlines has asked its managers to have monthly check-ins with staff rather than semiannual ones.¹⁰ Employees with Royal Caribbean Cruises are evaluated approximately three weeks prior to the completion of their contract, which is typically six months. Some even consider these relatively shorter intervals to be too long: "Think of a sports team: A coach doesn't wait until the end of a season to give his players feedback."¹¹

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.

The frequency of providing employees with performance feedback is important. The following Watch It video describes The Weather Channel PA process in which appraisals are recommended to be done on an ongoing, continual basis so that an employee always knows where he or she stands as far as what is expected and how well he or she is doing. This way, the employee can look forward to performance reviews instead of dreading them; performance reviews will be an official confirmation of all of the progress that the employee has been making under the ongoing relationship of appraisal and feedback with the employee's manager.

Watch It 2

If your instructor has assigned this, go to MyManagementLab to watch a video titled *Weather Channel: Performance Appraisal* and respond to questions.

OBJECTIVE 7.8

Describe the various performance appraisal methods.

Choosing a Performance Appraisal Method

The various methods are next presented as if they are separate and distinct when in actuality each may be used in conjunction with another method. For instance, the 360-degree feedback method may incorporate portions of the ranking scale. There are multiple approaches to appraising employee performance. It is instructive to group them into categories according to what they are designed to measure. PA methods fall into four broad categories:

- Trait systems
- Comparison systems
- Behavioral systems
- Results-based systems

trait systems

Type of performance-appraisal method, requiring raters (e.g., supervisors or customers) to evaluate each employee's traits or characteristics (e.g., quality of work and leadership).

comparison systems

A type of performance-appraisal method, require that raters (e.g., supervisors) evaluate a given employee's performance against other employees' performance attainments. Employees are ranked from the best performer to the poorest performer.

forced distribution method

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

Trait Systems

Trait systems ask raters to evaluate each employee's traits or characteristics (e.g., quality of work, quantity of work, appearance, dependability, cooperation, initiative, judgment, leadership responsibility, decision-making ability, or creativity). Appraisals are typically scored using descriptors ranging from unsatisfactory to outstanding. Figure 7-2 contains an illustration of a trait method of performance appraisal.

The trait approach does have limitations. First, trait systems are highly subjective¹² because they are based on the assumption that every supervisor's perception of a given trait is the same. For example, the trait "quality of work" may be defined by one supervisor as "the extent to which an employee's performance is free of errors." To another supervisor, quality of work might mean "the extent to which an employee's performance is timely." Human resource professionals and supervisors can avoid this problem by working together in advance to specify the definition of traits clearly.

Another drawback is that systems rate individuals on subjective personality factors rather than on objective job performance data. Essentially, trait assessment focuses attention on employees rather than on job performance. Employees may simply become defensive rather than trying to understand the role that the particular trait plays in shaping their job performance and then taking corrective actions. Moreover, traits represent a predisposition to behave, think, or feel. Although traits do influence behavior, these do not fully account for behavior.¹³ For example, highly conscientious individuals tend to be dutiful and complete assignments on a regular basis. However, other factors, including illness or ongoing distractions, could interfere with the productivity that one might expect to be associated with a particular trait.

Comparison Systems

Comparison systems evaluate a given employee's performance against that of other employees. Employees are ranked from the best performer to the poorest performer. In simplest form, supervisors rank each employee and establish a performance hierarchy such that the employee with the best performance receives the highest ranking. Employees may be ranked on overall performance or on various traits.

An alternative approach, called a **forced distribution method** PA and sometimes referred to as a stacked ranking system, assigns employees to groups that represent the entire range of performance. For example, three categories that might be used are best performers, moderate performers, and poor performers. A forced distribution approach, in which the rater must place a specific number of employees into each of the performance groups, can be used with this method. Figure 7-3 displays a forced distribution rating form for an animal keeper job with five performance categories.

Many companies use forced distribution approaches to minimize the tendency for supervisors to rate most employees as excellent performers. This tendency usually arises out of supervisors'

FIGURE 7-2
A Trait-Oriented Performance Appraisal Rating Form

<i>Employee's Name:</i>		<i>Employee's Position:</i>		
<i>Supervisor's Name:</i>		<i>Review Period:</i>		
<i>Instructions: For each trait, circle the phrase that best represents the employee.</i>				
1. Diligence	a. outstanding	b. above average	c. average	d. below average
	e. poor			
2. Cooperation with others	a. outstanding	b. above average	c. average	d. below average
	e. poor			
3. Communication skills	a. outstanding	b. above average	c. average	d. below average
	e. poor			
4. Leadership	a. outstanding	b. above average	c. average	d. below average
	e. poor			
5. Decisiveness	a. outstanding	b. above average	c. average	d. below average
	e. poor			

FIGURE 7-5
A Critical Incidents
Performance Appraisal
Rating Form

Instructions: For each description of work behavior, circle the number that best describes how frequently the employee engages in that behavior.

