CHAPTER 7

Appraising and Managing Performance

MyManagement**Lab**®

⭐ When you see this icon, visit **www.mymanagementlab.com** for activities that are applied, personalized, and offer immediate feedback.

CHALLENGES

After reading this chapter, you should be able to deal more effectively with the following challenges:

1 **How** to effectively carry out each of the steps in performance appraisal.

2 **Have** familiarity with challenges to effective performance measurement.

3 **Develop** competence in managing performance.

George was prepared for the upcoming performance reviews. He had carefully gone through the performance data. The new performance-review software had made the task much easier, with written feedback automatically inserted depending on the performance ratings George entered for each worker. As a manager of a small group of customer service employees, George was grateful for how much easier and quicker the software had made his task of evaluating the performance of his workers.

Estelle was the first worker scheduled for the annual face-to-face performance reviews. Overall, Estelle was the best worker in terms of customer service, but she didn't do well at some of the record-keeping aspects of the job. George had given Estelle high ratings on customer service, but rated her as "needing improvement" on technical aspects. As Estelle sat down across from George, he handed her the performance evaluation and started to talk through the points with her.

Source: Monkey Business Images/Shutterstock.

George started with the summary of the performance of the unit, a nice broad picture of the group provided by the software. Estelle quickly flipped to the sections addressing the aspects of her performance. At a glance, she saw the poor ratings George had given her on technical aspects, such as filing paperwork, placing orders, and keeping account information up-to-date. Estelle was deflated and angry at the same time. George could tell that Estelle was already upset and wondered whether he had been too harsh in his ratings of her. He quickly moved to the section of the performance review that Estelle was focused on. The following exchange rapidly played out:

George: Look, Estelle, I know you are the best at customer service. All of our customers think you are wonderful. But, you have to admit that paperwork isn't your strong suit.

Estelle: Yes, I know what I'm doing with customer service. I know my job and my customers. I have been doing his awhile, and I can't believe you're nailing me on this Mickey Mouse paperwork stuff. We operate as

a team, and I let other people take care of some of the technical details, since they can do that. Frankly, for some of them, it's better they not do much interacting with customers, since they just don't do that very well.

George: Everyone is supposed to be responsible for customer service and for technical areas. That's the job and everyone has the same job.

Estelle: Well, that might be what's on paper in the official job description, but the reality is that people do what they do best and that means everything works better and customers get better service and are happier.

George: That may be, but I can't very well give you high performance ratings on an area that even you admit isn't your strength.

Estelle: I'm sure you didn't rate other people this low on customer service, even though they are terrible at it. Besides, the "Needs Improvement" rating is embarrassing, and I think it might mean that I am not eligible for merit pay. I don't think it's fair.

George: I forgot about that merit pay rule and didn't mean for you to not get a bonus. Again, you are outstanding at customer service, and you are a stand-out worker in that respect and deserve to be in the running for merit pay. However, you have to admit that your poor follow-through on record keeping has caused some problems. There was that one incident last month where we had to scramble to get supplies because the order wasn't done correctly and was late.

Estelle: Yeah, right. While you're at it, why don't you beat me up for that snafu? My name may have been on the paperwork, but the problems with the order weren't my fault.

George: What do you mean?

Estelle: What I mean is that Don was doing that order for me. He didn't want to make the visit to a new customer, and I took that on for him, and he did the order. I don't know what he was doing, why it took him so long, or how he got it messed up. Of course, you could have asked me about this before you jumped to conclusions and your performance evaluations, but it's a little late for that, isn't it?

George: Well, Estelle, I had no idea that is what was going on. Based on the paperwork, it looked pretty clear.

Estelle: You could have checked. Also, are you really questioning whether I have a complete understanding of the operational details of the job and that I should consider revisiting the technical training modules offered by the company?

George: Does the review say that?

Estelle: Yes, of course—right here! You didn't even write this, did you? What's the point of having these performance reviews, anyway? I'm evaluated unfairly and things I didn't do are held against me. And, the feedback is machine generated! Well, if the point of this process is to push me out of here, mission accomplished. If my contribution isn't valued, I will be on my way out as soon as I line up an alternative. In the meantime, I'll be sure to allocate more of my time and effort to record keeping, and others will have to step up on service. I'm sure that will work out well.

George: Really, Estelle, don't take this so negatively. I tried to provide the best ratings I could with the information I had.

George had the feeling that he had been the one who was just evaluated, and it hadn't gone too well. It sounded like there were things he missed and didn't take into account. The reality was that Estelle was a star player on the team, someone who knew what she was doing and was a kind of glue holding things together. She certainly didn't need retraining so that she knew how to do the job. He was now kicking himself for not catching that recommendation that the performance review software had automatically entered. The software made the job of evaluation easier, but now he was paying a price for it. If Estelle left her job over this, her experience and customer service skills would be difficult to replace.

George realized he had a number of performance review meetings scheduled for the afternoon. Many of those meetings were with workers with poorer performance than Estelle, and he wasn't looking forward to how these might go. He couldn't help but wonder if holding those performance reviews was worth it.

The Managerial Perspective

The situation involving George and Estelle (a fictitious scenario, but based on real-life incidents) illustrates common problems with performance appraisal—the process of assessing employee performance and diagnosing and improving performance problems. Maintaining and improving your performance and the performance of other people in the organization will be an important part of your role as a manager. To conduct this process, you may rely on appraisal forms and systems that are often designed by HR personnel or provided by third-party vendors. Although these forms and systems are key elements of the appraisal process, they are only a starting point.

Effective performance appraisal requires managers to measure and improve performance. If performance is to be improved, the manager needs to have a good understanding of the cause for a performance problem. Not getting your facts straight and, for example, blaming the wrong person for a problem, can mean that the problem isn't solved and can result in negative outcomes. As George learned, if the cause of a performance problem is not correctly diagnosed, the mistake can lead to a worker with reduced motivation and commitment.

The performance appraisal process includes providing feedback to workers so that they can improve their performance. We all need, want, and deserve feedback regarding how we are doing in the workplace. Feedback from a direct supervisor, rather than from an automated system, will typically be the most meaningful and useful. As the situation with George and Estelle illustrates, feedback is important, but it needs to be relevant and accepted by the worker. Like most of us, Estelle assumed that feedback would be feedback that comes directly from the supervisor, who can take into account various work situations and has knowledge of the worker. Like Estelle, in the end, most of us want to know more what our boss thinks of our work performance than what an automated system or software has to say. Our first goal in this chapter is to acquaint you with the foundation, design, and implementation of performance measurement systems. Our second is to describe the principles of effective performance management.

⭐ Learn It!

If your professor has chosen to assign this go to **www.mymanagementlab.com** to see what you should particularly focus on, and take the chapter 7 warmup.

What Is Performance Appraisal?

Performance appraisal, as shown in Figure 7.1, includes the *identification, measurement*, and *management* of human performance in organizations.[1]

- *Identification* means determining what areas of work the manager should be examining when measuring performance. Rational and legally defensible identification requires a measurement system based on job analysis, which we explored in Chapter 2. The appraisal system, then, should focus on performance that affects organizational success rather than performance-irrelevant characteristics such as race, age, or sex.
- *Measurement*, the centerpiece of the appraisal system, entails making managerial judgments of how "good" or "bad" employee performance was. Performance measurement must be consistent throughout the organization. That is, all managers in the organization must maintain comparable rating standards.[2]
- *Management* is the overriding goal of any appraisal system. Appraisal should be more than a past-oriented activity that criticizes or praises workers for their performance in the preceding year. Rather, appraisal must take a future-oriented view of what workers can do to achieve their potential in the organization. This means that managers must provide workers with feedback and coach them to higher levels of performance.

performance appraisal
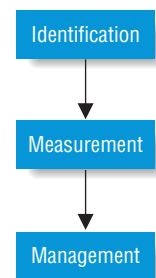The identification, measurement, and management of human performance in organizations.

Identification

↓

Measurement

↓

Management

FIGURE 7.1
A Model of Performance Appraisal

The Uses of Performance Appraisal

Organizations usually conduct appraisals for *administrative* and/or *developmental* purposes.[3] Performance appraisals are used administratively whenever they are the basis for a decision about the employee's work conditions, including promotions, termination, and rewards. Developmental uses of appraisal, which are geared toward improving employees' performance and strengthening their job skills, include providing feedback, counseling employees on effective work behaviors, and offering them training and other learning opportunities.

Performance appraisal offers great potential for a variety of uses, ranging from operational to strategic purposes.[4] If done effectively, performance appraisal can be the key to developing employees and improving their performance. In addition, it provides the criteria against which selection systems are validated and is the typical basis on which personnel decisions, such as terminations, are legally justified. Further, performance appraisal makes the strategy of an organization real. For example, performance measures that assess courtesy and care can make a stated competitive strategy based on customer service very tangible to employees.

Despite the many uses of performance appraisals, companies struggle to realize the potential in their performance appraisal systems.[5] If managers aren't behind the system and can't see its value, it is little wonder that workers also don't see the value in it. To be effective, the performance appraisal system may require considerable time and effort of managers and may require employees to gather information and receive feedback. Unfortunately, some managers do not take the task seriously or do not have the skills needed to do a good job of evaluating performance and providing feedback. Some employees do not calmly accept the feedback. Others may become frustrated with an ineffective performance appraisal system and end up believing that the system is unfair and doesn't matter.

Although performance appraisal systems can have problems and are the target of many criticisms, employees still want performance feedback, and they would like to have it more frequently than the typical once-a-year performance evaluation.[6] Although more frequent formal appraisal can be positive, the practical reality is that informal appraisal, including feedback and discussion with workers, should occur on a continuous basis.

If appraisal is not done well—if, for instance, performance is not measured accurately and feedback is poorly given—the costs of conducting the appraisal may exceed its potential benefits.[7] It makes good business sense to engage in a practice only if the benefits exceed the cost. Some people take the position that performance appraisal should not be done at all.[8] From this perspective, the practice of performance appraisal is staunchly opposed as a hopelessly flawed and demeaning method of trying to improve performance.[9] Thus, performance appraisal should be eliminated as a practice in organizations because of the problems and errors in evaluating performance.[10] One basis for the position against doing performance appraisal is the quality philosophy[11] that performance is mainly due to the system and that any performance differences among workers are random.

Although there is selected opposition, the vast majority of organizations conduct performance appraisal. Figure 7.2 lists several reasons, from both the employer's and employee's perspectives, why appraisal is valuable despite the criticisms that have been leveled against it.

In the next two sections, we explain the issues and challenges involved in the first two steps of performance appraisal: identification and measurement. We conclude the chapter by discussing some of the key issues involved in managing employee performance.

Identifying Performance Dimensions

The first step in the performance appraisal process (see Figure 7.1) is identifying what is to be measured. Consider the following example:

dimension
An aspect of performance that determines effective job performance.

As part of her job as team manager, Nancy has to allocate raises based on performance. She decides to take a participative approach to deciding which aspects, or **dimensions**, determine effective job performance. In a meeting, she and her team start generating dimensions of performance. One of the first suggestions is the *quality of work* done. However, Nancy realized that some of the workers she supervises took three times longer than others to complete assignments, so she offered *quantity of work performed* as another dimension. One worker volunteered that how well someone interacted with peers and "customers" inside the organization was pretty important. The team added *interpersonal effectiveness* as another performance dimension.

Employer Perspective

1. Despite imperfect measurement techniques, individual differences in performance can make a difference to company performance.
2. Documentation of performance appraisal and feedback may be needed for legal defense.
3. Appraisal provides a rational basis for constructing a bonus or merit system.
4. Appraisal dimensions and standards can help to implement strategic goals and clarify performance expectations.
5. Providing individual feedback is part of the performance management process.
6. Despite the traditional focus on the individual, appraisal criteria can include teamwork and the teams can be the focus of the appraisal.

Employee Perspective

1. Performance feedback is needed and desired.
2. Improvement in performance requires assessment.
3. Fairness requires that differences in performance levels across workers be measured and have an effect on outcomes.
4. Assessment and recognition of performance levels can motivate workers to improve their performance.

FIGURE 7.2

The Benefits of Performance Appraisal

Sources: Based on Cardy, R. L., and Carson, K. P. (1996). Total quality and the abandonment of performance appraisal: Taking a good thing too far? *Journal of Quality Management, 1,* 193–206; Heinze, C. (2009). Fair appraisals. *Systems Contractor News, 16,* 36–37; Tobey, D. H., and Benson, P. G. (2009). Aligning performance: The end of personnel and the beginning of guided skilled performance. *Management Revue, 20,* 70–89.

