potential to take on more demanding roles? Do we have retention strategies in place to make sure that they don't leave us?

- Who are our worst performers, and what do we need to do about them? Which ones can we salvage? Which ones should we cut loose?

If the performance appraisal system isn't intelligently designed and skillfully used, the answers to these critical questions may of course be wrong. Worse, the questions won't even be asked, and the organization will stumble toward its strategic goals without knowing whether it has the talent it needs to assure their achievement.

Common Practices in Performance Appraisal

If you looked over the performance appraisal forms from a few dozen of America's largest organizations, your immediate reaction might be that the forms all look different and have nothing in common. But underlying the surface differences are some striking similarities in the way companies approach the business of performance appraisal.

Performance appraisal itself is common. First, the fact is that almost all companies have performance appraisal systems. The larger the organization, the higher the probability that it will have a formal procedure that requires that goals and objectives be set at the start of the year, that coaching and feedback be provided during the year, and that an assessment of the individual's performance and a discussion of that assessment be conducted at the end of the year.

Goal setting. Goal setting is a prime component in virtually all performance appraisal systems. Setting goals, as we'll see later, works. A study by Distinguished Professor Edward E. Lawler III of the University of Southern California and Michael McDermott of Capital One found that more than four out of five organizations use performance-driven goals.[2]

Rating scales. In most cases, an overall performance rating is provided using a 5-level rating scale. We'll discuss using a rating scale in chapter 7, but for now it's worth noting that almost all companies use a rating scale, that most use a 5-level rating scale, and that the use of a 5-level scale is increasing.

Competencies. The use of competencies is also a common practice. Eighty-three percent of organizations today have identified the behavioral expectations for organization members, either company-wide or for specific types of jobs. Studies have found that using competencies drives better performance and that organizations that make excellent use of competencies are four times more likely to have a performance-driven culture.[3]

Behaviors and results. Human performance is a function of two components—behaviors (how the person goes about doing the job) and results (what the person accomplishes). These two dimensions of job performance are loosely correlated. It's possible for an individual to produce great results with poor behaviors (for example, the used car salesman who always makes his quota but does so by lying to customers, rolling back odometers, and stealing other salesmen's leads). It's equally possible to have an individual whose behaviors are