1. The incumbent removes manure and unconsumed food from the animal enclosures.					
1	2	3	4	5	
Never	Almost never	Sometimes	Fairly often	Very often	
2. The incumbent haphazardly measures the feed items when placing them in the animal enclosures.					
1	2	3	4	5	
Never	Almost never	Sometimes	Fairly often	Very often	
3. The incumbent leaves refuse dropped by visitors on and around the public walkways.					
1	2	3	4	5	
Never	Almost never	Sometimes	Fairly often	Very often	
4. The incumbent skillfully identifies instances of abnormal behavior among the animals, which represent signs of illness.					
1	2	3	4	5	
Never	Almost never	Sometimes	Fairly often	Very often	

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



HR Web Wisdom

Appraisal News

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

Performance appraisal news and general PA information is provided.

behavioral observation scale (BOS)

A specific kind of behavioral system for evaluating job performance by illustrating positive incidents (or behaviors) of job performance for various job dimensions.

the supervisor. The CIT's strength, however, is also its weakness: Implementation of the CIT demands continuous and close observation of the employee. Supervisors may find the record keeping to be overly burdensome.

Behaviorally anchored rating scales (BARS)¹⁸ are based on the CIT, and these scales are developed in the same fashion with one exception. For the CIT, a critical incident would be written as "the incumbent completed the task in a timely fashion." For the BARS format, this incident would be written as "the incumbent is expected to complete the task in a timely fashion." The designers of BARS write the incidents as expectations to emphasize the fact that the employee does not have to demonstrate the exact behavior that is used as an anchor to be rated at that level. Because a complete array of behaviors that characterize a particular job would take many pages of description, it is not feasible to place examples of all job behaviors on the scale. Experts therefore list only those behaviors that they believe are most representative of the job the employee must perform. A typical job might have 8–10 dimensions under BARS, each with a separate rating scale.

Table 7-1 illustrates a portion of a BARS system that was developed to evaluate college recruiters. Suppose the factor chosen for evaluation is *Ability to Present Positive Company Image*. On the *very positive* end of this factor would be "Makes excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to applicant and answers questions in a very positive manner." On the *very negative* end of this factor would be "Even with repeated instructions continues to make a poor impression. This interviewer could be expected to turn off college applicant from wanting to join the firm." As may be noted, there are several levels in between the very negative and the very positive. The rater is able to determine more objectively how frequently the employee performs in each defined level.

As with all PA techniques, BARS has its advantages and disadvantages.¹⁹ Among the various PA techniques, BARS is the most defensible in court because it is based on actual observable job behaviors. In addition, BARS encourages all raters to make evaluations in the same way. Perhaps the main disadvantage of BARS is the difficulty of developing and maintaining the volume of data necessary to make it effective. The BARS method requires companies to maintain distinct appraisal documents for each job. As jobs change over time, the documentation must be updated for each job.

Another kind of behavior system, a **behavioral observation scale (BOS)**,²⁰ displays illustrations of positive incidents (or behaviors) of job performance for various job dimensions. The evaluator rates the employee on each behavior according to the extent to which the employee performs in a manner consistent with each behavioral description. Scores from each job dimension are averaged to provide an overall rating of performance. BOS is developed in the same way as a BARS instrument, except that it incorporates only positive performance behaviors. The BOS method tends to

TABLE 7-1

BARS for Factor: Ability to Present Positive Company Image

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

Results-based performance appraisal

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

be difficult and time-consuming to develop and maintain. Moreover, to ensure accurate appraisal, raters must be able to observe employees closely and regularly. However, observing employees on a regular basis may not be feasible where supervisors are responsible for several people.

