13 THE PERFORMANCE APPRAISAL DEBATE

Learning Objectives

- 13.1 Learn how increasing transparency benefits both the rater and the organization
- 13.2 Understand the features of performance appraisal that make the systems seem more or less fair
- 13.3 Learn how to make performance appraisal more forward-looking
- 13.4 Understand why it is helpful to focus on a small number of uses for performance appraisal
- 13.5 Learn how to enhance the credibility and legitimacy of a performance appraisal system

Performance appraisal requires supervisors, managers, and employees to invest a lot of time and energy into a system that is widely disliked and distrusted, and whose benefits can seem limited (Buckingham & Goodall, 2015). Both performance appraisal and performance management systems appear to fail in many organizations (Pulakos, Mueller-Hanson, Arad, & Moye, 2015; Smith, Hornsby, & Shirmeyer, 1996), and it is no surprise. Chapters 3–12 have documented a number of reasons why it is so difficult to create a successful performance appraisal or performance management system, and some of the problems that lead these systems to fail (e.g., reluctance to accept feedback, raters' motivation to distort performance ratings) may be very difficult to address. Some large organizations have abandoned performance appraisal altogether or have significantly reduced their reliance on appraisals (Buckingham & Goodall, 2015; Culbert & Rout, 2010; Cunningham, 2015), and it is worth asking whether it is time to pull the plug on performance appraisal. We believe the answer is no, but we also think it is worth taking a careful look at arguments for and against getting rid of performance appraisal.

In this chapter, we make two arguments. First, performance appraisal *must* be saved. It serves many important functions in organizations, and there is no plausible replacement. Second, it *can* be saved, but this will require a series of hard choices by organizations. Before laying out these two arguments, it is worth taking a detailed look at the current wave of enthusiasm for getting rid of performance appraisal.

Getting Rid of Performance Appraisal?

The idea that performance appraisal systems are not working well and that major changes are needed is not a recent one. More than 60 years ago, Meyer, Kay, and French (1965) pointed out the potential failure of appraisal systems, particularly in organizations that attempt to use performance appraisal for both administrative and developmental purposes. By the 1980s, performance appraisal was being labeled as more of an organizational curse than a panacea (Taylor, 1985). By the early 2000s, there were an increasing number of reports of organizations rejecting performance appraisal systems, replacing them with less structured evaluations (DeNisi & Pritchard, 2006). However, the belief that performance appraisal is about to disappear seemed to take hold in a serious way only in recent years. Since 2015, the business press has featured a number of high-profile stories about the demise of performance appraisal (see, for example, Buckingham & Goodall, 2015; Cunningham, 2015). In a similar fashion, the scientific literature has featured spirited debates about the desirability of getting rid of performance appraisal (Adler et al., 2016).

As we noted in Chapters 1 and 2, claims that performance appraisal are on their way out are often made, but they appear to be greatly exaggerated. Surveys of human resource management practices in organizations have consistently shown that the great majority of organizations still use some type of formal performance appraisal system (Lawler, Benson, & McDermott, 2012; Mercer, 2013). Even organizations that have embraced performance management still often rely on traditional performance appraisal as one component of a broader system for managing performance (Pulakos, 2009). There are, however, serious arguments that can be made for abandoning performance appraisal because it is: (1) unduly burdensome and (2) unproductive.

The Costs of Performance Appraisal

There is no doubt that performance appraisal is costly, and that it consumes a lot of time and energy. Consider Buckingham and Goodall's (2015) description of the performance appraisal system used for many years by the professional services firm Deloitte. They note that "objectives are set for each of our 65,000-plus people at the beginning of the year; after a project is finished, each person's manager rates him or her on how well those objectives were met. The manager also comments on where the person did or didn't excel. These evaluations are factored into a single year-end rating, arrived at in lengthy 'consensus meetings' at which groups of 'counsellors' discuss hundreds of people in light of their peers" (Buckingham & Goodall, 2015, pp. 40–41). They estimated that this system required Deloitte to invest over *2 million* hours per year on completing forms, holding meetings, and rating performance. It is little wonder that Deloitte found the idea of simplifying this system so attractive.

Performance appraisal systems incur at least two types of costs, setup costs and administration costs. Setup costs might involve something as simple as creating forms or purchasing performance management software, but it is likely to also entail costs such as training (which will also be an ongoing cost as new managers or supervisors come on board) and legal review. The creation of a new performance appraisal system is likely to involve job analyses or systematic studies on the duties and responsibilities of each of the jobs being evaluated; these reviews are essential to defend the job-relatedness of these systems (Werner & Bolino, 1997).

Administration costs are likely to be even more important than setup costs, because these represent recurring expenses. For example, suppose your appraisal system requires 100 managers to generate and record ratings for 1,000 employees, to have feedback meetings with their employees, and to write recommendations to senior management on the basis of their evaluations and their discussions with employees. You must first spend some time training supervisors to use the system, and then devote a good deal of each supervisor's time to observing performance, completing ratings, holding feedback meetings, and communicating the results of his or her evaluation and of the feedback meeting to others in the organization (e.g., superiors, HR department). At a minimum, this would probably require 2–3 hours per employee, and it might involve a good deal more, but even with this level of investment, costs add up quickly. Assume, for example, that managers receive an average pay of $50 per hour.[1] The costs for the managers' time alone would add up to $100,000 to $150,000, and the total costs for managers, employees, and staff to administer this system could quite easily add up to several hundred thousand dollars per year. Even this figure might represent an underestimate of the dollar costs of an appraisal system because performance appraisal also involves opportunity costs. That is, the time managers, employees, and staff spend on performance appraisal is time that might be spent on activities that are more productive or more central to the mission of the organization.

The costs of performance appraisal are not limited to the financial burden of creating and administering this system. There are also psychological costs. As we have noted in several of the preceding chapters, performance appraisal is often an unwelcome and stressful process. Supervisors do not like to give and employees do not like to receive performance feedback (Cleveland, Lim, & Murphy, 2007). Negative reactions to performance appraisal are common (Adler et al., 2016; Keeping & Levy, 2000; Waite & Stites-Doe, 2000; Williams & Levy, 2000), and these can contribute to negative perceptions of the organization or of management (Mayer & Davis, 1999). These psychological costs are far from trivial, and if they could be avoided by abandoning or greatly simplifying performance appraisal, this reduction in the psychological costs of performance appraisal might represent a serious argument for making substantial changes in appraisal systems.

The Limited Benefits to Organizations

The belief that performance appraisal and performance management systems are not delivering substantial benefits is widespread (Pulakos et al., 2015). In many organizations, there is a lingering suspicion that performance appraisal is pointless, and that supervisors and employees are merely going through the motions when they complete performance appraisals. A performance appraisal system that is not worth the time and effort is not merely an annoyance; as noted above, negative experiences with performance appraisal systems can reduce overall trust in the organization and in management.