Raising and considering additional work dimensions might continue until Nancy and her team have identified perhaps six or eight dimensions they think adequately capture performance. The team might also decide to make the dimensions more specific by adding definitions of each and behavioral descriptions of performance levels.

As you have probably realized, the process of identifying performance dimensions is very much like the job-analysis process described in Chapter 2. In fact, job analysis is the mechanism by which performance dimensions should be identified.

What is measured should be directly tied to what the business is trying to achieve,[12] because the performance appraisal process needs to add value to the business and not be done simply as a measurement exercise. Many organizations identify performance dimensions based on their strategic objectives. This approach makes sure that everyone is working together toward common goals.[13]

An increasingly popular approach to identifying performance dimensions focuses on **competencies**, the observable characteristics people bring with them in order to perform the job successfully.[14] In order to make adequate evaluations, it is important to define competencies as observable characteristics, rather than as underlying and unseen characteristics (see the discussion and difficulties associated with personality traits as performance measures in the following section). The set of competencies associated with a job is often referred to as a **competency model**. An example of a competency model is presented in the Manager's Notebook, "Competencies in a Global Workplace."

competencies
Characteristics associated with successful performance.

competency model
Set of competencies associated with a job.

Measuring Performance

To measure employee performance, managers can assign numbers or a label such as "excellent," "good," "average," or "poor."[15] Whatever system is used, it is often difficult to quantify performance dimensions. For example, "creativity" may be an important part of the advertising copywriter's job. But how exactly can we measure it—by the number of ads written per year, by the number of ads that win industry awards, or by some other criterion? These are some of the issues that managers face when trying to evaluate an employee's performance.

Source: Ambrophoto/Shutterstock.

Measurement Tools

Managers today have a wide array of appraisal formats from which to choose. Here we discuss the formats that are most common and consider their legal defensibility. Appraisal formats can be classified in two ways: (1) by the type of judgment that is required (relative or absolute) and (2) by the focus of the measure (trait, behavior, or outcome).

relative judgment

An appraisal format that asks supervisors to compare an employee's performance to the performance of other employees doing the same job.

RELATIVE AND ABSOLUTE JUDGMENTS Appraisal systems based on **relative judgment** ask supervisors to compare an employee's performance to the performance of other employees doing the same job. Providing a *rank order* of workers from best to worst is an example of a relative approach. Another type of relative judgment format classifies employees into groups, such as top third, middle third, and lowest third.

Relative rating systems have the advantage of forcing supervisors to differentiate among their workers. Without such a system, many supervisors are inclined to rate everyone the same, which destroys the appraisal system's value. For example, one study that examined the distribution of performance ratings for more than 7,000 managerial and professional employees in two large manufacturing firms found that 95 percent of employees were crowded into just two rating categories.

Most HR specialists believe the disadvantages of relative rating systems outweigh their advantages.[16] First, relative judgments (such as ranks) do not make clear how great or small the differences between employees are. Second, such systems do not provide any absolute information, so managers cannot determine how good or poor employees at the extreme rankings are. For example, relative ratings do not reveal whether the top-rated worker in one work team is better or worse than an average worker in another work team. This problem is illustrated in Figure 7.3. Marcos, Jill, and Frank are the highest-ranked performers in their respective work teams. However, Jill, Frank, and Julien are actually the best overall performers.

Third, relative ranking systems force managers to identify differences among workers where none may truly exist.[17] This can cause conflict among workers if and when ratings are disclosed. Finally, relative systems typically require assessment of overall performance. The "big picture" nature of relative ratings makes performance feedback ambiguous and of questionable value to workers who would benefit from specific information about the various dimensions of their performance. For all these reasons, companies tend to find relative rating systems most useful only when there is an administrative need (for example, to make decisions regarding promotions, pay raises, or terminations).[18]

absolute judgment

An appraisal format that asks supervisors to make judgments about an employee's performance based solely on performance standards.

Unlike relative judgment appraisal formats, **absolute judgment** formats ask supervisors to make judgments about an employee's performance based solely on performance standards. Comparisons to the performance of coworkers are not made. Typically, the dimensions of performance deemed relevant for the job are listed on the rating form, and the manager is asked to rate the employee on each dimension. An example of an absolute judgment rating scale is shown in Figure 7.4.

FIGURE 7.3

Rankings and Performance Levels Across Work Teams

Actual	Team 1 Ranked Work	Team 2 Ranked Work	Team 3 Ranked Work
10 (High)		Jill (1)	Frank (1)
9			Julien (2)
8		Tom (2)	Lisa (3)
7	Marcos (1)	Sue (3)	
6	Uma (2)		
5			
4	Joyce (3)	Greg (4)	
3	Bill (4)	Ken (5)	Jolie (4)
2	Richard (5)		Steve (5)
1 (Low)			

FIGURE 7.4

Sample of Absolute Judgment Rating Scale

PERFORMANCE REVIEW

Three-month (H&S) ☐   Annual (H-Only) ☐
Six-month (H&S) ☐   Special (H&S) ☐
H = Hourly   S = Salaried

Employee Name
_____

Social Security #   Hourly ☐   Salaried ☐

For probationary employee review: Do you recommend
that this employee be retained?   Yes ☐   No ☐

Classification/Classification Hire Date

Review period: From _____ To _____

Department/Division

For each applicable performance area, mark the box that most closely reflects the employee's performance.

1 = unacceptable   2 = needs improvement   3 = satisfactory   4 = above average   5 = outstanding

PERFORMANCE AREA	1	2	3	4	5	PERFORMANCE AREA	1	2	3	4	5
Ability to make job-related decisions						Effective under stress					
Accepts change						Initiative					
Accepts direction						Knowledge of work					
Accepts responsibility						Leadership					
Attendance						Operation and care of equipment					
Attitude						Planning and organizing					
Compliance with rules						Quality of work					
Cooperation						Quantity of acceptable work					
Cost consciousness						Safety practices					
Dependability						**SUPERVISOR'S OVERALL APPRAISAL**					

For overall appraisals at the 1 or 2 level: Is the employee to remain or be placed on probationary status? Yes ☐   No ☐
If yes, what is the approximate date of next performance review? _____

JOB STRENGTHS AND SUPERIOR PERFORMANCE INCIDENTS: _____

AREAS FOR IMPROVEMENT: _____

PROGRESS ACHIEVED IN ATTAINING PREVIOUSLY SET GOALS: _____

SPECIFIC OBJECTIVES TO BE UNDERTAKEN PRIOR TO NEXT REVIEW FOR IMPROVED WORK PERFORMANCE: _____

SUPERVISOR COMMENTS: _____

EMPLOYEE COMMENTS: _____

Use separate sheet, if necessary, for additional comments by supervisor or employee. Please note on form if separate sheet is used.
Signing a review does not indicate agreement, only acknowledgment of being reviewed.

Social Security #

| Employee's Signature | Date | Rating Supervisor's Signature | | Social Security # | Date |

| Second Level Supervisor's Signature | Date | Department Head's Signature | Date |

Theoretically, absolute formats allow employees from different work groups, rated by different managers, to be compared to one another. If all employees are excellent workers, they all can receive excellent ratings. In addition, because ratings are made on separate dimensions of performance, the feedback to the employee can be more specific and helpful. Absolute formats are also viewed as more fair than relative formats.[19]

Although often preferable to relative systems, absolute rating systems have their drawbacks. One is that all workers in a group can receive the same evaluation if the supervisor is reluctant to differentiate among workers. Another is that different supervisors can have markedly different evaluation standards. For example, a rating of 6 from an "easy" supervisor may actually be lower in value than a rating of 4 from a "tough" supervisor. But when the organization is handing out promotions or pay increases, the worker who received the 6 rating would be rewarded.

Nonetheless, absolute systems do have one distinct advantage: They avoid creating conflict among workers. This, plus the fact that relative systems are generally harder to defend when legal issues arise, may account for the prevalence of absolute systems in U.S. organizations.

It is interesting to note, though, that most people *do* make comparative judgments among both people and things. A political candidate is better or worse than opponents, not good or bad in an absolute sense. If comparative judgments are the common and natural way of making judgments, it may be difficult for managers to ignore relative comparisons among workers.

FIGURE 7.5

Sample Trait Scales

Rate each worker using the scales below.						
Decisiveness						
1	2	3	4	5	6	7
Very low			Moderate			Very high
Reliability						
1	2	3	4	5	6	7
Very low			Moderate			Very high
Energy						
1	2	3	4	5	6	7
Very low			Moderate			Very high
Loyalty						
1	2	3	4	5	6	7
Very low			Moderate			Very high

trait appraisal instrument

An appraisal tool that asks a supervisor to make judgments about worker characteristics that tend to be consistent and enduring.

TRAIT, BEHAVIORAL, AND OUTCOME DATA In addition to relative and absolute judgments, performance measurement systems can be classified by the type of performance data on which they focus: trait data, behavioral data, or outcome data.

Trait appraisal instruments ask the supervisor to make judgments about *traits*, worker characteristics that tend to be consistent and enduring. Figure 7.5 presents four traits that are typically found on trait-based rating scales: decisiveness, reliability, energy, and loyalty. Although some organizations use trait ratings, trait ratings have been criticized for being too ambiguous[20] and for leaving the door open for conscious or unconscious bias. In addition, because of their ambiguous nature trait ratings are less defensible in court than other types of ratings.[21] Definitions of reliability can differ dramatically across supervisors, for example, and the courts seem to be sensitive to the "slippery" nature of traits as criteria.
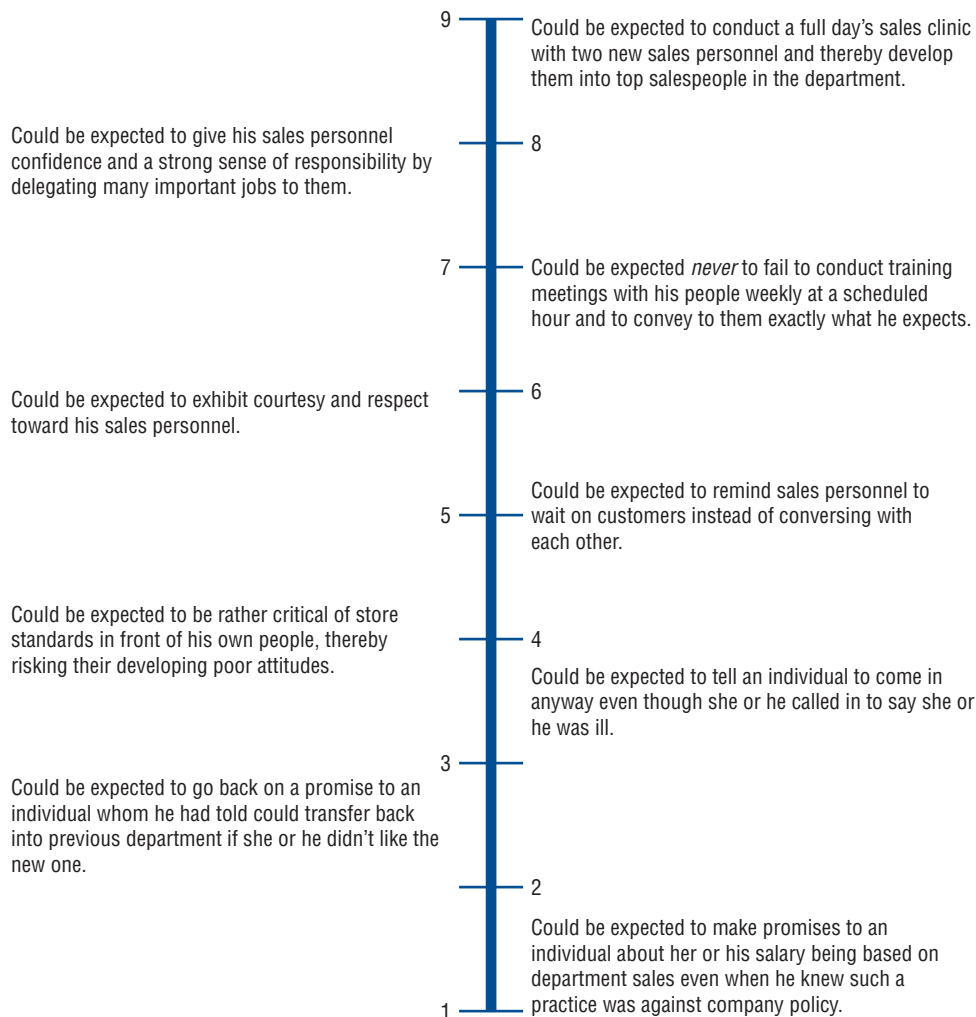
Assessment of traits also focuses on the *person* rather than on the *performance*, which can make employees defensive. This type of person-focused approach is not conducive to performance development. Measurement approaches that focus more directly on performance, either by evaluating behaviors or results, are generally more acceptable to workers and more effective as development tools. It is not that personality traits are not important to performance; the problem is with using a broad person characteristic, such as *reliability*, as a performance measure. To categorize an employee as "unreliable" will likely make the worker defensive, and the basis for the assessment and how to improve may not be clear. It would be preferable to assess and provide feedback on more observable and performance-relevant measures, such as number of times the employee has been late, the number of missed deadlines, and so on.

behavioral appraisal instrument

An appraisal tool that asks managers to assess a worker's behaviors.