Results-Based Systems

Results-based performance appraisal methods focus on measurable outcomes such as an individual's or team's sales, customer service ratings, productivity, reduced incidence of workplace injuries, and so forth. The selection of results largely depends on three factors. The first factor



HR BLOOPERS

Appraising Performance at Global Insurance

As Devin Franklin hung up from a call with yet another unhappy employee, he realized there was a problem with the new PA system. Devin, the HR Manager at Global Insurance, rolled out a new performance rating form about a month ago and has since heard from several frustrated employees. Devin met his goal to get the new system in place before the end of the year, but may have rushed the process too much. He created a basic form using rating scales that asked supervisors to rate all employees on the same common factors such as quality and quantity of work, customer service skills, and general attitude. The easy to use form allowed supervisors to just check the right boxes and give it to the employees. But there have been a

variety of complaints suggesting the appraisals aren't effectively evaluating the employees' performance. Many complaints have argued different definitions of the factors being evaluated such as attitude. Some of the field insurance agents who work outside of the office on their own have even suggested that their direct supervisors shouldn't evaluate their customer service skills because the supervisors never actually observe their customer interactions. The supervisors have asked him a lot of questions about the form as well. Devin considered organizing a training program for the supervisors, but he decided there just wasn't enough time. Now he's not sure if a training program would even fix the problems.

★ If your professor has assigned this, go to mymanagementlab.com to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

is the relevance of the results that may be used to judge a company's progress toward meeting its strategic goals. The second factor is the reliability with which results can be measured. The third factor is the extent to which the results measure is truly a measure of performance over which an employee has the resources and latitude to achieve the designated results.

Management by objectives (MBO) could possibly be the most effective PA technique because supervisors and employees determine objectives for employees to meet during the rating period and employees appraise how well they have achieved their objectives. MBO is used mainly for managerial and professional employees and typically evaluates employees' progress toward strategic planning objectives.

Employees and supervisors together determine particular objectives tied to corporate strategies. Employees are expected to attain these objectives during the rating period. The crucial phase of the MBO process requires that challenging but attainable objectives and standards be established through interaction between superiors and subordinates. Individuals jointly established objectives with their superiors, who then give them some latitude in how to achieve the objectives. Action plans require clear delineation of what specifically is to be accomplished and when it is to be completed. For example, if a sales manager has a performance objective of increasing sales in his or her area by 38 percent next year, the action plan might include the employment of three experienced salespersons, six calls a week by the sales manager on major customers, and assignment of appropriate sales quotas to all the salespeople.

At the end of the rating period, the employee writes a report explaining his or her progress toward accomplishing the objectives, and the employee's supervisor appraises the employee's performance based on accomplishment of the objectives. Despite the importance of managerial employees to company success, it is often difficult to establish appropriate performance goals because many companies simply do not fully describe the scope of these positions. MBO can promote effective communication between employees and their supervisors.

With MBO, performance is evaluated on the basis of progress toward objective attainment. Having specific performance objectives provides management with a basis for comparison. When objectives are agreed on by the manager and the subordinate, self-evaluation and controls become possible. In fact, with MBO, PA can be a joint effort, based on mutual agreement.

With MBO, it is left up to the managers to take corrective action when results are not as planned. Such action may take the form of changes in personnel, changes in the organization, or even changes in the objectives. Other forms of corrective action may include providing additional training and development of individual managers or employees to enable them to better achieve the desired results. Corrective action should not necessarily have negative connotations. Under MBO, objectives can be renegotiated downward without penalty or fear of job loss. Various segments of the MBO process can easily be integrated into an effective *goal-oriented system*. Goal-oriented systems are often a component of broader development programs that help employees achieve career goals.

On the downside, MBO is time-consuming and requires a constant flow of information between employees and employers. Moreover, its focus is only on the attainment of particular goals, often to the exclusion of other important outcomes. This drawback is known as a "results at any cost" mentality.²¹ The role of automobile sales professionals historically was literally limited to making sales. Once these professionals and customers agreed on the price of a car, the sales professionals' work with customers was completed. Automobile salespeople today remain in contact with clients for as long as several months following the completion of the sale. The purpose is to ensure customer satisfaction and build loyalty to the product and dealership by addressing questions about the vehicle's features and reminding clients about scheduled service checks.