To some extent, the benefits of performance appraisal may be limited by the built-in conflicts in so many performance appraisal systems. It is common for organizations to use the same performance appraisal systems for both administrative and developmental purposes (e.g., for setting pay raises and for identifying developmental needs), but these two purposes require different sorts of data and they require different mindsets on the part of the rater (Murphy & Cleveland, 1995). Organizations that attempt to use the same appraisal system for both pay administration and for identifying training and development needs may find that they do not do either well. In other cases, appraisal systems may fail to yield anticipated benefits because of half-hearted applications of potentially sound ideas. For example, it is common in many organizations to claim to have a merit pay system in place, but to devote inadequate resources to allow such a system to work. We will explore in more detail the problems encountered in many merit pay systems in a later section.

The second factor that often places limits on the benefits obtained from performance appraisal systems is the type of range restriction that results from the widespread tendency to give high ratings. As we have noted in Chapters 11 and 12, it is common for the great majority of employees in an organization to be rated as "well above average," and given all of the forces pushing raters to give high ratings and to avoid low ones, the only surprise is that things are not even worse. Nevertheless, if just about everyone receives ratings of 4 or 5 on a 5-point scale, it will be hard to use ratings to reward good performers or to identify people whose performance needs improvement. In this chapter and in the one that follows, we will suggest some ways of building performance appraisal systems that reduce pressures to give high ratings to most employees, but these require some difficult and potentially painful decisions, and the path to overcoming rating inflation and range restriction is likely to be a long and difficult one.

Finally, some of the benefits that *should* arise from both performance appraisal and performance management do not in fact materialize because of a failure to take participants' perceptions, beliefs, and reactions into account when designing and administering these systems. For example, it is widely assumed that it is useful to provide employees with frequent and timely feedback (Aguinis, 2013). This assumption flies in the face of the fact that we know that many employees dislike receiving feedback, do not accept the feedback they receive, and work to actively avoid receiving feedback if possible (Cleveland et al., 2007; Moss, Sanchez, Brumbaugh, & Borkowski, 2009; Whitman, Halbesleben, & Holmes, 2014). If employees find feedback stressful and they do not trust the feedback they receive, giving them even more feedback may not be a good idea. Some of the supposed benefits of performance appraisal might be seen as useless or even noxious by raters and ratees.

We Can't Get Rid of Performance Appraisal

We are well aware of the shortcomings of traditional performance appraisal systems in organizations, and indeed have written extensively about these difficulties inherent in trying to evaluate employees' job performance, provide them with useful feedback, and take sensible actions on the basis of those performance evaluations (Adler et al., 2016; Cleveland & Murphy, 1992; Murphy & Cleveland, 1991, 1995). Nevertheless, getting rid of or sharply curtailing performance appraisal in organizations is potentially risky, and quite possibly foolish. Researchers, practitioners, or managers who want to get rid of or drastically reduce the use of performance appraisal in their organizations will have to consider three key points.

First, formal, structured evaluations of job performance continue to serve a number of important functions in organizations. Second, there is a long history of efforts to develop alternatives to traditional performance evaluations, but to date, no better method has been developed to accomplish the important task of evaluating the performance of employees. Third, when high-stakes decisions are made on the basis of measures of job performance, it is essential that these measures be demonstrably job related. If these measures are challenged as potentially discriminatory, none of the alternatives to performance appraisal or structured performance management systems is likely to survive legal scrutiny in the way that a well-designed performance appraisal or performance management system might.

The Uses of Performance Appraisal in Organizations

The first question you should ask before deciding whether to retain or abandon performance appraisal in an organization is why organizations conduct formal performance appraisals, or more generally, what do they *do* with the information coming out of performance appraisals. In Chapter 8, we detailed the many uses of performance appraisal, highlighting four main functions: (1) to distinguish between people (e.g., as input for decisions regarding pay or promotions), (2) to distinguish individual strengths and weaknesses (e.g., as input for making choices regarding training and development), (3) to support other human resource systems in organizations (e.g., for validating selection tests, evaluating training programs), and (4) documentation. Numerous surveys have confirmed that appraisal is an important component in many decisions in organizations (Cleveland, Murphy, & Williams, 1989; Mercer, 2013). Furthermore, the use of performance appraisal to serve a number of important purposes in organizations is not limited to American organizations. Milliman, Nason, Zhu, and De Cieri (2002) examined the differing uses of performance appraisal in 10 countries in Asia, North America, and Latin America. In particular, they evaluated the extent to which performance appraisals are used for pay administration, documentation, employee development, promotion, and as a vehicle for employees to express their opinions. On the whole, the use of performance appraisal for pay and promotion was moderately common in all countries, but it was most likely to be viewed as valuable in some Asian and Latin American countries. The use of performance appraisal for developmental purposes was common in virtually all countries, while the use of appraisal for documentation and subordinate expression was viewed as most acceptable in North American and Australian settings.

As we noted in Chapter 8, the use of the same performance appraisal system for multiple purposes can be a problem, especially when the purposes require different information or when they involve conflicting emphases. Unfortunately, the two most common uses of performance appraisal—pay administration and training and development—are also the most likely to come into conflict, and a case can be made that performance appraisals should not be used for so many purposes. However, the reality is that it *is* used for a number of important purposes, and if we get rid of performance appraisal, it is far from clear what will replace it.

Are There Useful Alternatives to Traditional Performance Ratings?

Recent publications have suggested several different approaches to replacing traditional performance appraisals. The first comes from research on performance management, where it has been suggested that annual performance appraisals might be replaced by more frequent, informal, and immediate feedback from supervisors or managers (Aguinis, 2013). The rationale here is that by providing feedback immediately at the point where good or poor performance occurs, the likelihood of improvements in the future is increased. Traditional performance appraisals are summative and retrospective, providing an evaluation of what has happened over the past year. It is *possible* that feedback you receive about something you might have done many months ago will turn out to be useful in changing your future behavior, but it seems more likely that immediate feedback will be more useful than feedback about events that may have occurred quite some time ago. Unlike traditional performance appraisal, which focuses on successes and failures in the past, performance management often has a prospective focus, using performance feedback as a tool for changing present and future behavior. Rather than evaluating what you did last year, a manager might give feedback about what you are doing right now and use that feedback to try and improve future behavior.

While we appreciate the potential value of giving feedback sooner rather than later, we are not convinced that frequent feedback is an adequate replacement for traditional performance appraisal. First, as noted earlier, feedback is not always accepted, even if it is completely accurate, and it is hard to see how increasing the frequency of feedback will help if feedback is regarded as biased and not credible. Second, even if feedback is accepted as credible and accurate, it might not provide a firm basis for evaluating individuals or even a good basis for an individual to understand how he or she is evaluated by others. Suppose you receive frequent feedback about how to improve your performance on an important part of your job. This could mean that you have a very proactive supervisor. It could also mean that you are not very good at your job (feedback about failures seems to be more common than feedback about successes). It might not be easy to sort these two possibilities out. More to the point, organizations may need to make decisions about raises, promotions, protecting the best workers from layoffs, and the like, and the feedback systems proposed by proponents of performance management are not well suited for these important purposes.

A second approach to replacing performance appraisal comes from proposals to address problems in human resource management with "big data" (e.g., Wax, Ascencio, & Carter, 2015). Developments in computer software and information processing systems make it increasingly easy to collect large amounts of information, and this information might be synthesized to produce good measures of job performance. While this approach may show some promise, we view it as a computationally intense variation on a method that has been tried, without much success, for decades—the development of objective measures of job performance.