Behavioral appraisal instruments focus on assessing a worker's behaviors. That is, instead of ranking leadership ability (a trait), the rater is asked to assess whether an employee exhibits certain behaviors (for example, works well with coworkers, comes to meetings on time). Probably the best-known behavioral scale is the Behaviorally Anchored Rating Scale (BARS). Figure 7.6 is an example of a BARS scale used to rate the effectiveness with which a department manager supervises his or her sales personnel. Behaviorally based rating scales are developed with the *critical-incident technique*. We describe the critical-incident technique in the Appendix to this chapter.

The main advantage of a behavioral approach is that the performance standards are unambiguous and observable. Unlike traits, which can have many meanings, behaviors across the range of a dimension are included directly on the behavioral scale. Because behaviors are unambiguous and based on observation, BARS and other behavioral instruments are more legally defensible than trait scales, which often use such hard-to-define adjectives as "poor" and "excellent." Behavioral scales also provide employees with specific examples of the types of behaviors to engage in (and to avoid) if they want to do well in the organization, and they encourage supervisors to be specific in their performance feedback. Having behavioral examples can make clear to employees how to enact organizationally prescribed values that may otherwise be unclear to them. For example, acting with integrity or being ethical may sound like great concepts, but workers

9 — Could be expected to conduct a full day's sales clinic with two new sales personnel and thereby develop them into top salespeople in the department.

Could be expected to give his sales personnel confidence and a strong sense of responsibility by delegating many important jobs to them. — 8

7 — Could be expected *never* to fail to conduct training meetings with his people weekly at a scheduled hour and to convey to them exactly what he expects.

Could be expected to exhibit courtesy and respect toward his sales personnel. — 6

5 — Could be expected to remind sales personnel to wait on customers instead of conversing with each other.

Could be expected to be rather critical of store standards in front of his own people, thereby risking their developing poor attitudes. — 4

Could be expected to tell an individual to come in anyway even though she or he called in to say she or he was ill.

3 —

Could be expected to go back on a promise to an individual whom he had told could transfer back into previous department if she or he didn't like the new one.

2 —

Could be expected to make promises to an individual about her or his salary being based on department sales even when he knew such a practice was against company policy.

1 —

FIGURE 7.6

Sample BARS Used to Rate a Sales Manager

Source: Campbell, J. P., Dunnette, M. D., Arvey, R. D., and Hellervik, L. V. (1973). The development and evaluation of behaviorally based rating scales. *Journal of Applied Psychology*, 15–22. © 1973 by the American Psychological Association. Reprinted with permission.

may be unclear about what these concepts should mean for their day-to-day work performance. The Manager's Notebook, "Make Ethics Part of Appraisal," suggests how you can operationalize these concepts. Finally, both workers and supervisors can be involved in the process of generating behavioral scales.[22] This is likely to increase understanding and acceptance of the appraisal system.

MANAGER'S NOTEBOOK

Make Ethics Part of Appraisal

Performance appraisal is typically focused on tasks and business accomplishments. However, how duties are carried out and how goals are achieved can be critically important in organizations. Specifically, the ethical conduct of employees can be an important issue, but it is often not directly measured. Ethical conduct is often identified as a guiding value at the organizational level. But how does this value translate into everyday performance on the job? Many organizations have codes of ethics, but it may not be clear to employees how it should translate into how they perform their jobs. For example, a code emphasizing integrity and fairness may sound great, but what the code should mean for how the worker carries out his or her tasks may be ambiguous.

Including ethics in the appraisal of performance sends a clear signal about the importance of ethics in the organization. Taking a behavioral approach to the assessment of ethical performance can make clear the types of actions workers should and shouldn't do.

Ethics/Social Responsibility
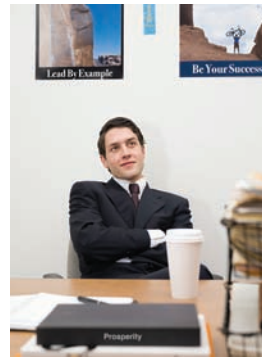
Source: Image Source/Getty Images.

The dimensions described here are examples of ethical characteristics that have been found to occur in organizations. A positive and negative behavioral example is provided for each of these dimensions of ethical performance. These behavioral examples are general and provide only a broad behavioral description of each dimension. The behavioral descriptions would probably be most useful if they were customized for each organization's setting.

Dimensions	General Behavioral Examples
Misrepresentation	+ This worker accurately states work situations.
	− This worker misconstrues work situations.
Information Sharing	+ This worker openly shares information with coworkers.
	− This worker withholds information from coworkers.
Collegiality	+ This worker supports colleagues and provides a positive influence.
	− This worker attacks colleagues and is a negative influence.
Adherence to Work Rules	+ This worker follows standards for work processes.
	− This worker does not follow standards for work processes.

Sources: Based on Cardy, R. L., and Selvarajan, T. T. (2004, March). Assessing ethical behavior: Development of a behaviorally anchored rating scale. Paper presented at the Southern Management Association meeting, Orlando, FL; Selvarajan, T. T., and Cloninger, P. A. (2007). The influence of job performance outcomes on ethical assessments. *Personnel Review, 38,* 398–412; Selvarajan, T. T., and Sardessai, R. (2010). Appraisal of ethical performance: A theoretical model. *Journal of Applied Business Research, 26,* 1–8; Whyatt, G., Wood, G., and Callaghan, M. (2012). Commitment to business ethics in UK organizations. *European Business Review*, *24*, 331–350. ■■

outcome appraisal instrument
An appraisal tool that asks managers to assess the results achieved by workers.

management by objectives (MBO)
A goal-directed approach to performance appraisal in which workers and their supervisors set goals together for the upcoming evaluation period.

Behavioral systems are not without disadvantages, however. Developing them can be very time consuming, easily taking several months. Another disadvantage is their specificity. The points, or *anchors*, on behavioral scales are clear and concrete, but they are only examples of behaviors a worker *may* exhibit. Employees may never exhibit some of these anchor behaviors, which can cause difficulty for supervisors at appraisal time. Also, significant organizational changes can invalidate behavioral scales. For example, computerization of operations can dramatically alter the behaviors that workers must exhibit to be successful. Thus, the behaviors painstakingly developed for the appraisal system could become useless or, worse, operate as a drag on organizational change and worker adaptation. To avoid this problem of obsolescence, behavioral examples could be developed that reflect general performance capabilities rather than very job-specific task performance. **Outcome appraisal instruments** ask managers to assess the results achieved by workers, such as total sales or number of products produced. The most prevalent outcome approaches are **management by objectives (MBO)**[23] and naturally occurring outcome measures. MBO is a goal-directed approach in which workers and their supervisors set goals together for the upcoming evaluation period. The rating then consists of deciding to what extent the goals have been met. With *naturally occurring outcomes*, the performance measure is not so much discussed and agreed to as it is handed to supervisors

and workers. For example, a computerized production system used to manufacture cardboard boxes may automatically generate data regarding the number of pieces produced, the amount of waste, and the defect rate.

MANAGER'S NOTEBOOK

Competencies in a Global Workplace

Global

Competencies needed to adequately perform in an organization can go beyond being able to complete tasks. Global aspects of today's organizations can mean that additional competencies are needed. For example, working with customers from various parts of the world or working with fellow employees on virtual teams from around the globe can require additional skills.

Competencies are often identified based on either an analysis of what is done on a job or based on the core mission and strategy of an organization. In the case of basing competencies on job requirements, the focus begins with what needs to be done. Based on what the employee needs to do on the job, competencies are identified. For example, for a job that requires assembly of parts, a manager or human resources representative might identify mechanical skill as a core competency area.

Competencies can also be based on the strategy of the firm. An organization might, for example, set its sights on becoming known for its customer service, even though its current emphasis has been on manufacturing. Basing competencies on the current jobs would not capture this customer-service focus. However, basing competencies on the strategy of the organization will help move it closer to reaching that customer service target. Identifying customer service behaviors as a competency that will be measured and developed as part of the performance appraisal system can make the strategic goal of competing on customer service a reality for the business.

Globalization in the business world is also a source for competencies in many organizations. Certainly, having the competencies to perform the required tasks or the competencies that have strategic value is necessary if employees are to add value to the business. Simply being able to operationally perform tasks is not the whole story—it's also how the tasks are carried out and knowing when a situation calls for different approaches. Differences in culture can be one of those key situational factors that need to be taken into account. People from different countries or backgrounds can differ in their beliefs, experiences, and values. These differences can affect a wide variety of work-related issues. In the extreme, differences in language can make communication difficult and negatively impact areas such as sales and decision making in the organization. Less dramatic, but also important, cultural differences can also impact styles of communication, priorities, and preferred styles of working. For example, people from more individualistic cultures, such as the United States, Australia, and United Kingdom, would generally be more responsive to performance feedback that focuses on their individual contributions. In contrast, people from more collectivist cultures, such as China and Singapore, would look for feedback that focuses on how their work team is doing as a whole.

In situations where jobs include working with customers or fellow employees from diverse backgrounds, cultural competency may be as important as job- or strategy-based competencies. The sources of competencies are summarized in the following illustration.
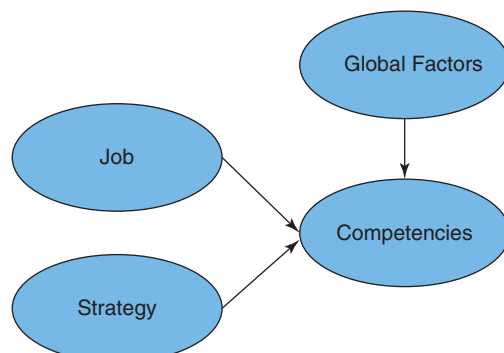
The ability to do the tasks that are part of the job and the ability to contribute to the strategic mission of the organization are core competencies. In today's global environment, awareness of cultural differences and the ability to take those differences into account can also be critical competencies.

Sources: Based on Aguines, H., Roo, H., and Gottfredson, R. K. (2012). Performance management universals: Think globally and act locally. *Business Horizons*, *55*, 385–392; Hall, M. G., and Gurdry, J. J. (2013). Literature review of cultural competence curriculum within the United States: An ethical implication in academic preparational programs. *Education in Medicine Journal*, *5*, 6–13; Hill, J. (2012, January 30). Competency model helps HR add value. *Canadian HR Reporter*, January 20–21. ■■

The outcome approach provides clear and unambiguous criteria by which worker performance can be judged. It also eliminates subjectivity and the potential for error and bias that goes along with it. In addition, outcome approaches provide increased flexibility. For example, a change in the production system may lead to a new set of outcome measures and, perhaps, a new set of performance standards. With an MBO approach, a worker's objectives can easily be adjusted at the beginning of a new evaluation period if organizational changes call for new emphases. Perhaps the most important thing is that outcomes can easily be tied to strategic objectives.[24]

Are outcome-based systems, then, the answer to the numerous problems with the subjective rating systems discussed earlier? Unfortunately, no. Although they are objective, outcome measures may give a seriously deficient and distorted view of worker performance levels. Consider an outcome measure defined as follows: "the number of units produced that are within acceptable quality limits." This performance measure may seem fair and acceptable. However, when the machine is not running properly, it can take several hours—sometimes an entire shift—to locate the problem and resolve it. If you were a manager, you would put your best workers on the problem. But consider what would happen to their performance. Your best workers could actually end up looking like the worst workers in terms of the amount of product produced.