Another results-oriented practice is the work standards method. The **work standards method** is a PA method that compares each employee's performance to a predetermined standard or expected level of output. Standards reflect the normal output of an average worker operating at a normal pace. Firms may apply work standards to virtually all types of jobs, but production jobs generally receive the most attention. An obvious advantage of using work standards as appraisal criteria is objectivity. However, 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.

work standards method

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

FIGURE 7-6
Calculation of a Piecework Award for a Garment Worker

Piecework standard: 15 stitched garments per hour Hourly base pay rate awarded to employees when the standard is not met: \$4.50 per hour That is, workers receive \$4.50 per hour worked regardless of whether they meet the piecework standard of 15 stitched garments per hour. Piecework incentive award: \$0.75 per garment stitched per hour above the piecework standard			
	Guaranteed Hourly Base Pay (\$)	Piecework Award (No. of Garments Stitched above the Piecework Standard × Piecework Incentive Award)	Total Hourly Earnings (\$)
First hour	4.50	10 garments × \$0.75/garment = \$7.50	12.00
Second hour	4.50	Fewer than 15 stitched garments, thus piecework award equals \$0	4.50

The work standards method is often coupled with a particular incentive pay plan known as the piecework plan. *Piecework plans* typically found in manufacturing settings, rewards employees based on their individual hourly production against an objective output standard and is determined by the pace at which manufacturing equipment operates. For each hour, workers receive piecework incentives for every item produced over the designated production standard. Workers also receive a guaranteed hourly pay rate regardless of whether they meet the designated production standard. Companies use piecework plans when the time to produce a unit is relatively short, usually less than 15 minutes, and the cycle repeats continuously. Piecework plans are usually found in such manufacturing industries as textiles and apparel.

Figure 7-6 illustrates the calculation of a piecework incentive.

OBJECTIVE 7.9

List the problems that have been associated with performance appraisal.

Problems in Performance Appraisal

PA 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 exclusive to this method but rather, reflect improper implementation. The following section highlights some of the more common problem areas.

Appraiser Discomfort

Conducting PAs is often a frustrating task for managers. If a PA 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.

Subjectivity of Performance Evaluations

A potential weakness of many PA methods is that they lack objectivity. For example, commonly used factors such as traits, behaviors, and competencies are virtually impossible to measure with objective measures. 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 some of these factors are job related.

Almost all people make **rating errors**. Rating errors reflect differences between human judgment processes versus objective, accurate assessments uncolored by bias, prejudice, or other

Rating errors

In performance appraisals, differences between human judgment processes versus objective, accurate assessments uncolored by bias, prejudice, or other subjective, extraneous influences

subjective, extraneous influences.²² Human resource departments can help raters to minimize errors by carefully choosing rating systems and to recognize and avoid common errors. Major types of rater errors include:

- Bias errors
- Contrast errors
- Errors of central tendency
- Errors of leniency or strictness

bias errors

Evaluation errors that occur when the rater evaluates the employee based on a personal negative or positive opinion of the employee rather than on the employee's actual performance.

first-impression effect

An initial favorable or unfavorable judgment about an employee's which is ignored or distorted.

positive halo effect (or halo effect)

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

negative halo effect (or horn error)

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

illegal discriminatory bias

A bias error for which a supervisor rates members of his or her race, gender, nationality, or religion more favorably than members of other classes.

contrast errors

A rating error in which a rater (e.g., a supervisor) compares an employee to other employees rather than to specific explicit performance standards.

central tendency error

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

BIAS ERRORS **Bias errors** happen when the rater evaluates the employee based on a personal negative or positive opinion of the employee rather than on the employee's actual performance. Four ways supervisors may bias evaluation results are first-impression effects, positive and negative halo effects, similar-to-me effects, and illegal discriminatory biases.

A manager biased by a **first-impression effect** might make an initial favorable or unfavorable judgment about an employee and then ignore or distort the employee's actual performance based on this impression. For instance, a manager expects that a newly hired graduate of a prestigious university will be an exemplary performer. After one year on the job, this employee fails to meet many of the work objectives; nevertheless, the manager rates the job performance more highly because of the initial impression.

A **positive halo effect** (oftentimes, referred to simply as a **halo effect**) or **negative halo effect** (also known as a **horn error**) occurs when a rater generalizes an employee's good or bad behavior on one aspect of the job to all aspects of the job. For example, Rodney Pirkle, accounting supervisor, placed a high value on neatness, a factor used in the company's PA 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 some other performance criteria even though his actual performance was low. This phenomenon is known as the *positive halo effect*, an evaluation error that occurs when a manager generalizes one positive performance feature or incident to all aspects of employee performance, resulting in a lower rating. Of course, if Jack had not been neat, yet, performed well on every other dimension, the opposite, the *horn error* would have occurred.