As we have noted in several preceding chapters, there is a substantial body of research on objective measures of job performance, ranging from indices such as production output, scrap rates, and time to complete (e.g., Rothe, 1946a, 1946b, 1947) to data obtained from personnel files, such as absenteeism, turnover, or grievance measures (Chadwick-Jones, Nicholson, & Brown, 1982; Fitzgibbons & Moch, 1980; Mowday, Porter, & Steers, 1981; Muchinsky, 1977; Steers & Rhodes, 1978). While these measures might have some value, it is clear that they rarely provide adequate measures of job performance. For example, absence measures were once proposed as good objective indices of at least some aspects of job performance, but measures of absenteeism (a) do not apply to many jobs, (b) are frequently inaccurate, (c) have a variety of causes depending upon the definition of absence, (d) vary in the length of observation, and most importantly (e) different measures of absence do not correlate with each other (Landy & Farr, 1983).

Landy and Farr (1983) have identified several problems that seem to cut across the domain of objective performance indices and possible reasons why both researchers and practitioners have to rely more heavily on judgmental measures (e.g., supervisory ratings) than objective indices in evaluating job performance. First, objective measures of job performance often have low reliability (i.e., there is considerable measurement error in most assessments of absenteeism (see Chadwick-Jones, Brown, Nicholson, & Sheppard, 1971; Farr, O'Leary, & Bartlett, 1971; Ilgen & Hollenback, 1977; Latham & Pursell, 1975). Second, objective measures tend to be available for only a limited number of jobs, and in these jobs they cover only a limited range of functions. For example, it would not be sensible to collect tardiness or absence measures from sales representatives or from corporate managers who may not have a predetermined or fixed eight-hour work day. Finally, Landy and Farr (1983) cite the changing nature of skilled and semi-skilled work as an important limitation to objective performance measures. For example, since operators are being replaced by machine tenders, productivity measures such as output are more dependent upon machine functions than individual performance. The changing nature of work suggests that objective measures may be increasingly inappropriate for evaluating worker performance and subjective measures may continue to dominate.

Performance ratings are far from perfect, but there simply does not appear to be any viable replacement. Objective indices capture only part, and often a small part of the domain of job performance. Informal feedback can be timely, but it is also inconsistently given (e.g., feedback is more likely when something has gone wrong than when it has gone well) and it is not always accepted. The domain of job performance is broad and complex (see Chapter 3), and we have not seen any alternative to fairly traditional performance ratings that is likely to capture the range of behaviors that represent effective or ineffective performance. In particular, it is hard to imagine any of the alternatives to formal performance appraisal that have been proposed surviving a legal challenge.

Legal Considerations

In Chapter 2, we described the appraisal system developed by Deloitte (Buckingham & Goodall, 2015). The centerpiece of this system is a simple set of four questions supervisors use to evaluate their subordinates: (1) given what you know of this person's performance, and if it were your money, would you award this person the highest-possible compensation increase and bonus; (2) given what you know of this person's performance, would you always want him or her on your team; (3) is this person at risk for low performance; and (4) is this person ready for promotion today?[2]

Spotlight 13.1 Is More and Better Feedback the Answer?

One of the dominant themes of research on performance appraisal, in particular on performance management, is that there is a need for feedback. Indeed, one of the distinctions between more traditional performance appraisal systems and performance management systems is that performance management is often built around the idea that frequent feedback is both necessary and beneficial. Unfortunately, there is a good deal of evidence that feedback often fails (Kluger & DeNisi, 1996).

There are many reasons why feedback interventions might fail, but one possible explanation for the frequent failure may be that feedback is a tool that is appropriate for only some purposes. In particular, feedback is a great solution when the problem is lack of knowledge. Employees who do know what to do, do not know what is expected of them, or are not sure what constitutes acceptable performance might benefit substantially from feedback. Employees whose problem is a lack of ability or a lack of motivation probably do not benefit as much from feedback, and you can even make a case that performance feedback is harmful in this circumstance because it offers the wrong sort of solution. Giving performance feedback to someone who is not willing or able to perform well is a bit like giving a sandwich to someone who is dying of thirst. It is meant to be helpful, but it is the wrong kind of help.

It can be difficult to diagnose precisely why an employee is performing poorly, but we suspect that the value of performance feedback diminishes over time. As employees gather more experience, they are probably well aware of what you would tell them if you gave performance feedback. As work conditions change or as tasks evolve, the need for feedback may increase (Murphy, 1989a), and the general value of feedback might be higher in complex and ever-changing work environments. On the other hand, if tasks, task demands, and the like stay pretty much the same over time, the value of feedback is likely to go down. The key idea to keep in mind is that performance feedback is not an all-purpose tool, but rather it is an approach to solving a very specific set of problems; if these are not the problems that are relevant in a particular situation, performance feedback is probably not the right approach.

Suppose your organization uses an appraisal system similar to the one developed by Deloitte and you are a team member who receives low ratings from your team leader, and therefore does not receive a raise or are denied a promotion. The four questions listed in the preceding paragraph would not tell you anything about *what* you are doing well or poorly, only that your team leader is not impressed. Suppose further that ratings like these are used to make a number of decisions about raises or promotions, and at the end of a year you find out that men receive more raises than women, or that older workers do not get promoted, or that white employees receive raises and promotions at a much higher rate than black employees. In our opinion, this organization would be in a very difficult position.

Federal laws, ranging from the Civil Rights Acts of 1964 and 1991 to the Age Discrimination in Employment Act, the Americans with Disabilities Act, and other similar laws, all embody a similar set of principles.

Businesses are generally free to make decisions about hiring, firing, pay, promotions, and conditions of work *except* when it can be shown that these decisions have a systematically adverse effect on groups of people defined in terms of race and ethnicity, gender, age, religion, national origin, disability, and the like. Organizations are forbidden by law from relying on assessments of decision processes that have a systematically adverse impact on workers from different demographic groups *unless* the organization can show that their assessments and decisions are job related. For example, if a performance appraisal system leads an organization to give higher raises to men than to women, or to promote younger workers but not older ones or the like, it is up to the organization to demonstrate that this appraisal system does in fact reliably and fairly measure job performance. We do not see how a system like the one described by Buckingham and Goodall (2015) could possibly meet this test. How, for example would Deloitte be able to demonstrate that it is job performance and not simple dislike for particular types of people that is driving these ratings?

The usual tools for defending performance appraisal systems that are challenged as discriminatory rely heavily on a demonstration that the appraisal system is tightly linked to the job. For example, if you can show that the job a person occupies requires them to engage in planning, in managing the resources of their work group, and in communicating the results of work to group members and to the organization, an appraisal system that includes well-documented evaluations of Planning, Resource Management, and Communication is more likely to survive legal scrutiny than a system that relies entirely on general impressions.