This situation actually occurred at a manufacturer of automobile components.[25] Management concluded that supervisors' subjective performance judgments were superior to objective outcome measures. The objective numbers were deficient measures of performance and didn't accurately portray who were the better and poorer workers. Some of the best workers were assigned to difficult situations and were given responsibility to resolve problems with machinery, giving these workers poor productivity numbers. The objective data couldn't take these factors into account, but the supervisors could consider difficulty of assignments when assessing employee performance. Another potential difficulty with outcome-based performance measures is the development of a "results at any cost" mentality.[26] Using objective measures has the advantage of focusing workers' attention on certain outcomes, but this focus can have negative effects on other facets of performance. For example, an organization may use the number of units produced as a performance measure because it is fairly easy to quantify. Workers concentrating on quantity may neglect quality and follow-up service to the long-term detriment of the organization. Likewise, a "results at any price" mentality can lead workers to disregard ethics in the conduct of their job so that goals are achieved.[27] Although objective goals and other outcome measures are effective for increasing performance levels, these measures may not reflect the entire spectrum of performance.[28]

Measurement Tools: Summary and Conclusions

Our discussion so far makes it clear that there is no single best appraisal format. Figure 7.7 summarizes the strengths and weaknesses of each approach in the areas of administration, development, and legal defensibility. The choice of appraisal system should rest largely on the appraisal's primary purpose.

For example, say that your main management concern is obtaining desired results. An outcome approach would be best for this purpose. However, when outcomes are not adequately achieved, further evaluation may be needed to diagnose the problem.

Empirical evidence suggests that the type of tool does not make that much difference in the accuracy of ratings.[29] If formats do not have much impact on ratings, what does? Not

	CRITERIA		
Appraisal Format	**Administrative Use**	**Developmental Use**	**Legal Defensibility**
Absolute	0	+	0
Relative	+ +	+	−
Trait	+	−	− −
Behavior	0	+	+ +
Outcome	0	0	+
− − Very poor	− Poor	0 Unclear or mixed	+ Good + + Very good

FIGURE 7.7
Evaluation of Major Appraisal Formats

surprisingly, it's the person doing the rating. Characteristics such as the rater's intelligence, familiarity with the job,[30] and ability to separate important from unimportant information[31] influence rating quality. Thus, the person doing the rating is an important determinant of the quality of ratings.

Who does the rating is commonly referred to as the *source* of the appraisal. The most common source is the worker's direct supervisor. However, other sources can provide unique and valuable perspectives to the performance appraisal process. Self, peers, subordinates, and even customers are increasingly common sources of appraisal.

Self-review, in which workers rate themselves, allows employees input into the appraisal process and can help them gain insight into the causes of performance problems. For example, there may be a substantial difference in opinion between a supervisor and an employee regarding one area of the employee's evaluation. Communication and possibly investigation are warranted in such a case. In some situations, people can find themselves having to rely on self-appraisal as a guide to managing performance.

In a **peer review**, workers at the same level of the organization rate one another. In a **subordinate review**, workers review their supervisors.

In addition to feedback from within the organization, some companies look to customers as a valuable source of appraisal. Traditional top-down appraisal systems may encourage employees to perform only those behaviors that supervisors see or pay attention to. Thus, behaviors that are critical to customer satisfaction may be ignored.[32]

Indeed, customers are often in a better position to evaluate the quality of a company's products or services than supervisors are. Supervisors may have limited information or a limited perspective, whereas internal and external customers often have a wider focus or greater experience with more parts of the business.

The combination of peer, subordinate, and self-review and sometimes customer appraisal is termed **360° feedback**. A 360° system can offer a well-rounded picture of an employee's performance, one that is difficult to ignore or discount, because it comes from multiple perspectives. Many organizations are now employing technology to make 360° appraisal an efficient and cost-effective system.

self-review
A performance appraisal system in which workers rate themselves.

peer review
A performance appraisal system in which workers at the same level in the organization rate one another.

subordinate review
A performance appraisal system in which workers review their supervisors.

360° feedback
The combination of peer, subordinate, and self-review.

Challenges to Effective Performance Measurement

How can managers ensure accurate measurement of worker performance? The primary means is to understand the barriers that stand in the way. Managers confront at least five challenges:

- Rater errors and bias
- The influence of liking
- Organizational politics
- Whether to focus on the individual or the group
- Legal issues

Rater Errors and Bias

A **rater error** is an error in performance appraisal that reflects consistent biases on the part of the rater. One of the most prominent rater errors is *halo error*, the tendency to rate similarly across dimensions.[33]

There are at least two causes of halo error:[34] (1) A supervisor may make an overall judgment about a worker and then conform all dimensional ratings to that judgment and/or (2) a supervisor may make all ratings consistent with the worker's performance level on a dimension that is important to the supervisor. If Nancy rates Luis low on all three performance dimensions (quality of programs written, quantity of programs written, and interpersonal effectiveness) even though his performance on quality and quantity is high, then she has committed a halo error.

Another type of rater error is *restriction of range error*, which occurs when a manager restricts all of his or her ratings to a small portion of the rating scale. Three different forms of range restriction are common: *leniency errors*, or restricting ratings to the high portion of the scale; *central tendency errors*, or using only the middle points of the scale; and *severity errors*, or using only the low portion of the rating scale.

Suppose that you are an HR manager reviewing the performance ratings given by the company's supervisors to their subordinates. The question is: How can you tell how accurate these ratings are? In other words, how can you tell what types of rating error, if any, have colored the ratings? It is very difficult to tell. Let us say that a supervisor has given one of her subordinates the highest possible rating on each of five performance dimensions. There are at least three possible explanations. The employee may actually be very good on one of the dimensions and has been rated very high on all because of this (halo error). Or the rater may only use the top part of the scale (leniency error). Or the employee may be a very good all-around worker (accurate). Although sophisticated statistical techniques have been developed to investigate these possibilities, none is practical for most organizations or managers. Further, current research indicates that "errors" in ratings can sufficiently represent "true" ratee performance levels (the "accurate" possibility presented previously), such that rater errors are *not* good indicators of inaccuracy in rating.[35]

Personal bias may also cause errors in evaluation. Consciously or unconsciously, a supervisor may systematically rate certain workers lower or higher than others on the basis of race, national origin, sex, age, or other factors. Conscious bias is extremely difficult, if not impossible, to eliminate. Unconscious bias can be overcome once it is brought to the rater's attention. For example, a supervisor might be unconsciously giving higher evaluations to employees who went to his alma mater. When made aware of this leaning, however, he may correct it.

Blatant, systematic negative biases should be recognized and corrected within the organization. Negative bias became an issue at the U.S. Drug Enforcement Agency (DEA) in the early 1980s when a lawsuit, *Segar v. Civiletti*, established that African American agents were systematically rated lower than white agents and, thus, were less likely to receive promotions and choice job assignments. The DEA failed to provide supervisors with any written instructions on how to evaluate agents' performance, and virtually all the supervisors conducting the evaluations were white.[36]

A major difficulty in performance measurement is ensuring comparability in ratings across raters.[37] **Comparability** refers to the degree to which the performance ratings given by various supervisors in an organization are based on similar standards. In essence, the comparability issue is concerned with whether supervisors use the same measurement yardsticks. What one supervisor considers excellent performance, another may view as only average.

One of the most effective ways to deal with errors and bias is to develop and communicate evaluation standards via **frame-of-reference (FOR) training**,[38] which uses prepared behavioral examples of performance that a worker might exhibit. After rating the performance presented on video or paper, the trainees in a typical FOR session are told what their ratings should have been. Discussion of which worker behaviors represent each dimension (and why) follows. This process of rating, feedback, and discussion is followed by the presentation of another example. Again, rating, feedback, and discussion follow. The process continues until the appraisers develop a common frame of reference for performance evaluation. In other words, FOR training is all about calibrating everyone to the same performance standards.[39]

FOR training has consistently been found to increase the accuracy of performance ratings.[40] Perhaps even more important, it develops common evaluation standards among supervisors.

The FOR training procedure does have a number of drawbacks, though. One glaring problem is the expense, which can be prohibitive owing to the amount of time and number of people involved. Another drawback is that it can be used only with behaviorally based appraisal systems.

The Influence of Liking

Liking can cause errors in performance appraisals when raters allow their like or dislike of an individual to influence their assessment of that person's performance. Field studies have found rater liking and performance ratings to be substantially correlated.[41] Findings of a correlation might indicate that performance ratings are biased by rater liking. However, good raters may tend to like good performers and dislike poor performers.

The fundamental question, of course, is whether the relationship between liking and performance ratings is appropriate or biased.[42] It is appropriate if supervisors like good performers better than poor performers. It is biased if supervisors like or dislike employees for reasons other than their performance and then allow these feelings to contaminate their ratings. It can be difficult to determine if an influence of liking on performance ratings is appropriate or due to bias. Managers may be able to separate their liking from employee performance and, thus, eliminate the possibility that liking biases the performance ratings.[43] Nonetheless, most workers appear to believe that their supervisor's liking for them influences the performance ratings they receive.[44] The perception of bias can cause communication problems between workers and supervisors and lower supervisors' effectiveness in managing performance.

Given the potentially biasing impact of liking, it is critical that supervisors manage their emotional reactions to workers. One approach that may be helpful is to keep a performance diary of observed behavior for each worker[45] to serve as the basis for evaluation and other managerial actions. An external record of worker behaviors can dramatically reduce error and bias in ratings.

Recordkeeping should be done routinely—for example, daily or weekly. Keeping records of employee performance is a professional habit worth developing, particularly to safeguard against litigation that challenges the fairness of appraisals.[46] To prevent error and bias, the record should reflect what each worker has been doing, not opinions or inferences about the behavior. Further, the record should present a balanced and complete picture by including all performance incidents—positive, negative, or average. A good question to ask yourself is whether someone else reading the record would reach the same conclusion about the level of performance as you have.

In one field study of such recordkeeping, supervisors reported that the task took five minutes or fewer per week.[47] More important, the majority of supervisors reported that they would prefer to continue, rather than discontinue, the recording of behavioral incidents. By compiling a weekly record, they did not have to rely much on general impressions and possibly biased memories when conducting appraisals. In addition, the practice signaled workers that appraisal was not a personality contest. Finally, the diaries provided a legal justification for the appraisal process: The supervisor could cite concrete behavioral examples that justified the rating.

Two warnings are in order here. First, performance diaries are not guarantees against bias due to liking, because supervisors can be biased in the type of incidents they choose to record. However, short of intentional misrepresentation, the keeping of such records should help reduce both actual bias and the perception of bias.

Second, it is unfair to keep a secret running list of "offenses" and then suddenly unveil it to the employee when he or she commits an infraction that can't be overlooked. The message for managers is simple: If an employee's behavior warrants discussion, the discussion should take place immediately.[48]

Organizational Politics

Thus far, we have taken a *rational perspective* on appraisal.[49] In other words, we have assumed that the value of each worker's performance can be estimated. Unlike the rational approach, the *political perspective* assumes that the value of a worker's performance depends on the agenda, or goals, of the supervisor.[50] Consider the following quote from an executive with extensive experience in evaluating his subordinates:

> As a manager, I will use the review process to do what is best for my people and the division. . . . I've got a lot of leeway—call it discretion—to use this process in that manner. . . .

I've used it to get my people better raises in lean years, to kick a guy in the pants if he really needed it, to pick up a guy when he was down or even to tell him that he was no longer welcome here. . . . I believe that most of us here at _____ operate this way regarding appraisals.[51]

Let's examine how the rational and the political process differ on various facets of the performance appraisal process.

- The *goal* of appraisal from a rational perspective is accuracy. The goal of appraisal from a political perspective is *utility*, the maximization of benefits over costs given the context and agenda. The value of performance is relative to the political context and the supervisor's goals. For example, a supervisor may give a very poor rating to a worker who seems uncommitted in the hopes of shocking that worker into an acceptable level of performance.
- The rational approach sees supervisors and workers largely as passive agents in the rating process: Supervisors simply notice and evaluate workers' performance. Thus, their accuracy is critical. In contrast, the political approach views both supervisors and workers as motivated participants in the measurement process. Workers actively try to influence their evaluations, either directly or indirectly.