A **similar-to-me effect** refers to the tendency on the part of raters to judge favorably employees whom they perceive as similar to themselves. Supervisors biased by this effect rate more favorably employees who have attitudes, values, backgrounds, or interests similar to theirs. For example, employees whose children attend the same elementary school as their manager's children receive higher PA ratings than do employees who do not have children. Similar-to-me errors or biases easily can lead to charges of **illegal discriminatory bias**, wherein a supervisor rates members of his or her race, gender, nationality, or religion more favorably than members of other classes.

This pitfall occurs when managers allow individual differences to affect the ratings they give. If there are factors to avoid such as gender, race, or age, not only is this problem detrimental to employee morale, but it is obviously illegal and can result in costly lawsuits. The effects of cultural bias, or stereotyping, can definitely influence appraisals.²³ Managers establish mental pictures of what are considered ideal typical workers, and employees who do not match this picture may be unfairly judged. Although all people have biases of some type that can affect the appraisal process, a successful evaluator will manage these biases.²⁴

CONTRAST ERRORS Supervisors make **contrast errors** when they compare an employee with other employees rather than to specific, explicit performance standards. Such comparisons qualify as errors because other employees are required to perform only at minimum acceptable standards. Employees performing at minimally acceptable levels should receive satisfactory ratings, even if every other employee doing the job is performing at outstanding or above-average levels.

ERRORS OF CENTRAL TENDENCY When supervisors rate all employees as average or close to average, they commit **errors of central tendency**. Such errors are most often committed when raters are forced to justify only extreme behavior (i.e., high or low ratings) with written explanations; therefore, HR professionals should require justification for ratings at every level of the scale and not just at the extremes. With such a system, the rater may avoid possible

controversy or criticism by giving only average ratings. However, because 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 rated performance. When a manager gives an underachiever or overachiever an average rating, it undermines the compensation system.²⁵

leniency error

Giving an undeserved high performance appraisal rating to an employee.

ERRORS OF LENIENCY OR STRICTNESS Raters sometimes place every employee at the high or low end of the scale, regardless of actual performance. With a **leniency error**, managers tend to appraise employees' performance more highly than they really rate compared with objective criteria. This behavior is often motivated by a desire to avoid controversy over the appraisal. However, leniency provides a false sense of confidence to the employee and diminishes exceptional performance by other workers. It is most prevalent when highly subjective (and difficult to defend) performance criteria are used, and the rater is required to discuss evaluation results with employees. When managers know they are evaluating employees for administrative purposes, such as pay increases, they are likely to be more lenient than when evaluating performance to achieve employee development. Leniency, however, may result in failure to recognize correctable deficiencies. The practice may also deplete the merit budget and reduce the rewards available for superior employees. Rather than confronting employees whose performance is not acceptable, managers may avoid the situation by giving false-positive performance evaluations. An organization may find itself in a difficult situation when after firing a problem employee, the recent excellent performance evaluation shows up as part of a lawsuit.²⁶ Rating an employee as outstanding and then firing him or her because of poor performance will make a supervisor look foolish if taken to court. On the other hand, **strictness errors** occur when a supervisor rates an employee's performance lower than it would be if compared against objective criteria.

strictness errors

Being unduly critical of an employee's work performance.

Employee Anxiety

The evaluation process may also create anxiety for the appraised employee.²⁷ 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 PA is management's way of highlighting all the bad things they did all year.

OBJECTIVE 7.10

Explain the characteristics of an effective appraisal system.

Characteristics of an Effective Appraisal System

The basic purpose of a PA system is to improve the 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. 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 evaluation instrument should tie in closely to the accomplishment of organizational goals.²⁸ 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

Employees must understand in advance what is expected of them. 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



ETHICAL DILEMMA

Abdication of Responsibility

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

If you are to show others in the company that you are willing to make tough decisions, you feel you must fire this individual. The question is who's going to suffer: the firm and ultimately shareholders whose retirements are in jeopardy, or a nice guy who's been lied to for 20 years?

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

in many areas, such as manufacturing, assembly, and sales. For numerous other types of jobs, however, this task is more difficult. Still, evaluation must take place based on clearly understood performance expectations.

Standardization

Firms should use the same evaluation instrument for all employees in the same job category who work for the same supervisor. Supervisors should also conduct appraisals covering similar periods for these employees. Regularly scheduled feedback sessions and appraisal interviews for all employees are essential. Most large companies require groups of supervisors to come together to standardize employee performance reviews. They hash out the rationale behind each employee's performance rating and adjust them to ensure that they reflect similar standards and expectations.²⁹

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 PA is important for small firms, they are not expected to maintain PA 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 to ensure accuracy and consistency. It 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.