Werner and Bolino (1997) note that in evaluating performance appraisal systems that are challenged in equal employment litigation, the courts have relied heavily upon whether or not (1) performance appraisals are clearly related to the content of the job being performed and (2) there were due process considerations in appraisals and the decisions based on appraisals. A critical question being ignored by organizations that are abandoning performance appraisal is how they will defend against charges of discrimination if their appraisal systems are not demonstrably job related. Our review of research and practice in this area suggests that organizations that abandon formal appraisal systems that are based on a careful analysis of the jobs people perform in favor of informal feedback or a few vague questions are practically *begging* for trouble if their appraisal systems lead to adverse decisions for members of legally protected groups.[3]

Toegel and Conger (2003) note that in addition to the potential for violations of equal opportunity laws, there are other legal pitfalls that might arise in performance appraisal. For example, an organization that claims to use job performance as a basis for important awards but that does such a slipshod job of evaluating ratee performance that the claim is palpably false might in theory be sued for negligence, especially if there is a ratee or set of ratees who can convincingly show that they are superior performers but who failed to receive the performance ratings (and therefore the rewards) they deserved. An employee who received an unfairly negative evaluation and whose evaluation was communicated to some third party (perhaps this employee is applying for a job elsewhere) might even sue for defamation.

Can Appraisal Systems be Saved?

It is one thing to conclude that performance appraisal systems *must* be saved. It is quite another thing to actually save them. In Chapters 4–12, we documented what we believe are the four key challenges to performance appraisal: (1) the task of accurately evaluating performance over some period of time is a very difficult one; (2) performance ratings usually tell you something about the person being rated and something about the context, and it can be hard to sort these two factors out; (3) organizations use performance appraisals for multiple, conflicting purposes; and (4) raters are strongly motivated to give high ratings and to avoid giving low ratings. None of these challenges will be easy to overcome, and the sorts of changes organizations frequently embrace in an attempt to improve their appraisal systems (e.g., developing new forms, giving raters better training) are not going to work. What is needed is a radical re-orientation of performance appraisal in organizations.

We believe performance appraisal systems can be saved, and that doing so will require organizations and their members to embrace three key principles:

- Performance appraisal is not the same thing as performance measurement.
- Hard decisions need to be made about the purpose of performance appraisal, and they need to be carried through.
- The benefits of appraisal to managers, supervisors, and employees must exceed, and must be seen as exceeding the costs.

A realistic approach to using performance appraisal effectively in organizations must start with a clear recognition of what a good performance appraisal system can and cannot do. Performance appraisal can be a very valuable part of a human resource system, but it is not an adequate replacement for things like a qualified workforce or competent management. An organization that has an excellent performance appraisal system but that is unable to attract and retain workers who are competent to perform their tasks or that is led by abusive, incompetent, or dishonest managers and executives is likely to fail. A high-quality performance appraisal system can make a definite contribution to the success of an organization, but it will never be a panacea.

Performance Appraisal Is Not Performance Measurement

It has long been acknowledged that performance ratings do not do a particularly good job reflecting the performance of the people being evaluated (Greguras & Robie, 1998; Landy & Farr, 1980; Murphy, 2008a; Scullen, Mount, & Goff, 2000; Viswesvaran, Ones, & Schmidt, 1996). There have been vibrant debates over *why* there is a gap between how well people perform their jobs and the ratings they receive (Murphy, 2008a, 2008b), with some authors emphasizing the idiosyncratic nature of performance judgments (e.g., Viswesvaran et al., 1996), while others emphasize the cognitive limitations of raters (Landy & Farr, 1980) or the influence of contextual variables on ratings (e.g., Murphy & Cleveland, 1995). There is little disagreement, however, that performance ratings are not particularly good measures of performance. They may be better than the alternatives, but this is probably more of a function of the weaknesses of the alternatives than of the strengths of ratings.

For at least 40 years (roughly 1960–2000), researchers and practitioners tried a variety of strategies to improve the measurement quality of performance ratings, such as improving rating scales or developing better methods of training (DeNisi & Murphy, 2017), with generally disappointing results. As we noted in Chapter 6, some types of training (e.g., frame of reference training) can help, and some scales are probably better than others, but even with the best scales and the best training, performance rating provides measurements that cannot be fully trusted to accurately reflect the performance of the individuals being evaluated.

We think that the most compelling explanation for the shortcomings of supervisory ratings as measures of the performance of the individuals being rated is motivational (Banks & Murphy, 1985; Cleveland & Murphy, 1992; Murphy & Cleveland, 1995). Raters do not consistently provide accurate information about the performance of the people they are rating because they are not *trying* to provide accurate measures. The arguments implicit in cognitive approaches to performance appraisal, or in approaches built around improving the tools used by raters (e.g., scales, training), has always been that raters do not know who is a good or a poor ratee or that they need help to elicit and structure accurate judgments about the performance of their subordinates, and this argument has always struck us as unconvincing. The research reviewed in several preceding chapters (especially Chapter 12) convinces us that raters are not trying to simply convey accurate information about performance when they complete rating forms and hold performance review meetings. Rather, they are trying to do their real job—that is, to act as a manager and facilitator of performance rather than acting as a passive measurement instrument.

The first step toward saving performance appraisal is to recognize and accept what performance rating is and what it is not. Performance appraisal is certainly not a simple process of measurement. Raters are not simply trying (but failing) to provide accurate assessments of performance. Rather, performance appraisal is used by managers and supervisors as a tool for influencing the behavior of employees. That is, performance appraisal should be thought of as a *management tool*, not as a *measurement* tool. For example, in Chapter 12, we laid out a number of reasons why a rater might give high ratings to an employee who *is* performing poorly, and argued that these ratings might be evidence of sound management rather than being evidence of rater errors. A supervisor or manager who gives inflated ratings on the assumption and belief that these ratings will motivate the employee to perform better in the future is not making an error, but rather is making a potentially sound decision about how to improve that employee's performance.

In the end, like so many other things in organizations, performance rating is an exercise in politics. That is, a smart manager will use performance ratings as a tool to influence the behavior of his or her subordinates. Hand wringing about the accuracy of performance appraisals probably misses the point. The real question is not whether ratings are accurate but rather whether they are useful as a means of influencing the behavior of employees. If you are seriously interested in saving performance appraisal, we think the first thing you need to do is to accept and embrace performance ratings for what they are—a tool for influencing the behavior of employees.

Does this mean accuracy is irrelevant? Probably not, at least in part because some manifest connection between the ratings individuals receive and their behavior in the job is likely to be necessary if the users of an appraisal system are going to accept the appraisal system as fair and reasonable. Completely arbitrary performance ratings, even if they turn out to be an effective management tool, will probably undermine the long-term acceptability of a performance appraisal system. However, it is important to think carefully about the relative importance of different criteria that might be used to evaluate a performance appraisal system, and "is it useful?" is likely to be much more important than "is it accurate?"