The various persuasion techniques that workers use to alter the supervisor's evaluation are direct forms of influence. For example, just as a student tells a professor that he needs a higher grade to keep his scholarship; a worker might tell her boss that she needs an above-average rating to get a promotion. Indirect influences are behaviors by which workers influence how supervisors notice, interpret, and recall events,[52] ranging from flattery to excuses to apologies. The following quote from a consulting group manager demonstrates how employees in the organization used impression-management tactics:[53]

Phone calls from customers praising a consultant's performance were rarely received except during the month before appraisals. These phone calls were often instigated by the consultants to highlight their importance.

- From a rational perspective, the *focus* of appraisal is measurement. Supervisors are flesh-and-blood instruments[54] who must be carefully trained to measure performance meaningfully. The evaluations are used in decisions about pay raises, promotions, training, and termination. The political perspective sees the focus of appraisal as management, not accurate measurement. Appraisal is not so much a test that should be fair and accurate as it is a management tool with which to reward or discipline workers.
- *Assessment criteria*, the standards used to judge worker performance, also differ between the rational and political approaches. The rational approach holds that a worker's performance should be defined as clearly as possible. In the political approach, the definition of what is being assessed is left ambiguous so that it can be bent to the current agenda. Thus, ambiguity ensures the necessary flexibility in the appraisal system.
- Finally, the *decision process* differs between the rational and political approaches. In the rational approach, supervisors make dimensional and overall assessments based on specific behaviors they have observed. For instance, Nancy would rate each programmer on each dimension and then combine all the dimensional ratings into an overall evaluation. In the political approach, appropriate assessment of specifics follows the overall assessment. Thus, Nancy would first decide who in her group should get the highest rating (for whatever reason) and then justify that overall assessment by making appropriate dimensional ratings.

Appraisal in most organizations seems to be a political rather than a rational exercise.[55] It appears to be used as a tool for serving various and changing agendas; accurate assessment is seldom the real goal. But should the rational approach be abandoned because appraisal is typically political? No! Politically driven assessment may be common, but that does not make it the best approach to assessment.

Accuracy may not be the main goal in organizations, but it is the theoretical ideal behind appraisal.[56] Accurate assessment is necessary if feedback, development, and HR decisions are to be based on employees' actual performance levels. Basing feedback and development on managerial

agendas is an unjust treatment of human resources. Careers have been ruined, self-esteem lost, and productivity degraded because of the political use of appraisal. In addition to these negative effects, politically driven appraisal is also associated with increased intention of workers to quit their jobs.[57] Such costs are difficult to assess and to ascribe clearly to politics. Nonetheless, they are very real and important for workers.

Individual or Group Focus

If the organization has a team structure, managers need to consider team performance appraisal at two levels: (1) individual contribution to team performance and (2) the performance of the team as a unit.[58] To properly assess individual contributions to team performance, managers and employees must have clear performance criteria relating to traits, behaviors, or outcomes. Behavioral measures are typically most appropriate for assessing individual contributions to team performance because they are more easily observed and understood by team members and others who interact with the team.

The individual contribution measures could be developed with the input of team members. However, a good starting point is the set of competencies for individual contribution to team performance identified in recent research.[59] The following example describes the use of these competencies at Pfizer, a large pharmaceutical company. Peers assess team members online in the finance area of Pfizer.[60]

> The assessment is based on a four-dimensional model of collaboration, communication, self-management, and decision making. Feedback reports are used as a discussion point to improve the functioning of teams. Over time, there has been significant improvement in the average level of ratings given to team members.

Whatever measures are already in existence or are developed for measuring team performance, here are some points to keep in mind.

First, the measurement system needs to be balanced. For example, although financial objectives may be apparent and easy to develop as criteria, these kinds of objectives may not reflect the concerns of customers.

Another point to keep in mind is that outcome measures may need to be complemented with measures of process. For example, achieving a result may be important but so, too, are interpersonal relations. With a balance of measures, it should be clear to team members that achieving outcomes by running roughshod over peers and customers is not acceptable performance.

Assessing the performance of a team as a unit means that managers must measure performance at the team, not individual, level. Dimensions for measuring team performance may be set at higher levels in the organization; if this is not the case, then team members can be great sources for identifying and developing team-level criteria. Going to team members to help develop criteria encourages their participation in selecting measures that they feel they can directly influence.

Overall, given the individual focus in the United States, it is recommended that individual performance still be assessed, even with a team environment.[61] As with individual assessment, there is no consensus as to what type of appraisal instrument should be used for team evaluations. The best approach may include internal and external customers making judgments across both behavioral and outcome criteria.[62]

Legal Issues

The major legal requirements for performance appraisal systems are set forth in Title VII of the Civil Rights Act of 1964, which prohibits discrimination in all terms and conditions of employment (see Chapter 3). This means that performance appraisal must be free of discrimination at both the individual and group levels. Some courts have also held that performance appraisal systems should meet the same *validity* standards as selection tests (see Chapter 5). As with selection tests, *adverse impact* may occur in performance evaluation when members of one group are promoted at a higher rate than members of another group based on their appraisals.

Probably the most significant court test of discrimination in performance appraisal is *Brito v. Zia Company*, a 1973 U.S. Supreme Court case. In essence, the Court determined that appraisal is legally a test and must, therefore, meet all the legal requirements regarding tests in organizations.

In practice, however, court decisions since *Brito v. Zia* have employed less stringent criteria when assessing charges of discrimination in appraisal.

Appraisal-related court cases since *Brito v. Zia* suggest that the courts do not wish to rule on whether appraisal systems conform to all accepted professional standards (such as whether employees were allowed to participate in developing the system).[63] Rather, they simply want to determine whether discrimination occurred. The essential question is whether individuals who have similar employment situations are treated differently.

The courts look favorably on a system in which a supervisor's manager reviews appraisals to safeguard against the occurrence of individual bias. In addition, the courts take a positive view of feedback and employee counseling to help improve performance problems. An analysis of 295 court cases involving performance appraisal found judges' decisions to be favorably influenced by the following additional factors:[64]

- Use of job analysis
- Providing written instructions
- Allowing employees to review appraisal results
- Agreement among multiple raters (if more than one rater was used)
- The presence of rater training

In the extreme, a negative performance appraisal may lead to the dismissal of an employee. Management's right to fire an employee is rooted in a legal doctrine called *employment-at-will*. Employment-at-will is a very complex legal issue that depends on laws and rulings varying from state to state. We discuss employment-at-will more fully in Chapter 14. Here, the major point is that managers can protect themselves from lawsuits by following good professional practice. If they provide subordinates with honest, accurate, and fair feedback about their performance, and then make decisions consistent with that feedback, they will have nothing to fear from ongoing questions about employment-at-will.

Managing Performance

The effective management of human performance in organizations requires more than formal reporting and annual ratings. To be useful to the organization, performance appraisal has to be more than measurement. As illustrated in the Manager's Notebook, "From Performance Appraisal to Performance Management," technology can be used to integrate performance measures and feedback into an everyday system that can improve performance. However, even with the best technology, performance management requires the involvement of managers. People want and expect to hear how they are doing and discuss plans to move forward in a face-to-face meeting with their manager. Managers may also need to be proactive and deal with performance problems and be involved in finding solutions. In this section, we discuss the third and final component of performance appraisal, performance management.

MANAGER'S NOTEBOOK

Technology/Social Media

From Performance Appraisal to Performance Management

A primary purpose for performance appraisal is to improve performance. Increasingly, companies are using technology to help make sure that the appraisal process leads to performance improvement. Nearly 75 percent of companies utilize web-based performance management systems. Although technology won't necessarily solve all problems with performance appraisal, it can simplify the task of evaluating performance and facilitate getting feedback and improvement suggestions to workers.

Performance appraisal software, such as Halogen Software, allows employees and managers to electronically access performance information. For example, competencies and goals might be identified by employees. Managers can then check to assure that the employee has selected targets that are linked to the strategic goal of the organization and then give electronic approval.

The electronic platform can then be used by the employees as a place to log their activities and accomplishments, and managers or other sources, such as peers and subordinates, can enter their performance evaluations.

Technology can be used to provide suggestions to the employee for performance improvement, such as online training. Some companies, such as Klick Health Systems in Toronto, Canada, have developed this internal communication and workflow management system to the point that it provides real-time performance support. The system, for example, can give coaching tips and suggest short instruction videos when someone is going to do a task they haven't done before.

Social media is also being used to allow peer-based feedback and recognition of performance. For example, Kudos is a company that provides software to businesses that is similar to Facebook and allows peers to write on each other's walls and give feedback on performance. The software also allows people to award points for particularly positive contributions made by a fellow employee. The points can later be turned in by the recipient for prizes such as gift cards and paid time off. This system provides a means for people to quickly provide feedback and recognize contributions that managers may not always be aware of.

Web-based technology can be an important tool to help improve employee performance. It may not replace human judgment and face-to-face performance meetings, but technology can be a supplement that shifts annual appraisal into performance management that is an everyday part of work.

Sources: Based on Dobson, S. (2013). Upgrading talent management processes leads to fully integrated approach, efficiencies. *Canadian HR Reporter*, *26*, 20; Lawler, E. E., Benson, G. S., and McDermott, M. (2012). What makes performance appraisal effective? *Compensation & Benefits Review*, *44*, 191–200; Lewis, T. (2012). The talent score. *Medical Marketing and Media*, *47*, 58–60, 62; Zielinski, D. (2012). Giving praise. *HR Magazine*, *57*, 77–78, 80. ■■

The Appraisal Interview

Upon completing the performance rating, the supervisor usually conducts an interview with the worker to provide feedback—one of the most important parts of the appraisal process. Many managers dread the performance interview, particularly if they do not have good news to deliver. The HR department or an external group, such as a management association or consulting group, can help managers by offering training in conducting interviews, providing role-play practice, and offering advice on thorny issues. Figure 7.8 summarizes several communication "microskills" that managers need to effectively conduct an appraisal interview.

Performance reviews are sometimes separated into two sessions: one to discuss performance, the other to discuss salary.[65] The logic behind this system was based on two assumptions. First, managers cannot simultaneously be both a coach and a judge. Thus, the manager was expected to play the coach role during the performance development meeting and the judge role during the salary meeting. Second, if performance and salary discussions were combined, employees probably would not listen to their performance feedback because their interest would be focused on salary decisions.

However, research has found that discussion of salary in an appraisal session has a *positive* impact on how employees perceive the appraisal's usefulness.[66] Managers who have to justify a low salary increase will probably take time to carefully support their performance assessments, and this more detailed feedback should make the appraisal session more valuable to the employee. Second, feedback, goal setting, and making action plans can become a hollow and meaningless exercise when salary implications are divorced from the session.

Overall, it appears that the best management practice is to combine development and salary discussion into one performance review. Informal performance management throughout the appraisal period requires a combination of judgment and coaching.

It makes sense that the appraisal interviews focus on gaps in performance and provide suggestions to workers for improvement. However, feedback that focuses only on shortcomings can be demoralizing rather than motivating. It can be useful to focus feedback on what workers do well so that they hear positives as well as any necessary negatives. The Manager's Notebook, "Accentuate the Positive," explores a strength-based approach to providing performance feedback.