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. However, in one survey, only 45 percent of individuals felt their managers consistently communicated their performance concerns throughout the year.³⁰ 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 PA interview. When something new surfaces during the appraisal interview, the manager probably did not do a good enough job communicating with

the employee throughout the appraisal period. Even though the interview presents an excellent opportunity for both parties to exchange ideas, it should never serve as a substitute for the day-to-day communication and coaching required by performance management.

Conduct Performance Reviews

In addition to the need for continuous communication between managers and their employees, a special time should be set for a formal discussion of an employee's performance. Because 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 PAs. Although the task can be tedious and boring for managers, maintaining a continuous record of observed and reported incidents is essential in building a useful appraisal. The appraisal interview will be discussed in a later section.

Due Process

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

Legal Considerations in Performance Appraisal

Employee lawsuits may result from negative evaluations. Employees often win these cases, thanks in part to the firm's own PA procedures. A review of court cases makes it clear that legally defensible PA 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 an absence of adverse impact on members of protected classes or validation of the process. It also expects a system that keeps one manager from directing or controlling a subordinate's career. There should also be a system whereby the appraisal is reviewed and approved by someone or some group in the organization. Another requirement is that the evaluator must have personal knowledge of the employee's job performance. In addition, the system uses predetermined norms that limit the manager's discretion.

Mistakes in appraising performance and decisions based on invalid results can have serious repercussions. For example, discriminatory merit pay increases have resulted 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. Further, giving higher-than-earned evaluations and then firing an employee may set the stage for a suit, especially if the individual is a member of a protected group. The apparent inconsistency may give the employee a basis for claiming discrimination.³¹

Legislation that prohibits illegal discrimination in employment practices (e.g., the Age Discrimination in Employment Act) certainly applies PA practices. 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 PAs, as well as for selection tests. Organizations should avoid using any appraisal method that results in a disproportionately negative impact on a protected group.

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 are more legally defensible. At the same time, they can provide a more effective means for achieving PM goals.

OBJECTIVE 7.11

Describe the legal considerations associated with performance appraisal.

OBJECTIVE 7.12

Explain how the appraisal interview should be conducted.

Performance Appraisal Interview

The appraisal interview is the Achilles' heel of the entire evaluation process. In fact, appraisal sessions often create hostility and can do more harm than good to the employee-manager relationship. To minimize the possibility of hard feelings, the face-to-face meeting and the written review must have performance improvement, not criticism, as their goal. The reviewing manager must use all the tact he or she can muster in discussing areas needing improvement. Managers should help employees understand that they are not the only ones under the gun. Rating managers should emphasize their own responsibility for the employee's development and commitment for supporting the goal of motivating employees. 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.³² Employees typically know when their interview should take place, and their anxiety tends to increase if the 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 has several purposes when planning an appraisal interview. Certainly the employee's performance should be discussed, focusing on specific accomplishments.³³ Also, the employee should be assisted in setting goals and personal-development plans for the next appraisal period. The manager should suggest means for achieving established goals, including support from the manager and firm. For instance, a worker may receive an average rating on a factor such as *quality of production*. In the interview, both parties should agree to the specific improvement needed during the next appraisal period and specific actions that each should take.³⁴

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

Some managers believe that they should focus only on negative items. However, focusing only on weaknesses has the potential to damage relationships with subordinates.³⁵ No one wants a lengthy interview where they are constantly bombarded with criticism. A person might reason that "If I am this bad, I had better find another job."

As suggested previously, conducting an appraisal interview requires tact and patience on the part of the evaluator. Praise is appropriate when warranted, but it can have limited value if not clearly deserved. If an employee must eventually be terminated because of poor performance, a manager's false praise could bring into question the "real" reason for being fired.

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.³⁶ The best recourse for employees in preparing for an appraisal review is to prepare a list of creative ways they have solved problems with limited resources. They will look especially good if they can show how their work contributes to the value of the company. This information should be on the appraising manager's desk well before the review. Reminding managers of information they may have missed should help in developing a more objective and accurate appraisal.

Concluding the Interview

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

★ Try It!

If your instructor has assigned this, go to MyManagementLab to complete the Individual Behavior simulation and test your application of these concepts when faced with real-world decisions.