Finally, it is important to remember that accuracy is a complex, multidimensional concept (see Chapter 11), and that some types of accuracy are more important or relevant than others. For example, it is unlikely that the great majority of employees in most organizations are above average in their performance, but rating inflation (i.e., rating just about everyone as above average) might not directly influence the key uses of performance appraisals (e.g., for making salary adjustments). If the *absolute* values of ratings are uniformly inflated, it is still possible that most of the useful and important information about the *relative* standing of employees might be retained. Of course, if rating inflation is too severe, you might lose important information about relative standing of different employees; if everyone receives ratings of 4 or 5 on a 5-point scale, it will be hard to identify top performers, whose contributions can be disproportionally important to an organization (Aguinis & Bradley, 2015; O'Boyle & Aguinis, 2012). Nevertheless, it is clear that some types of accuracy will be more important than others. The type of accuracy that should be of greatest concern might depend on how organizations use performance appraisal.

Decide What You Are Truly Willing to *Do* With Performance Appraisal

Performance appraisal is a multipurpose tool, but the range of potential uses for performance appraisals may be more of a curse than a blessing. As we have noted in several preceding chapters (especially Chapter 8), the two most common uses of performance appraisal, for administrative and for developmental purposes, are also the two most likely to come into conflict. The information needed to make smart decisions about raises, promotions, layoffs, and the like revolves around comparisons between persons, while the information needed to make smart decisions about training and development revolves around individual strengths and weaknesses, or within-person comparisons. Performance appraisal systems often appear to collect both types of information, by providing both overall performance estimates and ratings on several dimensions of performance, but appearances are deceiving. In most cases, raters and ratees emphasize between-person comparisons, recognizing that these can be tied to high-stakes consequences (e.g., raises). A rater who tries to provide information about within-person variation will almost inevitably end up harming employees when it comes to between-person comparisons, because a rating profile that has peaks and valleys (i.e., high scores on some performance dimensions and low scores on others) will almost always also have a mean score that is pulled toward the middle of the rating scale. Thus, if *your* supervisor ignores strengths and weaknesses and gives everyone high scores on all dimensions and *my* supervisor tries to give useful developmental information by noting both strengths and weaknesses, you will do well and I will do poorly when raises are given out.

The first question an organization must face is to decide what it *really* wants to do with performance appraisal, and if the list of potential uses includes conflicting purposes, which use is most critical? This choice really involves two separate questions. First, which uses are most important to the effectiveness and the future of this organization? Second, which uses are the organization truly willing to embrace? It is in dealing with this second question where organizations most frequently fall short. An examination of merit pay systems in many organization provides an example of the way half-hearted implementation of a key human resource management practice can undermine the effectiveness of performance appraisal systems.

Merit Pay

Most North American organizations claim to provide some sort of performance-based pay, in which good performance is rewarded and encouraged by higher levels of pay (Gerhart, Rynes, & Fulmer, 2009; Schaubroeck, Shaw, Duffy, & Mitra, 2008). Despite the widespread acceptance of the idea that better performance should lead to better pay, serious questions have been raised about the effectiveness of merit pay in most organizations. There is surprisingly little evidence that merit pay systems are effective (Heneman, 1992; Milkovich & Wigdor, 1991).[4] Rather than being viewed as an effective tool for influencing employee performance, merit pay systems are often viewed with suspicion, and negative attitudes toward merit pay systems appear to be an important factor in their frequent failure (Heneman, 1992; Shaw, Duffy, Mitra, Lockhart, & Bowler, 2003).

There appear to be three reasons why many merit pay systems fail: (1) distrust, (2) rating inflation, and (3) underinvestment. First, trust in merit pay systems requires participants to accept two separate conclusions: (1) that performance ratings are reasonably accurate and (2) that there are strong links between performance ratings and raises. Both of these inferences are likely to be problematic. Performance ratings are often seen as being more strongly influenced by liking and politics than by actual performance (Longenecker, Sims, & Gioia, 1987; Tziner, 1999; Vest, Scott, & Tarnoff, 1995), and this sort of distrust of performance appraisal systems can generalize to more widespread distrust of other systems that rely on performance appraisal (Mayer & Davis, 1999). Even if ratings are accepted as generally accurate, the users of performance appraisal systems may find it hard to accept the belief that high performance ratings will automatically lead to large salary increases. A merit pay system that *did* create this strong instrumentality link (i.e., one in which pay directly reflected performance ratings) would almost certainly spiral out of control because of the strong tendency of most raters to provide high ratings.

As we have noted in several preceding chapters, rating inflation is widespread and it is not unusual that most employees will receive high ratings. If ratings automatically lead to raises, personnel budgets will become impossible to manage, because so many employees will be designated as eligible for large salary increases. In practice, many organizations find it necessary to calibrate across raters or departments so that those raters or departments who most shamelessly inflate their ratings do not soak up a disproportionate portion of the merit pay pool. Even in organizations that do not engage in widespread recalibration, there may be appeals or higher-level review that lead some ratings (and therefore some salary recommendations) to change. Either of these could disrupt the perceived relationship between ratings and pay decisions.

In practice, even when the link between performance ratings and salary increases is usually probabilistic rather than absolute (i.e., higher ratings increase the probability of, but do not guarantee larger raises) a system in which most employees receive high ratings can quickly overwhelm merit pay budgets and reduce the organization's ability to differentiate between high, average, and low performers (Miceli, Jung, Near, & Greenberger, 1991). If very few people receive low ratings, an organization that claims to pay for performance may find itself in a position where virtually everyone receives similar merit raises, regardless of their actual level of performance or effectiveness.

Suppose that the problem of rating inflation could somehow be solved. Even under these conditions, most merit pay systems are likely to fail because the portion of pay that is actually linked to performance is too small to allow organizations to adequately distinguish good from poor performers. In recent years, salary increases have been quite small; between 2010 and 2015, salary increases of 2–3% were common, and with the exception of top-level executives, salary increases for most employees have been modest for much of the preceding decade.[5] In most organizations, merit pay is only a portion of the total salary increase budget, and if the total pool of funds available for salary increases starts out small, the portion of pay actually available for differential rewards for good versus poor performers is likely to be modest indeed.

One of the authors of this book served as a department head for several years, and during that time, the budget allocation for salary increases was typically in the neighborhood of 3%, with a stipulation that all people who were performing at least at an adequate level should receive a cost of living increase of approximately 2%. The amount of money available to give performance-dependent salary increases was often so small that truly excellent performers received an increase that was barely different from the increases received by the majority of employees in this department. This appears to be a common occurrence in many organizations that claim to pay for performance, and there are reasons to believe that the typical merit increase in most organizations is much too small to produce meaningful changes in employee attitudes or behaviors.

How large does a pay raise need to be to have some discernible effect? There is a growing body of evidence suggesting that the smallest meaningful pay increase in many settings is in the ballpark of 7% (Mitra, Gupta, & Jenkins, 1997; Mitra, Tenihälä, & Shaw, 2016) and that the raises most employees receive are perceived as a drop in the bucket rather than as meaningful rewards. This research suggests that even those employees who receive the top rewards in a merit pay system are unlikely to see their increases as meaningful, much less as strong recognition of their worth relative to their peers.

In analyzing merit pay systems, it is important to pay attention to both the mean and the standard deviation of the distribution of merit pay awards. The mean of the merit increase distribution tells you whether recipients in general are likely to view their raises as meaningful, but it is the standard deviation that really tells you whether the system provides different rewards for good versus poor performance. If virtually everyone receives the same (or essentially the same) merit increase, the claim that organizations reward good performance with merit pay is likely to ring hollow.