Face-to-face communication during the performance appraisal interview can be more effective if managers use "microskills"—communication factors that must be present for effective interpersonal communication. Several examples follow:

Skills	Benefit	Description	Example
Nonverbal Attending	Suggests interest and active listening.	Rater sits with a slight forward, comfortable lean of the upper body, maintains eye contact, and speaks in a steady and soothing voice.	While the ratee is speaking, the rater looks at the person and gently nods head to signal interest.
Open and Closed Questions	Appropriate use of open and closed questions can ensure an effective flow of communication during an interview.	Open questions encourage information sharing and are most appropriate early in an interview or in complex, ambiguous situations.	Open questions start with words like "Could," "Would," "How," "What," or "Why."
		Closed questions evoke short responses and are useful for focusing and clarifying.	Closed questions start with words like "Did," "Is," or "Are."
Paraphrasing	Paraphrasing can clarify and convey to the ratee that you are listening actively.	A paraphrase is a concise statement in your own words of what someone just said. It should be factual and nonjudgmental.	You might begin by saying "If I have this right . . ." or "What you're saying is . . ." and end with "Is that correct?" or "That's what you are saying?"
Reflection of Feeling	Shows that you are sensitive to and trying to understand the emotional dimension of the workplace. The empathy and sensitivity of reflection can open up communication and allow task-related issues to be addressed more meaningfully.	Similar to paraphrase, a reflection of feeling is a factual statement of the emotions you sense the other person is feeling. Be cautious about using this technique insincerely or with those who need professional help.	Start by saying something like "It sounds like you're feeling . . ." End as you would a paraphrase ("Is that right?").
Cultural Sensitivity	Communication is more effective when you are sensitive to the possible influence of cultural differences.	Pay attention to cultural differences that may influence how another person communicates and how you might communicate with others.	When dealing with employees from a culture that is highly formal, avoid addressing them in the workplace by their first names. Doing so may signal disrespect.

FIGURE 7.8

Communication Skills for the Appraisal Interview

MANAGER'S NOTEBOOK

Accentuate the Positive

Customer-Driven HR

The traditional approach to providing performance feedback focuses on gaps in performance, those areas where an employee's performance is below expected levels. Those gaps are deficiencies that need to be resolved in order for performance to improve. Taking this traditional approach in a performance review session seems rational: identify the employee's weaknesses and discuss how to improve. From the employee's perspective, however, such a review will likely be a negative experience that consists of criticism and lowers motivation. Given this potential response from workers, it may be no surprise to learn that performance feedback, although sometimes effective, can also lead to decreased performance.

A promising approach meant to improve the positive impact of performance feedback is to focus on the strengths that an employee brings to his or her job. Rather than focusing on deficiencies to eliminate weaknesses, the idea is to recognize strengths and to build on how the worker contributes to the organization. The focus on strengths is, of course, better received by workers than negative feedback. Strengths-based feedback has been found to be motivating to workers and to improve productivity.

To the extent that people have natural strengths and weaknesses, the strengths-based approach focuses on building on natural talents rather than on trying to change someone's weak areas. Trying to change a naturally weak area can be difficult and frustrating for you, as a manager, as well as for the employee. Recognizing someone's strengths can make performance feedback a more positive and motivating experience.

Sources: Based on Aguinas, H., Gottfredson, R. K., and Joo, H. (2012). Delivering effective performance feedback: The strengths-based approach. *Business Horizons*, *55*, 105–11; Cardy, R. L., and Leonard, B. (2011). *Performance management: Concepts, skills, and exercises* (2nd ed.). Armonk, NY: M. E. Sharpe, Inc.; De Nisi, A. S., and Kluger, A. N. (2000). Feedback effectiveness: Can 360-degree appraisals be improved? *Academy of Management Executive*, *14*, 129–139. ■■

Performance Improvement

Because formal appraisal interviews typically are conducted only once a year,[67] they may not always have substantial and lasting impact on worker performance.[68] Much more important than the annual interview is informal day-to-day performance management. Supervisors who manage performance effectively generally share three characteristics:

- Explore the causes of performance problems.
- Develop an action plan and empower workers to reach a solution.
- Direct communication at performance and provide effective feedback.[69]

Each of these characteristics is critical to achieving improved and sustained performance levels.

Identifying the Causes of Performance Problems

Identifying the causes of performance problems may sound like an easy task, but it is often quite challenging. Performance can be the result of many factors, some of which are beyond the worker's control. In most work situations, though, supervisors tend to blame the worker when they observe poor performance, whereas workers tend to blame external factors.[70] This tendency is called *actor/observer bias.*[71] The experience of baseball teams provides an analogy. When a team is losing, the players (workers/actors) point to external causes such as injuries, a tough road schedule, or bad weather. The manager (supervisor/observer) blames the players for sloppy execution in the field. And the team's owner and the sportswriters (top management/higher observers) hold the manager responsible for the team's poor performance.

It is important that managers determine the causes of performance deficiencies accurately for three reasons. First, determination of causes can influence how performance is evaluated. For example, a manager is likely to evaluate an episode of poor performance very differently if he thinks it was due to low effort than if he thinks it was due to poor materials. Second,

causal determination can be an unspoken and underlying source of conflict between supervisors and their workers. Supervisors often act on what they believe are the causes of performance problems. This is only rational. But when the supervisor's perception significantly differs from the worker's, the difference can cause tension. Third, the cause affects the type of remedy selected; what is thought to be the cause of a performance problem determines what is done about it.

How can the process of determining the causes of performance problems be improved? A starting point is to consider the possible causes consciously and systematically. Traditionally, researchers believed that two primary factors, ability and motivation, determined performance.[72] A major problem with this view is that situational factors external to the worker, such as clarity of the task, quality of materials, and degree of management support, also affect worker performance.[73]

A more inclusive version of the causes of performance embraces three factors: ability, motivation, and situational factors. The *ability* factor reflects the worker's talents and skills, including characteristics such as intelligence, interpersonal skills, and job knowledge. *Motivation* can be affected by a number of external factors (such as rewards and punishments), but is ultimately an internal decision: It is up to the worker to determine how much effort to exert on any given task. **Situational factors** (or **system factors**) include a wide array of organizational characteristics that can positively or negatively influence performance. System constraints include poor quality of materials, poor supervision, and other factors listed in Figure 7.9.[74]

Performance depends on all three factors. The presence of just one cause is not sufficient for high performance to occur; however, the absence or low value of one factor can result in poor performance. For example, making a strong effort will not result in high performance if the worker has neither the necessary job skills nor adequate support in the workplace. But if the worker doesn't put forth any effort, low performance is inevitable, no matter how good that worker's skills and how much support is provided.

In determining the causes of performance problems, managers should carefully consider situational factors. The factors in Figure 7.9 are only a starting point; they are too generic for use in some situations. Involving workers in generating examples of situational constraints can send a signal that managers are serious about considering workers' input. The supervisor and worker (or work team) can go over the list together to isolate the causes of any performance difficulties.

After the supervisor and the worker have discussed and agreed on the causes of performance problems, the next step is to take action to control them. Depending on whether the cause of performance problems is related to ability, effort, or situational characteristics, very different tactics are called for, as Figure 7.10 makes clear. Leaping to a remedy like training (a common reaction) will not fix a problem that is caused by poor effort and will be a waste of the organization's resources.[75]

situational factors or system factors

A wide array of organizational characteristics that can positively or negatively influence performance.

FIGURE 7.9

Situational (System) Factors to Consider in Determining the Causes of Performance Problems

Situational factors
- Poor coordination of work activities among workers
- Inadequate information or instructions needed to perform a job
- Low-quality materials
- Lack of necessary equipment
- Inability to obtain raw materials, parts, or supplies
- Inadequate financial resources
- Poor supervision
- Uncooperative coworkers and/or poor relations among people
- Inadequate training
- Insufficient time to produce the quantity or quality of work required
- A poor work environment (for example, cold, hot, noisy, frequent interruptions)
- Equipment breakdown

Cause	Questions to Ask	Possible Remedies
Ability	Has the worker ever been able to perform adequately? Can others perform the job adequately, but not this worker?	Train Transfer Redesign job Terminate
Effort	Is the worker's performance level declining? Is performance lower on all tasks?	Clarify linkage between performance and rewards Recognize good performance
Situation	Is performance erratic? Are performance problems showing up in all workers, even those who have adequate supplies and equipment?	Streamline work process Clarify needs to suppliers Change suppliers Eliminate conflicting signals or demands Provide adequate tools

FIGURE 7.10

How to Determine and Remedy Performance Shortfalls

Sources: Based on Schermerhorn, J. R., Gardner, W. I., and Martin, T. N. (1990). Management dialogues: Turning on the marginal performer. *Organizational Dynamics, 18*, 47–59; Rummler, G. A. (1972). Human performance problems and their solutions. *Human Resource Management, 19*, 2–10; Cardy, R. L., and Leonard, B. (2011). *Performance management: Concepts, skills, and exercises* (2nd ed.). Armonk, NY: M. E. Sharpe, Inc.

Developing an Action Plan and Empowering Workers to Reach a Solution

Effective performance management requires empowering workers to improve their performance. As in a sports team, the supervisor-as-coach assists workers in interpreting and reacting to the work situation. The role is not necessarily one of mentor, friend, or counselor. Rather, it is that of enabler. The supervisor-as-coach works to ensure that the necessary resources are available to workers and helps employees identify an action plan to solve performance problems. For example, the supervisor may suggest ways for the worker to eliminate, avoid, or get around situational obstacles to performance. In addition to creating a supportive, empowered work environment, coach/supervisors clarify performance expectations; provide immediate feedback; and strive to eliminate unnecessary rules, procedures, and other constraints.[76]

Directing Communication at Performance

Communication between supervisor and worker is critical to effective performance management. Exactly what is communicated and how it is communicated can determine whether performance improves or declines. Although there is merit to providing positive feedback regarding a worker's strengths (see the Manager's Notebook, "Accentuate the Positive"), performance problems can't be ignored.

Performance discussions can be difficult for managers, and a worker may disagree that there is a performance issue and become emotional. For example, say that a manager tells an employee that her late arrivals and long lunches are affecting the performance of the office. Instead of understanding and promising to improve, the employee denies that there is a problem, claims that the manager is unfairly focusing on her small errors, and begins yelling at the manager. Handling this type of situation professionally is a key competency to being an effective manager. Unfortunately, these types of situations will occur during your management career.

A key question is how you will handle these situations. Following some simple steps can help keep the communication effective and focused on performance.[77] First, define the performance problem. If performance is to improve, understanding the performance issue is a necessary starting point. Second, make it a discussion. Performance improvement will be more likely to occur if there is a dialogue, rather than a one-sided lecture. Third, be plain and direct in communicating the performance issue. Although it might make you more comfortable to be vague and dance around the issue, focusing on the performance issue will move the discussion toward a clear plan of action. Last, and most important, maintain your composure. If you become emotional and say things out of anger or frustration, you will likely regret them later.

It is important that communication regarding performance be directed at the performance itself and not at the person. While it might be tempting to summarize a worker's behavior and tell the employee that she or he is, for example, unreliable or adversarial, these conclusions about person characteristics are not likely to be helpful. Even if these conclusions about a worker are correct, they have to do with personal characteristics and are not likely to be helpful in improving performance. The conclusions can be seen as personal attacks and can cause an employee to become defensive. Further, conclusions about personal characteristics may address aspects of someone's nature that can be difficult to change. For instance, it may be difficult for someone to become a more reliable person. However, it may be more doable for that person to hear feedback about the importance of arriving on time and meeting delivery targets and to control these work-related behaviors. Communication focused on performance, rather than the person, can be the more effective route to improving performance.

Summary and Conclusions

What Is Performance Appraisal?

Performance appraisal is the identification, measurement, and management of human performance in organizations. Appraisal should be a future-oriented activity that provides workers with useful feedback and coaches them to higher levels of performance. Appraisal can be used administratively or developmentally.

Identifying Performance Dimensions

Performance appraisal begins by identifying the dimensions of performance that determine effective job performance. Job analysis is the mechanism by which performance dimensions should be identified.

Measuring Performance

The methods used to measure employee performance can be classified in two ways: (1) whether the type of judgment called for is relative or absolute, and (2) whether the measure focuses on traits, behavior, or outcomes. Each measure has its advantages and disadvantages. But it is clear that the overall quality of ratings is much more a function of the rater's motivation and ability than of the type of instrument chosen.

Managers face five challenges in measuring performance: rater errors and bias, the influence of liking, organizational politics, whether to focus on the individual or the group, and legal issues (including discrimination and employment at will).

Managing Performance

The primary goal of any appraisal system is performance management. To manage and improve their employees' performance, managers must explore the causes of performance problems, develop action plans, empower workers to find solutions, and use performance-focused communication.

Key Terms

absolute judgment,   236
behavioral appraisal instrument,   238
comparability,   244
competencies,   235
competency model,   235
dimension,   234
frame-of-reference (FOR) training,   244

management by objectives
   (MBO),   240
outcome appraisal instrument,   240
peer review,   243
performance appraisal,   233
rater error,   244
relative judgment,   236

self-review,   243
situational factors or system
   factors,   252
subordinate review,   243
360° feedback,   243
trait appraisal instrument,   238

✪ Watch It!