OBJECTIVE 7.13

Discuss how performance appraisal is affected by a country's culture.

National Culture and Performance Appraisal

PA is an area of human resource management that has special problems when translated into different countries' cultural environments. The use of PA in the United States is relatively new compared to many older countries. Here, formal PA came into systematic use toward the beginning of the 20th century. However, PA in China has evolved over many centuries. As early as the third century A.D., Sin Yu, Chinese philosopher, criticized a biased rater employed by the Wei dynasty saying, "The Imperial Rater of Nine Grades seldom rates men according to their merits but always according to his likes and dislikes."³⁷

Chinese managers often have a different idea about what performance is than do Western managers because Chinese companies tend to focus appraisals on different criteria. Chinese managers appear to define performance in terms of personal characteristics, such as loyalty and obedience, rather than outcome measurement. Chinese PAs place great emphasis on moral characteristics. On the other hand, Western PA seeks to help achieve organizational objectives, and this is best obtained by concentrating on individual outcomes and behaviors that are related to the attainment of those objectives.³⁸

Culture also plays a significant role in the success and failure of PA systems in the Middle East. In the Middle East there is a view called *wasta*, which significantly affects how business is conducted. *Wasta* refers to using mutual favors instead of merit to get things done. Because *wasta* implies reciprocity, it remains entrenched in society, and it has a major effect on HR, especially PA. *Wasta* affects many aspects of HR such as selection and promotions because friendship and family connections is the criteria used instead of merit.³⁹

Summary

1. **Describe performance management.** Performance management (PM) is a goal-oriented process that is directed toward ensuring that organizational processes are in place to maximize productivity of employees, teams, and ultimately, the organization. PM systems are one of the major focuses in business today. With PM, the effort of each and every worker should be directed toward achieving strategic goals.
2. **Define performance appraisal and identify the uses of performance appraisal.** Performance appraisal (PA) is a system of review and evaluation of individual or team task performance.
PA data are potentially valuable for use in numerous human resource functional areas, including human resource planning, recruitment and selection, training and development, career planning and development, compensation programs, internal employee relations, and assessment of employee potential.
3. **Discuss the performance appraisal process.** The identification of specific goals is the starting point for the PA process and the beginning of a continuous cycle. Then job expectations are established with the help of job analysis. The next step involves examining the actual work performed. Performance is then appraised. The final step involves discussing the appraisal with the employee.
4. **Identify the various performance criteria (standards) that can be established.** The most common appraisal criteria are traits, behaviors, competencies, goal achievement, and improvement potential.
5. **Identify who may be responsible for performance appraisal and explain the performance period.** People who are usually responsible for PA include immediate supervisors, subordinates, peers and team members, self-appraisal, and customer appraisal.

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.

6. **Identify the various performance appraisal methods.** PA methods include 360-degree feedback evaluation, rating scales, critical incidents, work standards, ranking, forced distribution, behaviorally anchored rating scales, and results-based approaches.
7. **List the problems that have been associated with performance appraisal.** The problems associated with PAs include appraiser discomfort, lack of objectivity, halo/horn errors, leniency/strictness, central tendency, recent behavior bias, personal bias (stereotyping), and employee anxiety.
8. **Explain the characteristics of an effective appraisal system.** Characteristics include job-related criteria, performance expectations, standardization, trained appraisers, continuous open communication, conduct performance reviews, and due process.
9. **Describe the legal considerations associated with performance appraisal.** A review of court cases makes it clear that legally defensible PA systems should be in place. Perfect systems are not expected, and the law does not preclude supervisory discretion in the process. However, systems that possess certain characteristics are more legally defensible.
10. **Explain how the appraisal interview should be conducted and discuss how performance appraisal is affected by a country's culture.** 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.
PA is an area of human resource management that has special problems when translated into different countries' cultural environments. The use of PA in the United States is relatively new compared to many older countries. Here, formal performance appraisal came into systematic use toward the beginning of the 20th century. However, PA in other countries has evolved over many centuries and is strongly affected by a country's culture.