In merit pay plans that put only a small proportion of pay at risk, it may be impossible to give raises to good performers that differ in any meaningful way from raises given to poor performers. Even if a large part of the salary pool is theoretically dependent on merit, the tendency of raters to give high ratings to virtually all employees will result is so much range restriction that there may be very little room for true differentiation in the rewards received by good versus poor performers. In practice, most merit pay systems appear to give raises to even the best performers that are too small to have a measurable effect and to give similar raises to employees whose performance clearly differ.

We view merit pay systems as a good example of a sound concept that is usually implemented in a half-hearted and inconsistent fashion. (See Gerhart & Fang, 2015, for a review of current developments in motivation theory that are relevant to merit pay systems.) An organization that claims to pay for performance but in fact gives virtually identical raises to everyone is almost certainly doing itself more harm than good, because the contrast between the claim to pay for performance and the reality of its merit pay system will be noticed by employees and this may contribute to cynicism toward management and toward the organization itself (Vest et al., 1995).

If performance appraisal is going to be saved, organizations need to be clear and realistic about two key decisions. First, they must decide what they *want* to do with performance appraisal. Second, they must decide what they are *willing* to do with performance appraisal. There is an old joke that was told in Russia and many Eastern European countries to portray frustration with their system for managing work organizations: “they pretend to pay us and we pretend to work.”[6] This is precisely the type of cynicism a half-hearted stab at merit pay might encourage. Unless an organization is willing to fully embrace something like merit pay and provide meaningful increases to people who are performing well, while providing noticeably smaller increases (if any) to people whose performance is not as good, they are better off abandoning merit pay altogether.

In Chapter 14 we will return to the problems caused when performance appraisal is used for multiple conflicting purposes. The point we want to make here is that the widely cited conflict between administrative and developmental uses of performance appraisal (Meyer et al., 1965; Murphy & Cleveland, 1995) may be more apparent than real. If organizations are using performance appraisal for developmental purposes, but only claiming or pretending to use it for the purpose of setting salaries, they are probably better off dropping the pretense altogether, simply doing away with a half-hearted system for awarding merit pay.

Make It Worthwhile

Put yourself in the place of a supervisor or manager who is faced with the task of conducting performance appraisals. You have good reasons to approach this task with trepidation. You can be reasonably sure that the employees whose performance you rate will resent and reject any feedback that is not positive and that the experience of giving performance feedback will be uncomfortable for both you and the employee. You can be reasonably sure that truly good performers will not receive rewards that are comparable to their contribution and their value. You can be reasonably sure that if you give employees the ratings they truly deserve, *you* will end up looking bad, and that if you give ratings that are plainly and obviously inflated, there will be few sanctions from the organization. Why should you invest time and energy in this noxious and seemingly pointless activity? Your own manager and higher executives in the organization almost certainly know all of the pitfalls of performance appraisal, and they also know that at least some of the alleged purposes of appraisal (e.g., merit pay) are so meaningless that they are virtually a sham. Why, then, are they putting you and your employees through all of this pointless pain and suffering? In theory, the answer should be that the benefits of this activity exceed the costs, although we suspect that the true answer to “why are we doing this?” is either “we have always done this” or, more likely, “we don’t know what else to do.”

Spotlight 13.2 Giving Merit Raises When There Is Significant Variability in Merit

Jane is a manager who supervises 12 clerical employees, each of whose current salary is just under $30,000 per year. She is given a budget of $14,400 for salary increases (about 4%). One of her employees, Suzanne, is truly excellent and the rest are generally competent employees. Employees can expect a 2% cost of living increase, leaving about $7,000 for merit increases. Jane has a number of options, ranging from giving all $7,000 to Suzanne to distributing merit raises to everyone. How would you recommend she proceed?

Analysis

A starting point for analysis is that everyone will receive about $600 as a cost of living adjustment. Giving everything else to Suzanne will give her a raise of $7,600, or 25%, which clearly exceeds the 7% barely noticeable threshold suggested by Mitra and colleagues. However, this will mean that everyone else gets no merit raise at all, and implicitly (unless they raise their performance level to Suzanne’s) that they should not expect one in the future. This suggestion is somewhat in line with suggestions by Aguinis and colleagues

(Aguinis & Bradley, 2015; O'Boyle & Aguinis, 2012) about the importance of identifying and catering to star performers, but it could lead her 11 coworkers to become demoralized and cynical. An alternative might be to work backwards from the 7% threshold, giving Suzanne a raise of $2,100 (7% of $30,000), which would allow you to distribute a bit over $1,000 to each of Suzanne's colleagues ($600 in cost of living plus about $400 for merit).

In making choices about how to distribute merit raises, it is important to keep in mind that employees tend to have a positive view of their own performance, giving themselves higher ratings than they are likely to receive from others. One implication of this is that Suzanne's coworkers, even if they recognize her superior performance, are likely to think that the difference between their own performance and Suzanne's is smaller than it appears to you. If Suzanne receives a raise that is twice as large as the raise that anyone else receives (and whose merit component is more than twice as large as anyone else's) it is likely that they will believe that they are being treated unfairly. These beliefs could be especially problematic if the work requires other employees to cooperate with Suzanne. There is a good deal of evidence that people do not like it when their coworkers make them look bad (by performing at a much higher level than they are performing; Murphy, 1993), and this dislike may be intensified if Suzanne is perceived to be getting rewards that are larger than she deserves.

In thinking about whether performance appraisal is worthwhile, we find it useful to try and identify the costs and benefits of performance appraisal. We also find it useful to think about this question from the perspective of different units of analysis. That is, the question of whether performance appraisal is worthwhile to the organization may involve quite different sets of costs and benefit calculations than the question of whether it is worthwhile to the supervisors and managers who are responsible for actually doing the appraisals. We believe that saving performance appraisal must ultimately involve making it worthwhile for raters and ratees to take the system seriously. Without this sort of buy-in, nominal changes, such as developing new rating forms or new training programs, are certain to fail.

There are two different approaches you might take to make performance appraisal worthwhile to raters and ratees: increasing the benefits or reducing the costs. We recommend starting with costs, in part because it might be easier to reduce some of the costs raters and ratees experience when negotiating the performance appraisal system. In addition, there is also a good deal of evidence (see Chapter 5) that people think about costs and benefits differently, and that costs have a greater impact on decisions than corresponding benefits.

Protect the Rater

Raters face two costs when carrying out performance appraisals. First, appraisals require a lot of time and effort, and while this is one of the core functions supervisors and managers are paid to carry out, appraisal nevertheless is often perceived to be unduly labor intensive (Buckingham & Goodall, 2015). Second, as we noted earlier, raters face psychological costs, in the sense that performance appraisal is a stressful experience. Both of these costs might be mitigated by making performance appraisal less personal.

The typical performance appraisal places a lot of responsibility in the hands of each employee's direct supervisor or manager. An employee who does not get a raise or promotion is likely to hold his or her direct supervisor responsible for this outcome. Even if there are no financial consequences associated with low ratings or negative feedback, performance appraisal still involves a supervisor or manager giving his or her personal opinion about an employee's performance, and as we have noted in several preceding chapters, it is likely that this opinion will be less positive than employees' evaluation of their own performance. One of the reasons supervisors and managers dislike performance appraisal is that it puts them on the line, especially if the outcome of performance appraisal is less positive than the outcomes employees think they deserve. We think a good deal could be done to diffuse this situation by using multisource rating systems to help protect the rater.

In Chapter 11 we noted that multisource rating systems can create many problems because ratings from different perspectives (e.g., peers, subordinates) often disagree. Our suggestion is that information about performance should be *collected* from many sources, but *reported* as a single aggregate. That is, instead of telling your subordinate that *you* think he or she is a bad performer, it might be less stressful (and received less as a personal slight) if you could give feedback that information has been collected from many different sources, and the average of all of the pieces of information collected places him or her on the lower end of the scale. The key here is to give raters some protection and to make performance feedback less painful to give and less painful to receive.

Decoupling Pay From Performance Ratings

In the previous section, we argued that organizations often only pretend to pay for performance, when in fact they underfund merit pay pools and end up giving similar raises to just about everyone. We believe it is time for organizations to bite the bullet and either decouple performance ratings and pay or make the substantial investments needed to create a credible and trustworthy link. These investments would be twofold. First, organizations will need to develop performance measurement systems that are not susceptible to the biases that cause most raters to give inflated ratings. In a few of the preceding paragraphs, we suggested using multisource data to reduce pressure on the individual supervisor or manager, and this same suggestion might contribute to the credibility and trustworthiness of appraisal systems. However, even a change of this magnitude (which would magnify the current costs of performance appraisal systems) would not be enough to make merit pay systems effective. Organizations would also have to be willing to put a lot more at risk in order to make merit pay effective. The chance to earn a 3% raise if you are excellent, as opposed to a 2% raise if you are average, is not the sort of thing needed to make merit pay work. If a raise of 7% or more is the minimum needed to catch an employee's attention, raises that are substantially larger will be needed to signal that an employee is truly exceptional, and giving raises this large to some employees must also imply giving raises that are quite small (possibly smaller than the increase in cost of living) to others. On the whole, we think it will be difficult to make this work.

If they are going to give everyone comparable raises in the end, organizations could make life much easier for raters and ratees by decoupling performance ratings from salary. This would also resolve the conflict between administrative and developmental uses for performance appraisal (Meyer et al., 1965), making it easier to give truly developmental feedback without worrying that information about strengths and weaknesses will have an adverse effect on one's salary. More to the point, it would greatly reduce the costs to raters and ratees alike for giving honest evaluations when the ratee's performance is not up to standards.

Increase the Value of Feedback by Decreasing the Threat of Reduced Raises

We believe that in the end, decoupling pay from performance is likely to make developmental feedback more honest, accurate, and helpful. Employees who receive inflated ratings (this inflation is mainly done to protect employees from negative consequences when salary decisions are made) typically do not receive feedback that is particularly useful. Performance appraisals that *did* provide accurate performance feedback might be seen as beneficial by employees, particularly if that feedback can be given in a way that does not create negative reactions. For example, rather that providing absolute ratings on several dimensions (i.e., you were a "4" on Communication and a "3" on Planning), it might be better to provide comparative ratings (i.e., your communication skills are stronger than your planning skills). We base this recommendation on the recognition that ratees overestimate their standing in the organization compared to estimates obtained from other sources (see Chapters 9 and 10), and they may focus more on the level of the ratings than on the patterns that identify relative strengths and weaknesses.

Finally, we should not think about feedback as the sole benefit ratees get from performance appraisal. The appraisal interview provides an important and valuable opportunity for employees and their supervisor or manager to sit down and talk about what is going well and what might be improved. If we can reduce the aspects of this discussion that trigger anxiety and defensiveness (e.g., links to pay and emphasis on relative standing), it might be possible to change this conversation from the "job managers love to hate" into a positive and valuable experience for raters and ratees alike. In Chapter 14, we explore ways of using research on performance appraisal to improve the practice and the experience of appraisal in organizations.

Summary

The idea that we should, or even that we could, get rid of performance appraisal has received a good deal of attention in recent years. We recognize the challenges to doing appraisal well in organizations, as well as the forces that tend to distort performance appraisals in organizations, but we believe that performance appraisal can and must be saved (Cleveland & Murphy, 2016). First, performance appraisal serves a number of important purposes in organizations. A case can be made that it serves *too many* purposes, and one of our key recommendations is for organizations to make and live with decisions about which uses are the most critical. Nevertheless, performance appraisal is an important tool in human resource management, and there are no clear replacements in sight.

It is tempting to replace performance appraisal with something much simpler, such as continuous informal feedback (Aguinis, 2013) or a simplified set of questions about the perceived value of each employee (Buckingham & Goodall, 2015), but this approach involves a number of risks. In particular, organizations that use information from a performance appraisal system to make high-stakes decisions about employees (e.g., salary, promotion, protection from layoffs) may find it necessary to defend these decisions in court if there is evidence that the outcomes of these decisions differ for employees who differ in age, gender, race, or other protected categorizations. Like other tests and assessments that are used to make important decisions about applicants or employees, performance appraisal systems that are challenged will be very difficult to defend unless they can be shown to be clearly job related. Traditional performance appraisal systems include many features that enhance their job relatedness, including the use of job analysis to make decisions about which performance dimensions to measure, rater training, and multiple sources of input. A more informal system might be very hard to defend.

Organizations that decide to keep performance appraisal need to face up to many challenges. Appraisals in many organizations are used for conflicting purposes (e.g., salary administration versus identification of training needs), and some of these purposes (particularly those related to pay or advancement) are sources of anxiety and of motivation to distort appraisals. We believe there are two key decisions an organization that is attempting to save its performance appraisal system needs to make. First, they need to decide what it is they want to *do* with appraisals, and if some of these uses are in conflict, which one should be kept and which should be abandoned. Our review of research on merit pay leads us to believe that organizations that *claim* to use performance appraisal as part of a merit pay system are not really willing or able to reward merit, and if this is the case, they would be better off dropping the pretense that better performance leads to better pay.

Second, organizations need to think carefully about what they are willing and able to do to reduce the conflict, stress, and anxiety that is inherent in so many performance appraisal systems. Anything an organization can do to reduce the costs and increase the benefits of appraisal for both raters and ratees will help to improve the appraisal process. One possibility for reducing costs is to decouple pay from performance, but this is not necessarily the only way of reducing costs and increasing benefits. What organizations need to do is to take the costs and benefits of performance appraisal seriously and to put their effort into making the appraisal process at least palatable (and hopefully useful) to raters and ratees alike.

Case Study: Can This Performance Appraisal System be Saved?

Background: You are an industrial and organizational psychologist working for a consulting firm that specializes in performance appraisal and management. An organization calls your firm because they are concerned that their current performance appraisal system is not effectively meeting their needs. Your organizational contact also describes to you that a new committee has been formed to make an action plan regarding this concern; however, this committee is having difficulty in reaching a conclusion.