Hautelook: Appraising. If your instructor has assigned this, go to **mymanagementlab.com** to watch a video case and answer questions.

Discussion Questions

7-1. Organizations usually conduct appraisals for administrative and developmental purposes. Performance appraisals are used administratively whenever they are the basis for a decision about the employee's work conditions, including promotions, termination, and rewards. How would you go about framing a compelling argument for a company to introduce a formal version of performance appraisal? What is it about the process that could be beneficial to the organization?

✪ 7-2. It seems preferable to use objective performance data (such as productivity figures), when available, rather than subjective supervisory ratings to assess employees. Why might objective data be less effective performance measures than subjective ratings?

✪ 7-3. How important are rating formats to the quality of performance ratings? What is the most important influence on rating quality?

7-4. What is comparability? How can it be maximized in performance appraisal?

7-5. "Occasionally an employee comes along who needs to be reminded who the boss is, and the appraisal is an appropriate place for such a reminder." Would the manager quoted here be likely to use a rational or a political approach to appraisal? Contrast the rational and political approaches. To what extent is it possible to separate the two?

7-6. Do you think performance appraisal should be done? Is it worth the cost?

7-7. What criteria do you think should be used to measure team performance? What sources should be used for the appraisal? Should individual performance still be measured? Why or why not?

7-8. You own a small company and your income relies on four key sales personnel who have, for the fifth year in succession, increased sales by over 12 percent. Margins are the same as last year, but profit has fallen by 5 percent so you need to look elsewhere for the reasons behind the profit fall. Normally, you would reward all employees with a blanket increase in salaries on a percentage basis of 50 percent of the increase in profit. Following the profit results, this would mean a salary reduction of 2.5 percent. What situational factors do you need to look at in this year's appraisals before considering this?

7-9. Would you design a performance appraisal system based on behaviors, outcomes, or both? Why would you design it in this way?

✪ 7-10. Your company is considering using relative ratings for its performance appraisal system. Are there potential problems with a relative system? What type of rating system, relative or absolute, would you recommend and why?

MyManagementLab®

If your instructor has assigned this, go to **mymanagementlab.com** for the following Assisted-graded writing questions:

7-11. Your workers complain that they don't like the performance appraisal system since it seems like all they get is negative evaluations and feedback. What approach to performance feedback could reduce this problem? Describe how this approach would differ from the traditional approach of focusing on weaknesses.

7-12. Some people have argued that performance appraisal should not be done. Take the position that performance appraisal is useful and should be done. Describe three benefits of conducting performance appraisal.

7-13. A goal of performance management is to improve performance. Describe the factors that should be considered when diagnosing and improving performance.

⚖️ You Manage It! 1: Ethics/Social Responsibility

Rank and Yank: Legitimate Performance Improvement Tool or Ruthless and Unethical Management?

Forced ranking is a performance appraisal system popularized by Jack Welch when he was CEO of General Electric. It is a system that has been given the derogatory label of "rank and yank" by its critics. The intent of the forced-ranking system is to improve the performance level of an operation by getting rid of the bottom 10 percent of performers and hiring replacements who will perform at a high level. Ranking judgments can be made in a variety of ways. For example, a forced distribution can pre-assign a set percentage of employees that must be placed into categories such as "most effective," "average," and "needs improvement." Alternatively, a simple ranking of workers from best to worst can be used. Top performers may be rewarded and offered promotion or training. Low performers may be given a warning or terminated.

Forced ranking has been employed by a number of companies, but some legal challenges have been made. For example, Microsoft successfully defended several discrimination suits challenging its use of a forced-ranking system. Conoco used a forced-ranking system and reached an out-of-court settlement in a discrimination lawsuit. Ford Motor Company, Goodyear, and Sprint have all faced lawsuits relating to forced ranking systems.

The advantage of using the forced ranking approach is to regularly trim the lowest performers and thereby regularly raise the bar for performance and create a team of top performers. Unfortunately, the practice of forced ranking can have important disadvantages. The use of forced ranking can be detrimental to a collaborative culture, creating instead competitiveness among workers. If the bottom 10 percent of workers are terminated each year, the forced ranking system can also produce a lack of continuity in work teams. You could, for example, just be learning to work well as a team when some of them are replaced due to forced ranking. The pressure of forced ranking may also influence workers to focus on performance to the extent that ethical corners might be cut.

Critical Thinking Questions

7-14. Do you think forced ranking is a good performance management system? Why or why not?

7-15. Part of the forced-ranking label reflects the intent to force distinctions among worker performance levels. In an absolute-rating system, everyone could be rated "above average." Does this difference between the absolute- and relative-rating approaches mean that the absolute performance judgments are wrong? Explain.

7-16. As a manager, would you prefer to rely on an absolute performance rating system or a relative system, such as forced ranking? Why?

7-17. Can you devise an absolute-rating system that would guarantee differentiation among workers? Why or why not?

Team Exercise

7-18. As a team, address the effectiveness of the forced-ranking approach for improving the level of performance in an organization.

Address the following issues:
a. What is the logic of forced ranking? That is, on paper, why might you expect forced ranking to improve the performance level of your group?
b. The logic behind the forced-ranking approach is that performance in a workplace is normally distributed. Do you think this is an accurate assumption? Why or why not?
c. If performance in a workplace is not normally distributed (for example, maybe your organization has outstanding hiring and training programs that positively impact performance), do you think a forced-ranking approach would still improve the average level of performance in the organization? Explain.

Share your judgments on these issues with the rest of the class.

Experiential Exercise: Team

7-19. Proponents of forced ranking see the system as a means for a quick exchange of personnel in a way that lifts the average performance level of the organization. Critics see the approach as possibly damaging the culture and camaraderie in an organization and would prefer to keep people and develop their skills.

Select representatives as members of a pro or con forced-ranking team. Each team identifies its assumptions about how performance is distributed in the workplace. They will then offer reasons why they are for or against forced ranking. Some of the issues to be addressed include:
a. What is the expected impact of forced ranking on performance in an organization?
b. Turnover has costs associated with it (see Chapters 5 and 6). How would these costs affect your position?
c. What would be the impact of forced ranking on the organization's culture? What about the culture without the system?
d. Is it better to replace a poor performer or to try to develop and improve that worker?
    In a debate-style format, each team makes its presentation of position and rationale and has the opportunity to question and rebut and rejoin the other team. The instructor moderates this process. At the end of the debate, the instructor leads the class in identifying the key reasons for and against the use of forced ranking. Is there a clear consensus in the class for or against this system?

Sources: Based on Amalfe, C. A., and Steiner, E. G. (2005). Forced ranking systems: Yesterday's legal target. *New Jersey Law Journal*; Hill, A. (2012, July 16). Forced ranking is a relic of an HR tool. *Financial Times*; Marchetti, M. (2005). Letting go of low performers. *Sales and Marketing Management, 157,* 6; Rajeev, P. N. (2012). Impact of forced ranking evaluation of performance on ethical choices: A study of proximal and distal mediators. *International Journal of Business Governance and Ethics*, *7*, 37–62; Scullen, S. E., Bergey, P. K., and Aiman-Smith, L. (2005). Forced distribution rating systems and the improvement of workforce potential: A baseline simulation. *Personnel Psychology*, *58*, 1–32.

🌐 You Manage It! 2: Global

Competencies in a Global Environment

As discussed in the Manager's Notebook, "Competencies in a Global Workplace," competencies can come from a variety of sources, including the job, the strategic direction of the organization, and the global nature of the business. Whatever the source, once competencies are identified, they typically become the key aspects measured in a performance appraisal system. For example, a competency for a salesperson's job would likely include customer service. The formal performance appraisal for this job might then include a customer service dimension and include, for example, behavioral standards, such as "salesperson greets customer" and "salesperson helps resolve customer complaints," on which salespeople are evaluated. In short, competencies become the criteria by which performance is measured.

Competencies should reflect what workers do on the job. For example, a job might include dealing with customers, putting together customer products, and expediting orders. Competencies associated with this type of job might include interpersonal skills, negotiation ability, problem solving, and organization skills. These competencies could then be illustrated and measured with observable reflections of these competencies, such as behaviors.

Competencies can reflect more than the core tasks that make up a job. As presented in the Manager's Notebook, "Competencies in a Global Workplace," competencies can be based on the strategic direction of an organization. For example, a manufacturing organization might commit to a strategy of customer service in order to have a competitive advantage in its industry. Engaging in customer service isn't how the company currently operates, and it isn't reflected in its current manufacturing jobs. However, customer service is a strategic target for the company. If it is going to reach this strategic target, customer service needs to be included as a competency and become part of how jobs are performed in the company.

Competencies can also reflect the global nature of business. The ability to recognize and deal with diverse values and cultures can be critical in today's global environment. Global businesses routinely confront diversity in culture and language. However, increases in minority and immigrant populations are forcing local organizations to adapt to culturally and linguistically diverse groups. Cultural competency is increasingly being recognized as an important capacity. Cultural competency means that you not only have knowledge of a culture, but that you also have the skills needed to work with that particular ethnic group and the attitude to do so effectively.

Many organizations would benefit from improvements in their cultural competency. Teamwork and productivity suffer if a diverse workforce lacks cultural competency. Further, a lack of cultural competency could negatively affect service and sales to customers.

Critical Thinking Questions

7-20. Is there a distinction between diversity and cultural competency, or are they the same thing? Explain.

7-21. Of the three sources of competencies discussed—job, strategy, and global factors—what is their relative importance?

That is, how would you weigh each of the three categories of competencies? For example, should they all be weighted the same, or should the ability to perform the current tasks take precedence over strategically important competencies or cultural competency?

7-22. Do you think that cultural competency should be included as a core competency in most businesses? Why or why not?

Team Exercise

7-23. Join your team members to work on operationalizing cultural-competency criteria.
   a. Specifically, start by identifying the dimensions of cultural competency. For example, if you think of cultural competency as a general duty or area of responsibility, what aspects make up that area? Perhaps communication is one dimension. In other words, part of cultural competency may be the capability to understand someone's language and to be able to effectively express yourself in that language. Understanding of a culture could be another aspect. Identify as many dimensions as you think are needed to capture the general concept of cultural competency.
   b. Refer to this chapter's Appendix detailing the critical-incident technique. Using the Appendix as a guide, generate behavioral examples for each of the cultural-competency dimensions your team identified (see step 2 in the Appendix). These "critical incidents" should describe both good and poor levels of each cultural competency dimension.
   Share your team's dimensions and behavioral examples with the rest of the class.
   c. Can a common or core set of dimensions be identified? As a class, address the issue of the utility of these dimensions and the behavioral incidents. Specifically, what could they be used for?

Experiential Exercise: Team

7-24. Select representatives as members of a pro or con cultural-competency team. Each team identifies a rationale for their position. This rationale can include, but should not be limited by, the following aspects:
   a. What is the impetus behind the push for cultural competency?
   b. What role does cultural competency have in business?
   c. If it is a competency, should it be measured? How?
   d. What about the bottom line? Can a positive return on an investment be expected?
   In a debate-style format, each team makes its presentation of position and rationale and has the opportunity to question and rebut and rejoin the other team. The instructor moderates this process. At the end of the debate, the instructor leads the class in identifying the key reasons for and against the use of cultural-competency in performance appraisal. Is there a clear consensus in the class for or against this performance measure?

📱 You Manage It! 3: Technology/Social Media

Going Digital with Appraisal

Many managers avoid performance appraisals because the task makes them uncomfortable. Some managers may not do a very good job of appraising the performance levels of their workers. A growing number of companies are now offering technology that promises to solve these difficulties.

A number of software programs can make the rating task a paperless process. Further, some performance review software even automates improvement suggestions. As presented in the chapter-opening illustration involving George using technology to appraise the performance of Estelle, clicking a score on a performance dimension could automatically generate the text of a performance review. A below-average score could generate text that identifies the performance as deficient and recommends steps that the employee should take to improve performance.

Depending on the vendor, electronic performance review systems can use generic goals and competencies as evaluation criteria or they can be customized so that organizationally specific goals and competencies are used. The software can report the extent to which an employee has contributed to the goals of the organization.

Critical Thinking Questions

7-25. Place yourself in the position of an employee receiving a performance review. Would it matter to you whether your performance review, the narrative description of your performance levels, and suggestions for improvement were generated by computer or by your manager? Why?