Key Terms

performance management (PM) 165	behaviorally anchored rating scale (BARS) 176	first-impression effect 180
performance appraisal (PA) 166	behavioral observation scales (BOS) 176	halo effect (positive) 180
360-degree feedback evaluation method 171	results-based systems 177	negative halo effect (horn error) 180
trait systems 173	management-by-objectives (MBO) 178	similar-to-me effect 180
comparison systems 173	work standards method 178	illegal discriminatory bias 180
forced distribution method 173	rating errors 179	contrast errors 180
paired comparison method 175	bias errors 180	errors of central tendency 180
behavioral systems 175		leniency error 181
critical incident technique 175		strictness errors 181





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Exercises

- 7-1. Visit an HR manager in your local area. What PA method does this firm use? Ask how well the PA method is accepted in the organization.
-  7-2. Your PA uses a rating form with the following characteristics: 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. Could any of these characteristics pose a problem with regard to a legal challenge? Why? Discuss.

Questions for Review

- 7-3. Define performance management and performance appraisal.
- 7-4. What are the uses of performance appraisal?
-  7-5. What are some reasons that people give for getting rid of performance appraisal?
- 7-6. What are the steps in the performance appraisal process?
- 7-7. What aspects of a person's performance might an organization evaluate?
- 7-8. Many different people can conduct performance appraisals. What are the various alternatives?
- 7-9. What appraisal intervals are often used in appraisal reviews?
- 7-10. Briefly describe each of the following methods of performance appraisal:
- 360-degree feedback evaluation
 - rating scales
 - critical incidents
 - work standards
 - ranking
 - forced distribution
 - behaviorally anchored rating scales
 - results-based systems
- 7-11. What are the various problems associated with performance appraisal? Briefly describe each.
-  7-12. What are the legal considerations associated with performance appraisal?
-  7-13. Explain why the following statement is often true: "The *Achilles' heel* of the entire evaluation process is the appraisal interview itself."
-  7-14. How might different countries' cultures view performance appraisal?

INCIDENT 1 These Things Are a Pain

"There, at last it's finished," thought Rajiv Chaudhry, as he laid aside the last of 12 PA forms. It had been a busy week for Rajiv, who supervises a road maintenance crew for the Georgia Department of Highways.

In passing through Rajiv's district a few days previously, the governor had complained to the area superintendent that repairs were needed on several of the highways. Because of this, the superintendent assigned Rajiv's crew an unusually heavy workload. In addition, Rajiv received a call from the HR office that week reminding him that the PAs were late. Rajiv explained his predicament, but the HR specialist insisted that the forms be completed right away.

Looking over the appraisals again, Rajiv thought about several of the workers. The PA form had places for marking *quantity of work*, *quality of work*, and *cooperativeness*. For each characteristic, the worker could be graded *outstanding*, *good*, *average*, *below average*, or *unsatisfactory*. As Rajiv's crew had completed all of the extra work assigned for that week, he marked every worker *outstanding in quantity of work*. He marked Joe Blum *average in cooperativeness* because Joe had questioned one of his decisions that week. Rajiv had decided to patch a pothole in one of the roads, and Joe thought the small section of road surface ought to be broken out and replaced. Rajiv didn't include this in the remarks section of the form, though. As a matter of fact, he wrote no remarks on any of the forms.

Rajiv felt a twinge of guilt as he thought about Roger Short. He knew that Roger had been goofing off, and the other workers had been carrying him for quite some time. He also knew that Roger would be upset if he found that he had been marked lower than the other workers. Consequently, he marked Roger the same to avoid a confrontation. "Anyway," Rajiv thought, "these things are a pain, and I really shouldn't have to bother with them."

As Rajiv folded up the PAs and put them in the envelope for mailing, he smiled. He was glad he would not have to think about PAs for another six months.

Questions

- 7-15. What weaknesses do you see in Rajiv's performance appraisals?
- 7-16. Should HR have the ability to "insist that the forms be completed right away"? Discuss.
- 7-17. Many managers would agree with Rajiv in saying that "these things are a pain, and I really shouldn't have to bother with them." What are the disadvantages in doing away with performance appraisal?

INCIDENT 2 Performance Appraisal?

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

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

When it was time for Bill's annual PA, Nakeisha decided she was going to do as much as possible to help him. Although Bill could not

be considered more than an average worker, Nakeisha rated him outstanding in virtually every category. Because the firm's compensation system was heavily tied to PA, Bill would be eligible for a merit increase of 10 percent in addition to a regular cost-of-living raise.

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

Questions

- 7-18. From Sweeny Electronics' standpoint, what difficulties might Nakeisha's PA practices create?
- 7-19. What can Nakeisha do now to diminish the negative impact of her evaluation of Bill?
- 7-20. Might a forced distribution performance appraisal system overcome the problem that Nakeisha has created? Discuss.