You decide to take on this project and meet with the committee. Quickly you learn that there are two camps: half of the committee thinks it is wise to get rid of the performance appraisal system altogether and the other half thinks it can be salvaged. You pose many questions to the committee, notably including those surrounding the current system (e.g., "Does the current performance appraisal system advance the goals of the organization?") and those surrounding their ideal, "best-case scenario" performance appraisal system (e.g., "What needs to improve?" and "What would your organization actually embrace?").

It becomes apparent to you why a number of committee members want to abandon the system. First, the employees and managers alike are not prioritizing performance appraisal as important. Second, the approach is disorganized and managers seem to all have their own interpretation of what the rating process should entail. Third, there is a recent occurrence of high turnover in the organization over the past several years, and new employees will often not even engage in the performance appraisal interview until after they psychologically have a foot out the door already (so it seems "too little, too late"). Finally, the committee explained how, as a nonprofit organization, the budget is extremely tight. You realize that this has implications on the performance appraisal system such that there is no room for a raise or bonus that exceeds the standard rate of 2%, regardless of excellent performance. You hold focus groups to hear from managers and employees. These same concerns are echoed.

Recommendation: After speaking with the committee and focus groups, your professional recommendation is that the current performance appraisal system is indeed not working, and major revisions should be considered. You explain how a new system can be created that better meets the goals of the organization and also helps to address the fundamental concern of turnover. During your presentation to the committee, you highlight the pitfalls of the current system: (1) it is inappropriately linked to pay, (2) it lacks opportunity for learning and development, (3) the frequency is not working, and (4) better organization is needed.

The current performance appraisal system was linked to pay, and the trivial amount of money (i.e., distinctions between 1.8% and 1.7%) tied to performance was causing more emotional distress for the managers and employees than it was worth. Rewards needed to be removed from the equation—because that was not the true goal here. (And even if it was, it would not be powerful enough to matter!) In the focus groups, you learned that employees were overwhelmed and felt a large amount of job stress. Employees voiced a need for more performance feedback and ongoing development. Thus, the emphasis needed to shift away from linking pay to performance toward a more forward-looking, developmental approach to sustain continual growth. This would require a change in the system's current emphasis as well as refreshing the outdated competency content. The original system was an annual meeting, whereas a more beneficial frequency would be three times a year for new employees (in their first year of employment) and twice a year for employees in their second year of tenure. This would provide employees with structured feedback, goal setting, and developmental targets where necessary much sooner after starting their jobs, potentially reducing the overwhelming feeling that was reported as a large reason for turnover. Annual appraisal seemed to be adequate for employees with longer tenure, thus that would remain consistent for those who have been with the organization three years or longer.

Finally, you explain to the committee that better organization surrounding the performance appraisal process is needed. This was not a secret to the committee. For instance, there was a paper rating form that was used each year during the performance appraisal meeting. Most managers had their own idea of how to use the current performance appraisal process, and this resulted in different practices within similar departments (e.g., some managers did not use the paper rating form, some managers used the form and kept it on file, some managers used the form and gave it to the employee to keep, and so on). This inconsistency in documentation raises red flags (e.g., in regard to legal issues, perceived trust from the employees), thus you propose a streamlined, paperless solution. The new system would be documented within the previously existing, online communications portal that is used on site. You spoke with the IT department with the organization and they assured you that both the manager and employee (rater and ratee) could have confidential access to the rating form and supplemental information discussed in the meeting.

Development: The committee votes in agreement with your proposal to repair the current performance appraisal system, and they want the development phase to start right away. You explain what constitutes successful performance appraisal might be different across organizations; therefore, sufficient data collection is necessary to accurately meet their needs. In your proposal you outline the steps needed to complete the development phase.

Conduct a job analysis. In order to ensure the new system includes relevant criteria, a job analysis should be conducted to identify the knowledge, skills, abilities, and other characteristics (KSAOs) needed to perform in the work setting. This is a comprehensive process that involves examining the people, the environment (e.g., the surrounding organizational context), reviewing source documents, leading interviews and focus groups, and collecting survey data. It is important to note it would include the input of managers and employees. They are subject matter experts (SMEs) in this circumstance, and when they are treated that way it helps to increase buy-in and ensure their voices are heard.

Identify the core competencies. This is what the organization wants to measure on the performance appraisal form. Using the information from the job analysis phase, the core competencies (i.e., performance dimensions, performance standards) should be identified. These should be measurable, under the employees' control to change, behaviorally based, and verifiable. There should also be a clear link between these competencies and the organization's values or the strategic goals of the organization where applicable.

Develop the documentation procedure and the rating form, and integrate goal setting within this. In the present example, the organization chose to move in the direction of online documentation for performance appraisal. The rating form will also be electronic within this procedure. Constructing an appropriate rating form is foundational to an effective performance appraisal meeting. It should help organize and facilitate a productive discussion, guide the conversation to be forward-looking, and include areas for action plans, time lines, and goal setting (track goal progress to discuss at each subsequent meeting).

Work out the logistics. When developing the performance appraisal system, a number of details deserve attention. For instance, who will rate the employees, will there be one rater or multiple raters, what type of rating scales should be used, what frequency should be used, how long should the performance appraisal interview last, how will it be documented, who should coordinate or initiate the performance appraisal meeting, how much flexibility is allowed in the meeting, how will feedback be delivered, what will follow-up look like, how will employees who work remotely receive performance appraisal, and other questions should be deliberated. These answers can be different for each organization.

Build a resources bank. In the present example, the new performance appraisal has a large developmental focus; thus once employees' strengths and weaknesses are identified, it is crucial that the proper training and developmental systems are in place to support any decisions about further guidance. In order to improve performance in the future, relevant resources and training should be prepared to support each core competency.

You explain to the organization that this thorough process of grounding the appraisal instrument in job analysis, providing clear behaviorally based competencies, communicating in a transparent way with employees about the process, and documenting the information helps to avoid legal issues down the road. See Chapter 14 for a continuation of this case example: Executing a New Performance Appraisal System.

Notes

1. According to O*NET, the 2015 median hourly wage for general and operating managers (code 11-1021.00) was $46.99.

2. The precise questions used by Deloitte are shown in Chapter 2, Table 2.2. These questions are paraphrased here.

3. The law protects employees from discrimination on the basis of race, nationality, religion, gender, disability, and age. The term *protected group* is not restricted to groups that have traditionally been the target of employment discrimination, but rather refers to the fact that the law protects all groups under these broad demographic headings equally.

4. In contrast, a review by the National Academy of Sciences (Milkovich & Wigdor, 1991) provides clear evidence that gain-sharing schemes that are tied to the overall performance of an organization or a unit in that organization can be effective.

5. The U.S. Bureau of Labor Statistics releases quarterly reports tracking national trends in salaries and labor costs. See also http://work.chron.com/average-salary-raise-percentage-17983.html, http://fortune.com/2015/02/12/salaries-raises-promotions/.

6. http://www.barrypopik.com/index.php/new_york_city/entry/they_pretend_to_pay_us_and_we_pretend_to_work