7-26. From the perspective of a manager, what advantages might be associated with taking an electronic approach to reviewing the workers' performance levels? List these advantages into two categories: rational and political. The rational category is for advantages such as the speed with which the appraisal task could be completed. The political category is for advantages such as being able to blame the computer software for a poor performance review that a worker is not happy with.

7-27. What rational and political disadvantages are associated with the use of electronic performance review?

7-28. Given your answers to the previous questions, would you recommend the use of electronic performance reviews? Justify your position.

Team Exercise

7-29. A number of companies offer software for reviewing worker performance. Some offer technology that can be installed on computers within an organization. Others offer Web-based services.

As a team, identify a couple of companies that offer electronic performance review technology. (Some company names you will likely run across in a computer search include Halogen, Workscape, and PerformanceReview. com.) For each company selected by your team, describe the performance review service that is provided.

a. What claims do the vendors make with regard to the benefits their services provide?

b. If possible, determine the typical cost associated with the use of the technology for a small or medium-sized firm. Estimate the per-employee cost of the electronic approach. Given your cost figures, do you think purchasing electronic review technology is something you would recommend to a small or medium-sized firm? Share your findings and conclusions with the rest of the class.

Experiential Exercise: Team

7-30. As discussed in the Manager's Notebook, "From Performance Appraisal to Performance Management," social media is being used in some organizations as a tool to support performance. As a team, consider the possible roles for performance appraisal software, social media, and face-to-face performance reviews. Does each serve a purpose?

a. An organization has asked for a recommendation from your team regarding how they should measure and manage employee performance. Consider yourselves a team of consultants and make recommendations regarding how they should measure and manage employee performance.

b. Also make recommendations regarding the use of appraisal software, social media, and face-to-face review. Should all three be used, or should only one or two be relied on? Why? For what purposes should each be used? Share your recommendations with the rest of the class.

Experiential Exercise: Individual

7-31. Develop a set of criteria for judging the effectiveness of performance appraisal. For example, are the evaluation and feedback likely to be accepted? Will performance appraisal be useful? Will it improve performance? Does it support an organizational goal of coaching and developing employees? Given your criteria, evaluate the use of appraisal software, social media, and face-to-face performance review meetings.

Present a summary of your criteria and evaluations to your class. Share your recommendations regarding the use of the three approaches.

⚖️ You Manage It! 4: Ethics/Social Responsibility

Let's Do It Right

In any business, an employee's unethical behavior can set a bad example for other workers and be a negative influence on the culture in the business. For example, a worker taking extended breaks or recording hours that weren't worked can cause inequity and friction with other workers. If unchecked, the unethical behavior can become the norm and prompt others to behave in the same way. Without clear and concrete norms and accountability, employees may be unclear about ethical expectations and may be swayed by the unethical behaviors of some employees. Actions such as inaccurate reporting of time worked and taking of supplies can become crippling costs in organizations.

Of course, you want to hire workers who aren't likely to engage in these unethical behaviors. Once workers are hired, however, it may not be enough to simply tell them that you expect them to be ethical. The employees may view this expectation as a great concept but may be unclear as to how to operationalize it in their jobs. Just what, for example, does being ethical mean for my job of janitor, secretary, clerk, and so on? Including ethical performance in the appraisal system is a way to make clear to employees that how they reach business goals is equally as important as reaching them in the first place.

Critical Thinking Questions

7-32. Place yourself in the position of a manager. Describe situations when ethical performance appraisal for your employees would be useful.

7-33. Are there disadvantages to a focus on ethics in performance appraisal? Describe.

7-34. How should a manager develop an appraisal system that measures ethical performance? Identify the steps.

Team Exercises

7-35. Reread the Manager's Notebook, "Make Ethics Part of Appraisal." As a team, use the dimensions and behavioral examples in the notebook as starting points.
   a. Select a business and generate dimensions and behavioral examples for the setting. In addition to developing a measure of ethical performance, what else can be done with the dimensions and behavioral examples generated by your team?
   b. Generate an example of the ethical appraisal instrument that your team would recommend for use in the business. Share your example with the rest of the class.

Experiential Exercise: Team

7-36. As a team, consider the ethical issues and the practical problems for an organization that runs peer assessment and appraisal as the main form of employee appraisal. They do incorporate a degree of management observation in the appraisal decision making process, but that is very much an add-on and an overview of the situation. In many cases, the departments are sufficiently large, and managers only have some knowledge about employees they have direct day-to-day contact with, hence the development of the peer system. The peers assess team members online using an assessment based on a four-dimensional model of collaboration, communication, self-management, and decision making. Feedback reports are used as a discussion point to improve the functioning of teams. Over time, there has been significant improvement in the average level of ratings given to team members. Choose a team member to present your team's assessment to the class. Following the presentation of other teams' assessment, engage in a class discussion and debate. Identify a comprehensive assessment of the ethical and practical issues and a conclusion as to whether this form of performance appraisal is workable as an alternative to more traditional options.

Experiential Exercise: Individual

7-37. After completing the team experiential exercise, individually reflect on the class resolution or vote. If business outcomes were considered the priority among your fellow future managers, how does this bode for the importance of ethics in organizations in the future? If ethics was the priority, how realistic do you think this position is in today's business environment? Summarize your assessment in a reflection paper to hand into your instructor or to share with the class.

👥 You Manage It! 5: Customer-Driven HR

Build on Their Strengths

People bring different strengths and weaknesses to the workplace. Some of these strengths and weaknesses are the result of fairly fixed characteristics. For example, one person may be very methodical and follow steps in a project in a prescribed manner. However, another person might approach issues in a more free-form manner. The first person might excel at following detailed procedures, but not do well at finding novel and innovative approaches to work issues. Of course, the second person would be much stronger in terms of innovating, but struggle with detailed steps that need to be closely followed. To the extent that the weak areas for each person are due to weaknesses that the person might not be able to change, what good would it do to focus on these weak areas?

The strength-based approach to performance appraisal, discussed in the Manager's Notebook, "Accentuate the Positive," recognizes the above issue and encourages managers to focus on positive feedback. The core ideas of focusing on strengths are that people want to contribute and that receiving evaluations and feedback that recognize their positive contributions can motivate workers. On the other hand, providing negative assessments can lead a worker to become defensive and less motivated.

Critical Thinking Questions

7-38. Not everyone can be good at everything about a job. Providing only positive performance feedback can give workers inaccurate pictures off their performance. What are the disadvantages of this inaccuracy?

7-39. Motivating workers is an important goal for managers. Do you think that providing feedback on strengths helps accomplish this goal? Identify other purposes for performance appraisal. How well does a strength-based approach meet with those purposes?

7-40. If a worker has some weak areas that affect how well they perform aspects of a job, the traditional approach would be to provide evaluation and feedback to the worker to try to improve those deficiencies. How else could those deficiencies be improved?

Team Exercise

7-41. Workers often share the same formal job title and set of tasks that need to be done. The practical reality in many organizations is that workers gravitate to particular tasks that they perform well. What is one formal job that can informally be made up of people playing different roles?

With your teammates, assess the practice of people taking on different roles. From the strengths-based performance appraisal approach, would people engaging in various roles—rather than one consistent job performed by all workers—be a positive or negative way of structuring work? Why or why not? Share your assessment and rationale with the rest of the class.

Experiential Exercise: Team

7-42. As a team, you want to reconfigure an appraisal system and incorporate aspects of ability, effort, and situational factors. Frame a series of questions that would focus on:
a. Has the worker ever been able to perform adequately? Can others perform the job adequately, but not this worker?
b. Is the worker's performance level declining? Is performance lower on all tasks?
c. Is performance erratic? Are performance problems showing up in all workers, even those who have adequate supplies and equipment?

How would you assess the questions that you propose to pose? What remedies would you propose? Each team should take on the role of consultants and provide a draft version of the performance appraisal questions and how to interpret them to your instructor.

Endnotes

Scan for Endnotes or go to http://www.pearsonglobaleditions.com/Gomez-Mejia.

The Critical-Incident Technique: A Method for Developing a Behaviorally Based Appraisal Instrument

The critical-incident technique (CIT) is one of many types of job-analysis procedures. The CIT is often used because it produces behavioral statements that make explicit to an employee what is required and to a rater what the basis for an evaluation should be.

CIT Steps

The following steps are involved in a complete CIT procedure:

1. *Identify the major dimensions of job performance* This can be done by asking a group of raters and ratees to brainstorm and generate dimensions relevant to job performance. Each person lists, say, three dimensions. The group members then combine their lists and eliminate redundancies.
2. *Generate "critical incidents" of performance* For each dimension, the group members should list as many incidents as they can think of that represent effective, average, and ineffective performance levels. Each person should think back over the past 6 to 12 months for examples of performance-related behaviors that they have witnessed. Each incident should include the surrounding circumstances or situation.

   If you are having trouble generating incidents, you might want to think of the following situation: Suppose someone said that person A, who you feel is the most effective person in the job, is a poor performer. What incidents of person A's behavior would you cite to change the critic's opinion?

   Try to make sure that the incidents you list are observable *behaviors* and not *personality characteristics* (traits).
3. *Double-check that the incidents represent one dimension* This step is called *retranslation.* Here you are trying to make sure there is clear agreement on which incidents represent which performance dimension. If there is substantial disagreement among group members, this incident may need to be clarified. Alternatively, another dimension may need to be added or some dimensions may need to be merged.

In the retranslation process, each person in the group is asked to indicate what dimension each incident represents. If everyone agrees, the group moves on to the next incident. Any incidents on which there is disagreement are put to the side for further examination at the end of the process. At that time they may be discarded or rewritten.

4. *Assign effectiveness to each incident* Effectiveness values are assigned to all the incidents that survived retranslation. How much is incident "A" worth in our organization, on, say, an effectiveness scale of 1 (unacceptable) to 7 (excellent)? All group members should rate each incident. If there is substantial disagreement regarding the value of a certain behavior, that behavior should be discarded.

Note: Disagreement on incident values indicates differences in evaluative standards or lack of clarity in organizational policy. Disagreement regarding evaluative standards can be a fundamental problem in appraisal. The CIT procedure can help to reduce these differences.

The chart on the following page shows some CIT worksheets for you to try your hand at. The dimensions included are a subset of those generated in a research project conducted for a hospital that wanted a common evaluation tool for all non-nursing employees.[*]

The jobs covered ranged from floor sweeper and clerical worker to laboratory technician and social worker. Of course, the behavioral standards for each dimension differed across jobs—an excellent floor sweeper behavior would not be the same as an excellent lab technician behavior. The dimensions included in the worksheets appear fairly generic, though, and are probably applicable to jobs in most organizations. You may want to develop more specific dimensions or other dimensions altogether.

Remember, after generating incidents, your group should determine agreement levels for the dimension and value for each incident. An easy way to do this is for one person to recite an incident and have everyone respond with dimension and value. This process could be informal and verbal or formal and written.

[*]Goodale, J. G., and Burke, R. J. (1975). Behaviorally based rating scales need not be job specific. *Journal of Applied Psychology, 60*, 389–391.

Critical Incidents Worksheet
Job Title:

Job Dimension: Knowledge of Job—Understanding of the position held and the job's policies, techniques, rules, materials, and manual skills.

Instructions: Provide at least one behavioral statement for each performance level.

1. Needs improvement:
2. Satisfactory:
3. Excellent:
4. Outstanding:

Critical Incidents Worksheet
Job Title:

Job Dimension: Initiative—The enthusiasm to get things done, energy exerted, willingness to accept and perform responsibilities and assignments; seeks better ways to achieve results.

Instructions: Provide at least one behavioral statement for each performance level.

1. Needs improvement:
2. Satisfactory:
3. Excellent:
4. Outstanding:

Critical Incidents Worksheet
Job Title:

Job Dimension: Personal Relations—Attitude and response to supervision, relationships with coworkers, flexibility in working as part of the organization.

Instructions: Provide at least one behavioral statement for each performance level.

1. Needs improvement:
2. Satisfactory:
3. Excellent:
4. Outstanding:

Critical Incidents Worksheet
Job Title:

Job Dimension: Dependability—Attention to responsibility without supervision, meeting of deadlines.

Instructions: Provide at least one behavioral statement for each performance level.

1. Needs improvement:
2. Satisfactory:
3. Excellent:
4. Outstanding: