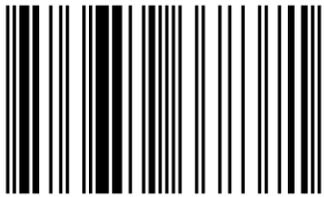


An appraisal is the analysis of the performance of an individual, which usually includes assessment of the individual's current and past work performance. Broadly speaking, there are two main reasons for the appraisal process. The first is the control purpose, which means making decisions about pay, promotions and careers. The second is about identifying the development needs of individuals. The main purpose of this book is Human Resource 360-Degree Feedback in context of Performance Appraisal System. This book will help HR managers and Policy makers in crafting different HR strategies especially for employee appraisals and feedback.

Human Resource 360-Degree Feedback



This work is written by Dr. Mohammad Rouhi Eisalou of Iran who is PhD in Human Resource Management. He is an active member of Zainab Arabian Research Society for Multidisciplinary Issues Dubai(UAE) that is an international research organization committed for research work at international level.



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Rouhi Eisalou

Mohammad Rouhi Eisalou

# Human Resource 360-Degree Feedback

Performance Appraisal System

*Caddo Gap Press, USA*

**Muhammad Rouhi Eisalou**

**Human Resource 360-Degree Feedback**



**Muhammad Rouhi Eaisalou**

**Human Resource 360-Degree Feedback  
Performance Appraisal System**

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**Human Resource 360-Degree Feedback  
Performance Appraisal System**

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## **Introduction**

The efforts of employees can determine the success and survival of an organization (Drucker, 1994; Barney, 1995), and appraisal is potentially one way in which those efforts can be aligned with the aims of an organization, employees can be motivated and their performance managed (Orpen, 1997; Martin and Bartol, 1998; Cook and Crossman, 2004). Performance appraisal is among the most important human resource (HR) practices (Boswell and Boudreau, 2002; Judge and Ferris, 1993; Yehuda Baruch, 1996) and one of the more heavily researched topics in work psychology (Fletcher, 2002), a subject of research for over 70 years (Landy and Farr, 1980: 87).

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

This Book is organized as following Chapters: (I) Performance Appraisal System, (II) Problems and Satisfaction of Performance Appraisal, (III) The Performance Appraisal Process, (IV) Performance Management, And (V) 360-Degree Feedback Appraisal System.

## **Chapter 1**

# **Performance Appraisal system**

### **INTRODUCTION**

Performance management systems are one of the major focuses on business today. Although every HR function contributes to performance management, training and performance appraisal play a more significant role. Whereas performance appraisal occurs at a specific time, performance management is a dynamic, ongoing, continuous process. Every person in the organization is a part of the PM system. Each part of the system, such as training, appraisal, and rewards, is integrated and linked for the purpose of continuous organizational effectiveness. With PM, the effort of each and every worker should be directed toward achieving strategic goals. If a worker's skill need to be improved, training is needed. With PM systems, training has a direct tie-in to achieving organizational effectiveness. In addition, pay and performance are directly related to achieving organizational goals.

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

communicated. There is a close relationship between incentives and performance (Giannetto,2009).

Robert J. Greene, CEO of Reward Systems Inc., said, “Performance management is the single largest contributor to organizational effectiveness. If you ignore performance management, you fail, According to Tyler(2005)“Organizations must take a more strategic approach to performance appraisal. Instead of using the familiar “check the box, write a comment” ritual, organizations need to integrate the company’s mission, vision, and values into their performance management systems.

## **WHAT IS PERFORMANCE APPRAISAL?**

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

PA is especially critical to the success of performance management. Although a performance appraisal is but one component of performance management, it is vital, in that it directly reflects the organization’s strategic plan. Although evaluation of team performance is critical when teams exist in an organization, the focus of PA in most firms remains with the individual employee. Regardless of the emphasis, an effective appraisal system evaluates accomplishments and initiates plans for development, goals, and objectives.

Performance appraisal is often a negative, disliked activity and one that seems to elude mastery(Russell and Russell,2010). Managers do not like giving them and employees do not like receiving them.( Andy Houghton,2010). In fact, in one survey, almost 80 percent of workers stated dissatisfaction with their PA process<sup>1</sup>. If this is so, why not just eliminate it? Actually, some managers might do just that if they did not need to provide feedback, encourage performance improvement, make valid decisions, justify terminations, identify training and development

---

<sup>1</sup> See: *Employees Care a Lot More About Performance Reviews Than You May Think*. HR Focus, July2009. 86: p. 9.

needs, and defend personnel decisions (Adrienne Fox, 2009). Performance appraisal serves many purposes, and improved results and efficiency are increasingly critical in today's globally competitive marketplace. Therefore, abandoning the only program with performance in its name and employees as its focus would seem to be an ill advised overreaction. On top of these considerations, managers must be concerned about legal ramifications. Developing an effective performance appraisal system has been and will continue to be a high priority for management (Fox, 2009).

The term "performance appraisal" refers to the process by which an individual's work performance is assessed.

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

According to Angelo S. DeNisi and Robert D. Pritchard (2006) "Performance appraisal" is a discrete, formal, organizationally sanctioned event, usually not occurring more frequently than once or twice a year, which has clearly stated performance dimensions and/or criteria that are used in the evaluation process. Furthermore, it is an evaluation process, in that quantitative scores are often assigned based on the judged level of the employee's job performance on the dimensions or criteria used, and the scores are shared with the employee being evaluated.

## **PERFORMANCE APPRAISAL SYSTEM METHODS**

Managers may choose from among a number of appraisal methods. The type of performance appraisal system used depends on its purpose. If the major emphasis is on selecting people for promotion, training, and merit pay increases, a traditional method, such as rating scales, may be appropriate. Collaborative methods,

including input from the employees themselves, may prove to be more suitable for developing employees.

Most appraisal methods used throughout the world today are based, to some extent at least upon the following techniques: Graphic rating scales; BARS<sup>1</sup>, BOS<sup>2</sup>; mixed standard rating scales; and MBO<sup>3</sup>. Most commentators agree that goal-based appraisal systems, in which an employee's work performance is measured against specific goals, are the most satisfactory (Dorfman et al., 1986; Locke and Latham, 1984; Latham and Wexley, 1981).

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

According to Muezyk and Gahle (1987), an organization's success or failure may be determined by the ways in which performance is managed.

Katsanis et al. (1996) provide several recommendations on the basis of their research for the development of performance appraisal methods:

- Gain support of both human resources and top management;
- Use qualitative versus quantitative criteria;
- Allow for input when developing performance standards and criteria;
- Make sure the performance appraisal system is not dated;
- Ensure managers take ownership of the performance appraisal system;
- Attempt to eliminate internal boundary spanning by creating direct reporting relationships where possible;
- Utilize performance targeting (Halachmi, 1993) to appraise PMs;

---

<sup>1</sup>Behaviorally Anchored Rating Scales

<sup>2</sup>Behavioral Observation Scales

<sup>3</sup>Management By Objectives

- Be aware and act on environmental forces as they affect the organization.

## **1- Rating Scales Method**

The rating scales method is a performance appraisal method that rates employees according to defined factors. Using this approach, evaluators record their judgments about performance on a scale. The scale includes several categories, normally 5–7 in number, defined by adjectives such as outstanding, meets expectations, or needs improvement. Although systems often provide an overall rating, the method generally allows for the use of more than one performance criterion.

One reason for the popularity of the rating scales method is its simplicity, which permits quick evaluations of many employees. When you quantify the ratings, the method facilitates comparison of employees' performances.

The factors chosen for evaluation are typically of two types: job-related and personal characteristics. Note that in Figure 1.2, job-related factors include quality and quantity of work, whereas personal factors include such behaviors as interpersonal skills and traits, like adaptability. The rater (evaluator) completes the form by indicating the degree of each factor that is most descriptive of the employee and his or her performance. In this illustration, evaluators total and then average the points in each part. They then multiply this average by a factor representing the weight given to each section. The final score (total points) for the employee is the total of each section's point.

Some firms provide space for the rater to comment on the evaluation given to each factor. This practice may be especially encouraged, or even required, when the rater gives an extreme rating, either the highest or lowest. For instance, if an employee is rated needs improvement (a 1 on the sample form) on teamwork, the rater provides written justification for this low evaluation. The purpose of this requirement is to focus on correcting deficiencies and to discourage arbitrary and hastily made judgments.

The more precise the definition of factors and degrees, the more accurately the rater can evaluate worker performance. For instance, in order to receive an outstanding rating for a factor such as quality of work, a person must consistently

go beyond the prescribed work requirements. When the various performance levels are described merely as above expectations or below expectations without further elaboration, what has the employee really learned? These generalities do not provide the guidance needed for improving performance. It is important that each rater interpret the factors and degrees in the same way. Raters acquire this ability through performance appraisal training. Many rating scale forms also provide for consideration of future behavior. Notice that the form shown as Figure 1.2 has space for performance goals for the next period and self-development activities for the next appraisal period.

Name \_\_\_\_\_ Job Title \_\_\_\_\_  
 Supervisor/Manager \_\_\_\_\_ **Department** \_\_\_\_\_  
 Appraisal Period: \_\_\_\_\_ From **To:** \_\_\_\_\_

Evaluate the performance in each of the following factors on a scale of 1 to 5:

- 5 = Outstanding**, consistently exceeds expectations for this factor.
- 4 = Above Expectations**, consistently meets and occasionally exceeds expectations.
- 3 = Meets Expectations**, consistently meets expectations.
- 2 = Below Expectations**, occasionally fails to meet expectations.
- 1 = Needs Improvement**, consistently fails to meet expectations.

**Part 1—Task Outcomes (Weighted 80% of total score)**

List mutually agreed-to performance factors from the job description And goals established for the preview performance review.	<b>Points</b>
• -----	-----
• -----	-----
• -----	-----
• -----	-----
• -----	-----
• Quality of work	-----
• Quantity of work	-----
<b>Total Points</b>	-----

**Average Score (Divide the total points by the number of factors used) -----**

Multiplied by **16** = -----

**Comments -----**  
-----  
-----  
-----

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

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

**Total Points -----**

**Average Score (Divide the total points by the number of applicable factors) -----**

Multiplied by **2** = -----

**Comments -----**  
-----  
-----  
-----

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

- Adaptability -----
- Judgment -----
- Appearance -----
- Attitude -----
- Initiative -----

**Total Points -----**

**Average Score (Divide the total points by 5) -----**

Multiplied by **2**= -----

**Comments -----**  
-----  
-----  
-----

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

Performance goals for next appraisal period:

- -----
- -----
- -----
- -----
- -----

Self-development activities of this employee

-----  
-----  
-----

Employee comments

-----  
-----  
-----

Evaluated By:	Title	Date
Approved	Title	Date
Employee's Signature (Does not necessarily indicate agreement)	Title	Date

Figure 1.2 - Rating Scales Method of Performance Appraisal

## 2- Critical Incident Method

The critical incident method is a performance appraisal method that requires keeping written records of highly favorable and unfavorable employee work actions. When such an action, a “critical incident,” affects the department’s effectiveness significantly, either positively or negatively, the manager writes it down. At the end of the appraisal period, the router uses these records along with other data to evaluate employee performance. With this method, the appraisal is more likely to cover the entire evaluation period and not focus on the past few weeks or months.

### **3- Assay Method**

The assay method is a performance appraisal method in which the rater writes a brief narrative describing the employee's performance. This method tends to focus on extreme behavior in the employee's work rather than on routine day-to-day performance. The ratings of this type depend heavily on the evaluator's writing ability. Supervisors with excellent writing skills, if so inclined, can make a marginal worker sound like a top performer. Comparative essay evaluations might be difficult because no common criteria exist. However, some managers believe that the essay method is not only the most simple but also an acceptable approach to employee evaluation.

### **4- Work Standards Method**

The work standards method is a performance appraisal method that compares each employee's performance to a predetermined standard or expected level of output. The standards reflect the normal output of an average worker operating at a normal pace. Firms may apply work standards to virtually all types of jobs, but production jobs generally receive the most attention. An obvious advantage of using standards as appraisal criteria is objectivity. However, in order for employees to perceive that the standards are objective, they should understand clearly how the standards were set. Management must also explain the rationale for any changes to the standards.

### **5- Ranking Method**

The ranking method is a performance appraisal method in which the rater ranks all employees from a group in order of overall performance. For example, the best employee in the group is ranked highest, and the priest is ranked lower. You follow this procedure until you rank all employees. A difficulty occurs when all individuals have performed at comparable levels (as perceived by the evaluator).

Paired comparison is a variation of the ranking method in which the performance of each employee is compared with that of every other employee in the group. A single criterion, such as overall performance, is often the basis for this comparison. The employee who receives the greatest number of favorable comparisons receives the highest ranking. Some professionals in the field argue for using a comparative approach, such as Rankin, whenever management must make human resource decisions. They believe that employees are promoted or receive the highest pay increases not because they achieve their objectives, but rather because they achieve them better than others in their work group.

## **6- Forced Distribution Method**

The forced distribution method of performance appraisal requires the rater to assign individuals in a Workgroup to a limited number of categories, similar to a normal frequency distribution. The purpose of forced distribution is to keep managers from being excessively lenient and having a disproportionate number of employees in the “superior” category (D.G, 2008: 42). Forced distribution systems have been around for decades and firms such as General Electric, Cisco Systems, EDS, Hewlett-Packard, Microsoft, Pepsi, Caterpillar, Sun Microsystems, Goodyear, Ford Motor, and Capital One use them today (Stephen Garcia, 2007). Proponents of forced distribution believe they facilitate budgeting and guard against weak managers who are too timid to get rid of poor performers. They think that forced rankings require managers to be honest with workers about how they are doing.

The forced distribution systems tend to be based on three levels. In GE’s system, the best performers are placed in the top 20 percent, the next group in the middle 70 percent, and the poorest performing group winds up in the bottom 10 percent. The underperformers are, after being given a time to improve their performance, generally let go. If any of the underperformers are able to improve their performance, you might wonder if any in the 70 percent group would get nervous!

Although used by some prestigious firms, the forced distribution system appears to be unpopular with many managers. In a survey of HR professionals, 44 percent of respondents thought their firm’s forced ranking system damages morale

and generates mistrust of leadership<sup>1</sup>. Some believe it fosters cutthroat competition, paranoia, and general ill will, and destroys employee loyalty. A Midwestern banker states that his company (Anne Fisher, 2002) “began a rank-and-yank system that flies directly in the face of the ‘teamwork’ that senior management says it wants to encourage. Don’t tell me I’m supposed to put the good of the team first and then tell me the bottom 10 percent of us are going to lose our jobs because, team be damned, I’m going to make sure I’m not in that bottom 10 percent.”[23] Critics of forced distribution contend that they compel managers to penalize a good, although not a great, employee who is part of a superstar team. One reason employees are opposed to forced ranking is that they suspect that the rankings are a way for companies to rationalize firings more easily.

## **7- Behaviorally Anchored Rating Scale Method**

The behaviorally anchored rating scale (BARS) method is a performance appraisal method that combines elements of the traditional rating scales and critical incident methods; various performance levels are shown along a scale with each described in terms of an employee’s specific job behavior. Table 1 illustrates a portion of a BARS system that was developed to evaluate college recruiters. Suppose the factor chosen for evaluation is the Ability to Present Positive Company Image. On the very positive end of this factor would be “Makes excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to the applicant and answers questions in a very positive manner.” On the very negative end of this factor would be “Even with repeated instructions continues to make a poor impression. This interviewer could be expected to turn off college applicants from wanting to join the firm.” As may be noted, there are several levels in between the very negative and the very positive. The rate is able to determine more objectively how frequently the employee performs in each defined level.

A BARS system differs from rating scales because, instead of using terms such as high, medium, and low at each scale point, it uses behavioral anchors related to the criterion being measured. This modification clarifies the meaning of each point on the scale and reduces rater bias and error by anchoring the rating with specific

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<sup>1</sup>See: *Why HR Professionals Are Worried about Forced Rankings*. HR Focus . October 2004. 81: p. 8–9.

behavioral examples based on job analysis information. Instead of providing a space for entering a rating figure for a category such as Above Expectations, the BARS method provides examples of such behavior. This approach facilitates discussion of the rating because it addresses specific behaviors, thus overcoming weaknesses in other evaluation methods. Regardless of the apparent advantages of the BARS method, reports on its effectiveness are mixed. A specific deficiency is that the behaviors used are actively oriented rather than results oriented. Also, the method may not be economically feasible for each job category requires its own BARS. Yet, among the various appraisal techniques, the BARS method is perhaps the most highly defensible in court because it is based on actual observable job behaviors.

**Clearly Outstanding Performance** Makes an excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to the applicant and answers questions in a very positive manner.

**Excellent Performance** Makes a good impression on college recruits. Answers all questions and explains positive aspects of the company. Answers questions in a positive manner.

**Good Performance** Makes a reasonable impression on college recruits. Listens to the applicant and answers questions in a knowledgeable manner.

**Average Performance** Makes a fair impression on college recruits. Listens to apply and answers most questions in a knowledgeable manner.

**Slightly Below Average Performance** Attempts to make a good impression on college recruits. Listens to applicants but at times could be expected to have to go to other sources to get answers to questions.

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

realizing the mistake.

<b>Very Performance</b>	<b>Poor</b> Even with repeated instructions continues to make a poor impression. This interviewer could be expected to turn off college applicant from wanting to join the firm.
-----------------------------	--

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

## **8- Results-Based System**

The manager and subordinate jointly agree on objectives for the next appraisal period in a results-based system, in the past a form of management by objectives. In such a system, one objective might be, for example, to cut waste by 10 percent. At the end of the appraisal period, an evaluation focuses on how well the employee achieved this objective.

### **SPECIFIC CASE OF THE 360-DEGREE**

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

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

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

Proponents of the 360-degree feedback approach offer it as a “progressive” means of conducting performance appraisal, a means that addresses many procedural justice concerns. Church and Bracken (1997) contend that 360-degree feedback systems and other forms of multi source or multi-rater assessment methods in organizations have evolved from an innovative “nice-to-have” technique administered only to the most senior levels to a “must-have” tool for integration into overall performance and human resource management strategies. These systems appear well suited for the flexible, team-based, change-oriented organizational cultures of many organizations today.

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

## **PERFORMANCE APPRAISAL SYSTEM PURPOSES**

Firms engage in the performance-evaluation process for numerous reasons. Managers may conduct appraisals to affect employee behavior through the feedback process, or to justify some sort of human resource management action (termination, transfer, promotion, etc.). However, many other benefits may also accrue from the information yielded by the appraisal. These benefits include increases in knowledge regarding the effectiveness of selection and placement programs, training and development needs, budgeting; human resource planning, and reward decisions (Cocanougher & Ivancevich, 1978; Dubinsky, Skinner, & Whittler, 1989; Thomas & Bretz, 1994; Wanguri, 1995). [29, 30]Perhaps the

overriding reason for performance appraisals is provided by Ilgen and Feldman (1983). They contend that organizations cannot function effectively without some means of distinguishing between good and poor performance.

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

According to Yehuda Baruch (1996), Performance Appraisal systems are used for two main purposes:

- To serve a variety of management functions such as decision-making about promotions, training needs, salaries, etc.
- To enhance developmental processes of employees or as an evaluation instrument (Cleveland, Murphy, Williams, 1989).

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

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

## **Chapter 2**

# **Problems and Satisfaction of Performance Appraisal**

### **INTRODUCTION**

Performance management focuses on ways to motivate employees to improve their performance. The goal of the performance management process is performance improvement, initially at the level of the individual employee, and ultimately at the level of the organization.

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

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

Appraisals are generally considered to have a positive influence on performance, but they also may have a negative impact on motivation, role

perceptions, and turnover when they are poorly designed or administered (Churchill et al., 1985).

The ultimate goal of performance appraisal should be to provide information that will best enable managers to improve employee performance. Thus, ideally, the performance appraisal provides information to help managers manage in such a way that employee performance improves (DeNisi and Pritchard, 2006). Providing the employee with feedback is widely recognized as a crucial activity. Such feedback may encourage and enable self-development, and thus will be instrumental in the organization as a whole Yehuda Baruch (1996). Larson (1984) supports the importance of evaluations in terms of their effect on organizational effectiveness, stating that feedback is a critical portion of an organization's control system.

## **PROBLEMS IN PERFORMANCE APPRAISAL**

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

Thomas and Bretz (1994) argue that evaluations are often perceived by employees and supervisors with "fear and loathing." Two possible explanations for the fear and loathing are the absence of a "sense of ownership" and an absence of rewards for properly completing the process. Cardy (1998) describes the appraisal process as "a difficult and error-ridden task." However, Cardy also points out that

it is an important task that affects both the individual and the organization. As suggested by Drenth (1984), evaluation is a sensitive matter, often eliciting negative psychological responses such as resistance, denial, aggression, or discouragement, particularly if the assessment is negative. Thus high perceptions of evaluative performance appraisal use may result in negative feelings about the appraisal.

The employee reactions to appraisals can be an important condition to improve the employee's performance. Recently, scholars have begun to argue that employee emotions and perceptions are important in determining the efficacy of performance appraisal systems.

As indicated at the beginning of this chapter, performance appraisal is constantly under a barrage of criticism. The rating scales method seems to be the most vulnerable target. Yet, in all fairness, many of the problems commonly mentioned are not inherent in this method but, rather, reflect improper implementation. For example, firms may fail to provide adequate rater training or they may use appraisal criteria that are too subjective and lack job-relatedness. The following section highlights some of the more common problem areas.

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

### **1- Appraiser Discomfort**

Conducting performance appraisals are often a frustrating human resource management task. One management guru, Edward Lawler (1994), noted the considerable documentation showing that performance appraisal systems neither motivate individuals nor effectively guide their development. Instead, he maintains, they create conflict between supervisors and subordinates and lead to dysfunctional behaviors. This caveat is important. If a performance appraisal system has a faulty design, or improper administration, employees will dread receiving appraisals and the managers will despise giving them. In fact, some managers have always loathed the time, paperwork, difficult choices, and discomfort that often accompanies the appraisal process. Going through the

procedure cuts into a manager's high-priority workload and the experience can be especially unpleasant when the employee in question has not performed well.

## **2- Lack of Objectivity**

A potential weakness of traditional performance appraisal methods is that they lack objectivity. In the rating scales method, for example, commonly used factors such as attitude, appearance, and personality are difficult to measure. In addition, these factors may have little to do with an employee's job performance. Although subjectivity will always exist in appraisal methods, employee appraisal based primarily on personal characteristics may place the evaluator and the company in untenable positions with the employee and equal employment opportunity guidelines. The firm may be hard-pressed to show that these factors are job-related.

## **3- Halo/Horn**

A halo error occurs when a manager generalizes one positive performance feature or incident to all aspects of employee performance, resulting in a higher rating. For example, Rodney Pirkle (2010), accounting supervisor, placed a high value on neatness, a factor used in the company's performance appraisal system. As Rodney was evaluating the performance of his senior accounting clerk, Jack Hicks, he noted that Jack was a very neat individual and gave him a high ranking on this factor. Also, consciously or unconsciously, Rodney permitted the high ranking on neatness to carry over to other factors, giving Jack undeserved high ratings on all factors. Of course, if Jack had not been neat, the opposite could have occurred. This phenomenon is known as the horn error, an evaluation error that occurs when a manager generalizes one negative performance feature or incident to all aspects of employee performance, resulting in a lower rating.

## **4- Leniency/Strictness**

Some managers are too generous with praise or too hard on a person. Dick Grote, a performance management expert and president of Grote Consulting Corporation, a management consulting firm in Dallas, said, "It is not OK to have performance rated differently from manager to manager because these decisions impact

compensations, development and succession planning.” Giving undeserved high ratings to an employee is referred to as leniency. This behavior is often motivated by a desire to avoid controversy over the appraisal. It is most prevalent when highly subjective (and difficult to defend) performance criteria are used, and the rater is required to discuss evaluation results with employees. When managers know they are evaluating employees for administrative purposes, such as pay increases, they are likely to be more lenient than when evaluating performance to achieve employee development. Leniency, however, may result in failure to recognize correctable deficiencies. The practice may also deplete the merit budget and reduce the rewards available for superior employees. In addition, an organization will find it difficult to terminate poor-performing employees who continually receive positive evaluations. Being unduly critical of an employee’s work performance is referred to as strictness. Although leniency is usually more prevalent than strictness, some managers, on their own initiative, apply an evaluation more rigorously than the company standard. This behavior may be due to a lack of understanding of various evaluation factors. The worst situation is when a firm has both lenient and strict managers and does nothing to level the inequities. Here, the weak performers get relatively high pay increases and promotions from a lenient boss, whereas the strict manager short-changes the stronger employees. This can have a demoralizing effect on the morale and motivation of the top-performing people.

### **5- Central Tendency**

Central tendency error is an evaluation appraisal error that occurs when employees are incorrectly rated near the average or middle of a scale. This practice may be encouraged by some rating scale systems that require the evaluator to justify in writing extremely high or extremely low ratings. With such a system, the rater may avoid possible controversy or criticism by giving only average ratings. However, since these ratings tend to cluster in the fully satisfactory range, employees do not often complain. Nevertheless, this error does exist and it influences the accuracy of evaluations. Typically, when pay raises are given, they will be based on an employee’s performance. When a manager gives an underachiever or overachiever, an average rating, it undermines the compensation system. (Tom Krattenmaker, 2009).

## **6- Recent Behavior Bias**

Anyone who has observed the behavior of young children several weeks before Christmas can readily identify with the problem of recent behavior bias. Suddenly, the wildest kids in the neighborhood develop angelic personalities in anticipation of the rewards they hope to receive from Old Saint Nick. Individuals in the workforce are not children, but they are human. Virtually every employee knows precisely when a performance review is scheduled. Although his or her actions may not be conscious, an employee's behavior often improves and productivity tends to rise several days or weeks before the scheduled evaluation. It is only natural for a rater to remember the recent behavior more clearly than actions from the more distant past. However, formal performance appraisals generally cover a specified time, and an individual's performance over the entire period should be considered. Maintaining records of performance throughout the appraisal period helps avoid this problem.

## **7- Personal Bias (Stereotyping)**

This pitfall occurs when managers allow individual differences to affect the ratings they give. If these are factors to avoid such as gender, race, or age, not only is this problem detrimental to employee morale, but it is blatantly illegal and can result in costly litigation. The effects of cultural bias, or stereotyping, can definitely influence appraisals. Managers establish mental pictures of what are considered ideal typical workers, and employees who do not match this picture may be unfairly judged. Discrimination in the appraisal can be based on other factors as well. For example, mild mannered employees may be appraised more harshly because they do not seriously object to the results. This type of behavior is in sharp contrast to the more outspoken employee, who often confirms the adage: the squeaky wheel gets the grease.

## **8- Manipulating the Evaluation**

In some instances, managers control virtually every aspect of the appraisal process and are therefore in a position to manipulate the system. For example, a supervisor may want to give a pay raise to a certain employee or the supervisor may just “favor” one worker more than another. In order to justify this action, the supervisor may give the employee an undeserved high performance evaluation and perhaps a less favored, but productive, employing a lower rating. Or, the supervisor may want to get rid of an employee and so may give the individual an undeserved low rating. In either instance, the system is distorted and the goals of performance appraisal cannot be achieved. In addition, in the latter example, if the employee is a member of a protected group, the firm may wind up in court. If the organization cannot adequately support the evaluation, it may suffer significant financial loss.

## **9- Employee Anxiety**

The evaluation process may also create anxiety for the appraised employee. This may take the form of discontent, apathy, and turnover. In a worst-case scenario, a lawsuit is filed based on real or perceived unfairness. Opportunities for promotion, better work assignments, and increased compensation may hinge on the results. This could cause not only apprehension, but also outright resistance. One opinion is that if you surveyed typical employees, they would tell you performance appraisal is management’s way of highlighting all the bad things they did all year.

## **PERFORMANCE APPRAISAL SATISFACTION**

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

with developmental activities may feel an obligation to „repay“ the organization through high work performance.

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

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

### **1- The Role Of The Feedback**

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

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

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

Second, feedback potentially can influence future performance (Ilgen et al., 1979; Kluger and DeNisi, 1996). Third, it is believed to play a significant role in the development of job and organizational attitudes (Ilgen et al., 1981; Taylor et al., 1984).

Performance feedback should include information on how to improve performance, along with information about what areas of performance need improvement. The frequency of feedback is also important. The rating scales should focus on results as much as on processes.

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

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

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

Reactions to feedback are presumed to indicate the overall system viability (Bernardin and Beatty, 1984; Cardy and Dobbins, 1994; Carroll and Schneier,

1982) and to influence future job performance (Kluger and DeNisi, 1996), as well as job and organizational attitudes (Taylor et al., 1984).

Satisfaction with appraisal feedback is one of the most consequential of the reactions to appraisal feedback (Dorfman et al., 1986; Giles and Mossholder, 1990; Keeping and Levy, 2000). Several researchers (Giles and Mossholder, 1990; Organ, 1988) have asserted that using satisfaction as a measure of employees' reactions affords a broader indicator of reactions to appraisal feedback than more specific cognitively oriented criteria. In fact, cognitively oriented measures, such as perceived utility and perceived accuracy, are positively related to satisfaction with appraisal feedback (Keeping and Levy, 2000). In addition, because appraisals form the basis of several important decisions, satisfaction with feedback signifies recognition, status, and future prospects within the organization. These various psychological implications of satisfaction with feedback make it a significant determinant of future behavior and job and organizational attitudes (Taylor et al., 1984).

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

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

## **2- The Organizational Justice**

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

There has been a growing body of research that looks at procedural, interactional and distributive justice in organizations. Examples of this trend include Greenberg (1987, 1988, 1993a, 1996), Alexander and Ruderman (1987), Lind (1995), Lind and Tyler (1988), Fryxell and Gordon (1989), Folger and Konovsky (1989), Sheppard et al., (1992), Cropanzano and Randall (1993), Gordon and Fryxell (1993), Hartley (1995), Alexander et al., (1995), Taylor et al.,

(1995), Cropanzano and Kackmar (1995), Beugre (1998) and Folger and Cropanzano (1998).

- ***The distributive justice:*** The study of distributive justice deals with the perceived fairness of the outcomes or allocations that individuals in organizations receive (Folger and Cropanzano, 1998). In the case of performance appraisal, distributive justice requires that “performance appraisal ratings meet employee expectations, outcomes are based on the ratings, and outcomes meet the expectations of employees” (Bowen et al., 1999).

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

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

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

In control theory it is assumed that individuals prefer to be in control of decision-making processes rather than be passive recipients. For example, in a recent study of computer-based performance monitoring, Douthitt and Aiello (2001) reported that employee participation (providing input related to the expression of work process preferences) had a positive impact on perceptions of procedural justice. However, they showed that the ability to control the computer

monitoring (if it was on or off) did not significantly influence perceptions of justice. Their findings suggest that various forms of control (decision and process) may partially determine the perceived fairness Performance appraisal systems(Thibaut & Walker, 1975).

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

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

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

### **3- The Role of The Appraiser**

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

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

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

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

#### **4- Performance Appraisal Purposes And Attitudes**

Previous research has shown that performance appraisal purpose affects rating processes and outcomes (Murphy, Garcia, Kerkar, Martin, and Baher, 1982; Shore, Adams, and Tashchian, 1998; Williams, DeNisi. Blencoe, and Cafferty. 1985) and employees indicate a preference for certain performance appraisal uses, it is conceivable that employee attitudes may vary depending on perceptions of how the performance appraisal is used. If people perceive performance appraisal purposes differently, as has been suggested (Balzer and Sulsky, 1990), then attitudes may vary depending on that perception.

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

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

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

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

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

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

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

Previous research on 360-degree feedback has found that ratees approve of these appraisals when they are used for developmental purposes but are not as

accepting when they are used for evaluation (for example, Ash, 1994; McEvoy, 1990; McEvoy, Buller, and Roghaar, 1988).

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

## **Chapter 3**

# **The Performance Appraisal Process**

## **PERFORMANCE APPRAISAL USES**

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

### **1. Human Resource Planning**

In assessing a firm's human resources, data must be available to identify those who have the potential to be promoted or for any area of internal employee relations. Through performance appraisal it may be discovered that there is an insufficient number of workers who are prepared to enter management. Plans can then be made for greater emphasis on management development. Succession planning is a key concern for all firms. A well-designed appraisal system provides a profile of the organization's human resource strengths and weaknesses to support this effort.

## **2. Recruitment and Selection**

Performance evaluation ratings may be helpful in predicting the performance of job applicants. For example, it may be determined that a firm's successful employees (identified through performance evaluations) exhibit certain behaviors when performing key tasks. Also, invalidating selection tests, employee ratings may be used as the variable against which test scores are compared. In this instance, the determination of the selection test's validity would depend on the accuracy of appraisal results.

## **3. Training and Development**

Performance appraisal should point out an employee's specific needs for training and development. For instance, if Pat Compton's job requires skill in technical writing and her evaluation reveals a deficiency in this factor, she may need additional training in written communication. If a firm finds that a number of first-line supervisors are having difficulty in administering disciplinary action, training sessions addressing this problem may be appropriate. By identifying deficiencies that adversely affect performance, T&D programs can be developed that permit individuals to build on their strengths and minimize their deficiencies. An appraisal system does not guarantee properly trained and developed employees. However, determining T&D needs is more precise when appraisal data are available.

## **4. Career Planning and Development**

Career planning is an ongoing process whereby an individual sets career goals and identifies the means to achieve them. On the other hand, career development is a formal approach used by the organization to ensure that people with the proper qualifications and experiences are available when needed. Performance appraisal data is essential in assessing an employee's strengths and weaknesses and in determining the person's potential. Managers may use such information to counsel subordinates and assist them in developing and implementing their career plans.

## **5. Compensation Programs**

Performance appraisal results provide a basis for rational decisions regarding pay adjustments. Most managers believe that you should reward outstanding job performance tangibly with pay increases. They believe that the behaviors you reward are the behaviors you get. Rewarding behaviors necessary for accomplishing organizational objectives is at the heart of a firm's strategic plan. To encourage good performance, a firm should design and implement a reliable performance appraisal system and then reward the most productive workers and teams accordingly.

## **6. Internal Employee Relations**

Performance appraisal data are also used for decisions in several areas of internal employee relations, including promotion, demotion, termination, layoff, and transfer. For example, an employee's performance in one job may be useful in determining his or her ability to perform another job at the same level, as is required in the consideration of transfers. When the performance level is unacceptable, demotion or even termination may be appropriate.

## **7. Assessment of Employee Potential**

Some organizations attempt to assess an employee's potential as they appraise his or her job performance. Although past behaviors may be a good predictor of future behaviors in some jobs, an employee's past performance may not accurately indicate future performance in other jobs.

The best salesperson in the company may not have what it takes to become a successful district sales manager, where the tasks are distinctly different. Similarly, the best systems analyst may, if promoted, be a disaster as an information technology manager. Overemphasizing technical skills and ignoring other equally important skills is a common error in promoting employees into management jobs. Recognition of this problem has led some firms to separate the appraisal of performance, which focuses on past behavior, from the assessment of potential, which is future-oriented.

## **PERFORMANCE APPRAISAL ENVIRONMENTAL FACTORS**

External and internal environmental factors can influence the appraisal process. For example, legislation requires that appraisal systems are nondiscriminatory. In the case of *Mistretta v Sandia Corporation* (a subsidiary of Western Electric Company, Inc.), a federal district court judge ruled against the company, stating, “There is sufficient circumstantial evidence to indicate that age bias and age based policies appear throughout the performance rating process to the detriment of the protected age group.” The *Albemarle Paper v Moody* case also supported validation requirements for performance appraisals, as well as for selection tests. Organizations should avoid using any appraisal method that results in a disproportionately negative impact on a protected group. The labor union is another external factor that might affect a firm’s appraisal process.

Unions have traditionally stressed seniority as the basis for promotions and pay increases. They may vigorously oppose the use of a management-designed performance appraisal system used for these purposes.

Factors within the internal environment can also affect the performance appraisal process. For instance, a firm’s corporate culture can assist or hinder the process. Today’s dynamic organizations, which increasingly use teams to perform jobs, recognize overall team results as well as individual contributions. A non-trusting culture does not provide the environment needed to encourage high performance by either individuals or teams. In such an atmosphere, the credibility of an appraisal system will suffer regardless of its merits.

## **PERFORMANCE APPRAISAL PROCESS**

The starting point of the PA process is identifying specific performance goals. An appraisal system probably cannot effectively serve every desired purpose, so management should select the specific goals it believes to be most important and realistically achievable. For example, some firms may want to stress employee

development, whereas other organizations may want to focus on pay adjustments. Too many PA systems fail because management expects too much from one method and does not determine specifically what it wants the system to accomplish.

The next step in this ongoing cycle continues with establishing performance criteria (standards) and communicating these performance expectations to those concerned. Then the work is performed and the supervisor appraises the performance. At the end of the appraisal period, the appraiser and the employee together review work performance and evaluate it against established performance standards. This review helps determine how well employees have met these standards, determines the reasons for deficiencies, and develops a plan to correct the problems. At this meeting, goals are set for the next evaluation period, and the cycle repeats.

### **1- Establish Performance Criteria (Standards)**

There is an old adage that says “What gets watched gets done.” Therefore, management must carefully select performance criteria as it pertains to achieving corporate goals. The most common appraisal criteria are traits, behaviors, competencies, goal achievement, and improvement potential.

### **2- Traits**

Certain employee traits such as attitude, appearance, and initiative are the basis for some evaluations. However, many of these commonly used qualities are subjective and may be either unrelated to job performance or difficult to define. In such cases, inaccurate evaluations may occur and create legal problems for the organization as well. This was the case in *Wade v Mississippi Cooperative Extension Service* where the circuit court ruled:

In a performance appraisal system, general characteristics such as leadership, public acceptance, attitude toward people, appearance and grooming, personal conduct, outlook on life, ethical habits, resourcefulness, capacity for growth, mental alertness, and loyalty to organization are susceptible to partiality and to the personal taste, whim, or fancy of the evaluator as well as patently subjective in

form and obviously susceptible to completely subjective treatment by those conducting the appraisals.

At the same time, certain traits may relate to job performance and, if this connection is established, using them may be appropriate. Traits such as adaptability, judgment, appearance, and attitude may be used when shown to be job-related.

### **3- Behaviors**

When an individual task outcome is difficult to determine, organizations may evaluate the person's task-related behavior or competencies. For example, an appropriate behavior to evaluate for a manager might be leadership style. For individuals working in teams, developing others, teamwork and cooperation, or customer service orientation might be appropriate. Desired behaviors may be appropriate as evaluation criteria because if they are recognized and rewarded, employees tend to repeat them. If certain behaviors result in desired outcomes, there is merit in using them in the evaluation process.

### **4- Competencies**

Competencies include a broad range of knowledge, skills, traits, and behaviors that may be technical in nature, relate to interpersonal skills, or are business-oriented. Some managers recommend that cultural competencies such as ethics and integrity be used for all jobs. There are also competencies that are job-specific. For example, analytical thinking and achievement orientation might be essential in professional jobs. In leadership jobs, relevant competencies might include developing talent, delegating authority, and people management skills. The competencies selected for evaluation purposes should be those that are closely associated with job success.

Research conducted by the University of Michigan Business School and sponsored by the Society for SHRM<sup>1</sup> and the Global Consulting Alliance determined that success in HR is dependent on competency and specific skills in the following five key areas (Susan Meisinger, 2003):

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<sup>1</sup>Human Resource Management

- \_ Strategic contribution: Connecting firms to their markets and quickly aligning employee behaviors with organizational needs.
- \_ Business knowledge: Knowing how businesses are run and translating this into action.
- \_ Personal credibility: Demonstrating measurable value; being part of an executive team.
- \_ HR delivery: Providing efficient and effective service to customers in the areas of staffing, performance management, development, and evaluation.
- \_ HR technology: Using technology and Web-based means to deliver value to customers.

## **5- Goal Achievement**

If organizations consider ends more important than the means, goal achievement outcomes become an appropriate factor to evaluate. The outcomes established should be within the control of the individual or team and should be those results that lead to the firm's success. At upper levels, the goals might deal with financial aspects of the firm such as profit or cash flow, and market considerations such as market share or position in the market. At lower organizational levels, the outcomes might be meeting the customer's quality requirements and delivering according to the promised schedule. To assist the process, the manager needs to provide specific examples of how the employee can further his or her development and achieve specific goals. Both parties should reach an agreement as to the employee's goals for the next evaluation period and the assistance and resources the manager needs to provide. This aspect of employee appraisal should be the most positive element in the entire process and help the employee focus on behavior that will produce positive results for all concerned.

## **6- Improvement Potential**

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

problem is that you cannot change the past. Unless a firm takes further steps, the evaluation data become merely historical documents. Therefore, firms should emphasize the future, including the behaviors and outcomes needed to develop the employee, and, in the process, achieve the firm's goals. This involves an assessment of the employee's potential. Including potential in the evaluation process helps to ensure more effective career planning and development. You should remember that the evaluation criteria presented here are not mutually exclusive. In fact, many appraisal systems are hybrids of these approaches.

### **7- Responsibility for Appraisal**

Often the human resource department is responsible for coordinating the design and implementation of performance appraisal programs. However, it is essential that line managers play a key role from beginning to end. These individuals usually conduct the appraisals, and they must directly participate in the program if it is to succeed. Several possibilities exist with regard to the person who will actually rate the employee.

### **8- Immediate Supervisor**

An employee's immediate supervisor has traditionally been the most logical choice for evaluating performance and this continues to be the case. The supervisor is usually in an excellent position to observe the employee's job performance and the supervisor has the responsibility for managing a particular unit. When someone else has the task of evaluating subordinates, the supervisor's authority may be undermined. Also, subordinate training and development is an important element in every manager's job and, as previously mentioned, appraisal programs and employee development are usually closely related.

On the negative side, the immediate supervisor may emphasize certain aspects of employee performance and neglect others. Also, managers have been known to manipulate evaluations to justify pay increases and promotions and vice versa. When geography separates subordinates from their supervisors, evaluation becomes increasingly difficult. In other cases, the appraised employee may be more technically knowledgeable than the boss, and this presents another potential

problem. One suggestion for overcoming these disadvantages is to bring subordinates into the process more closely. Have them suggest ways to fairly evaluate their performance and then use their suggestions as part of the appraisal criteria.

In most instances, the immediate supervisor will probably continue to be involved in evaluating performance. Organizations will seek alternatives, however, because of technological advances and a desire to broaden the perspective of the appraisal.

## **9- Subordinates**

Historically, our culture has viewed evaluation by subordinates negatively. However, this thinking has changed somewhat. Some firms conclude that evaluation of managers by subordinates is both feasible and needed. They reason that subordinates are in an excellent position to view their superiors' managerial effectiveness. Advocates believe that this approach leads supervisors to become especially conscious of the work group's needs and to do a better job of managing. In the higher education environment, it is a common practice for instructors to be evaluated by students. Critics are concerned that the manager (and instructors) will be caught up in a popularity contest or that employees will be fear of reprisal. If this approach has a chance for success, one thing is clear: the evaluators must be guaranteed anonymity. Ensuring this might be particularly difficult in a small department and especially if demographic data on the appraisal form could identify raters.

## **10- Peers and Team Members**

A major strength of using peer to appraise performance is that they work closely with the evaluated employee and probably have an undistorted perspective on typical performance, especially in team assignments. Organizations are increasingly using teams, including those that are self-directed. The rationale for evaluations conducted by team members includes the following:

- \_ Team members know each others' performance better than anyone and can, therefore, evaluate performance more accurately.
- \_ Peer pressure is a powerful motivator for team members.

\_ Members who recognize that peers within the team will be evaluating their work show increased commitment and productivity.

\_ Peer review involves numerous opinions and is not dependent on one individual.

Problems with peer evaluations include the reluctance of some people who work closely together, especially on teams, to criticize each other. On the other hand, if an employee has been at odds with another worker he or she might really “unload on the enemy,” resulting in an unfair evaluation. Another problem concerns peers who interact infrequently and lack the information needed to make an accurate assessment.

When employees work in teams, and their appraisal system focuses entirely on individual results, it is not surprising that they show little interest in their teams. But, this problem can be corrected. If teamwork is essential, make it a criterion for evaluating employees; rewarding collaboration will encourage teamwork.

## **11- Self-Appraisal**

If employees understand their objectives and the criteria used for evaluation, they are in a good position to appraise their own performance. Many people know what they do well on the job and what they need to improve. If they have the opportunity, they will criticize their own performance objectively and take action to improve it. Paul Falcone (2007), vice-president of HR at Nickelodeon, said, “The fascinating thing is that employees are usually tougher on themselves than you will ever be.” Also, because employee development is self-development, employees who appraise their own performance may become more highly motivated. The self - appraisal provides employees with a means of keeping the supervisor informed about everything the worker has made during the appraisal period (Joan Lloyd, 2009) . Even if a self-appraisal is not a part of the system, the employee should at least provide the manager a list of his or her most important accomplishments and contributions over the appraisal period. This will prevent the manager from being blindsided when the employee complains, perhaps justifiably, “You didn’t even mention the Bandy contract I landed last December!” As a complement to other approaches, self-appraisal has great appeal to managers who are primarily concerned with employee participation and development. For compensation purposes, however, its value is considerably less. Some individuals

are masters at attributing good performance to their own efforts and poor performance to someone else's.

## **12- Customer Appraisal**

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

## **13- Appraisal Period**

Formal performance evaluations are usually prepared at specific intervals. Although there is nothing magical about the period for formal appraisal reviews, in most organizations they occur either annually or semiannually. Even more significant, however, is the continuous interaction (primarily informal), including coaching and other developmental activities, that continues throughout the appraisal period. Managers should be conditioned to understand that managing performance is a continuous process that is built into their job every day.

In the current business climate, it may be well for all firms to consider monitoring performance more often. Southwest Airlines has asked its managers to have monthly check-ins with staff rather than semi-annual ones (Jena McGregor, 2009). One study found that 63 percent of high-growth companies review performance more than once a year; in comparison, just 22 percent of low-growth companies review performance more than once a year<sup>1</sup>. Changes occur so fast that

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<sup>1</sup> For more Please See: *More Evidence That Performance Management Yields Higher Profits*. HR Focus February 2007. 84 p.8-9.

employees need to look at objectives and their own roles throughout the year to see whether changes are in order. In high-tech organizations, the speed of change mandates that a performance period be shorter, perhaps every three or four months. Some organizations use the employee's date of hire to determine the rating period. At times a subordinate's first appraisal may occur at the end of a probationary period, anywhere from 30 to 90 days after his or her start date. However, in the interest of consistency, it may be advisable to perform evaluations on a calendar basis rather than on anniversaries. If firms do not conduct all appraisals at the same time, it may be impossible to make needed comparisons between employees.

## **CHARACTERISTICS OF AN EFFECTIVE APPRAISAL SYSTEM**

The basic purpose of a performance appraisal system is to improve performance of individuals, teams, and the entire organization. The system may also serve to assist in making administrative decisions concerning pay increases, promotions, transfers, or terminations. In addition, the appraisal system must be legally defensible. Although a perfect system does not exist, every system should possess certain characteristics. Organizations should seek an accurate assessment of performance that permits the development of a plan to improve individual and group performance. The system must honestly inform people of how they stand with the organization. The following factors assist in accomplishing these purposes.

### **1- Job-Related Criteria**

Job-relatedness is perhaps the most basic criterion needed in employee performance appraisals. The Uniform Guidelines on Employee Selection Procedures and court decisions are quite clear on this point. More specifically, evaluation criteria should be determined through job analysis. Subjective factors, such as initiative, enthusiasm, loyalty, and cooperation may be important; however, unless clearly shown to be job-related, they should not be used.

## **2- Performance Expectations**

Managers and subordinates must agree on performance expectations in advance of the appraisal period ( Kevin J. Sensenig, 2009). How can employees function effectively if they do not know what they are being measured against? On the other hand, if employees clearly understand the expectations, they can evaluate their own performance and make timely adjustments as they perform their jobs, without having to wait for the formal evaluation review. The establishment of highly objective work standards is relatively simple in many areas, such as manufacturing, assembly, and sales. For numerous other types of jobs, however, this task is more difficult. Still, evaluation must take place based on clearly understood performance expectations.

## **3- Standardization**

Firms should use the same evaluation instrument for all employees in the same job category who work for the same supervisor. Supervisors should also conduct appraisals covering similar periods for these employees. Regularly scheduled feedback sessions and appraisal interviews for all employees are essential. Formal documentation of appraisal data serves several purposes, including protection against possible legal action. Employees should sign their evaluations. If the employee refuses to sign, the manager should document this behavior. Records should also include a description of employee responsibilities, expected performance results, and the role these data play in making appraisal decisions. Although a performance appraisal is important for small firms, they are not expected to maintain performance appraisal systems that are as formal as those used by large organizations. Courts have reasoned that objective criteria are not as important in firms with only a few employees because in smaller firms top managers are more intimately acquainted with their employees' work.

## **4- Trained Appraisers**

A common deficiency in appraisal systems is that the evaluators seldom receive training on how to conduct effective evaluations. Unless everyone evaluating performance receives training in the art of giving and receiving

feedback, the process can lead to uncertainty and conflict. The training should be an ongoing process in order to ensure accuracy and consistency. The training should cover how to rate employees and how to conduct appraisal interviews. Instructions should be rather detailed and the importance of making objective and unbiased ratings should be emphasized. An e-learning training module may serve to provide information for managers as needed.

## **5- Continuous Open Communication**

Most employees have a strong need to know how well they are performing. A good appraisal system provides highly desired feedback on a continuing basis. There should be few surprises in the performance review. Managers should handle daily performance problems as they occur and not allow them to pile up for six months or a year and then address them during the performance appraisal interview. Continuous feedback is vitally important to help direct, coach, and teach employees to grow and improve performance ( Jay Forte, 2009). When something new surfaces during the appraisal interview, the manager probably did not do a good enough job communicating with the employee throughout the appraisal period. Even though the interview presents an excellent opportunity for both parties to exchange ideas, it should never serve as a substitute for the day to day communication and coaching required by performance management.

## **6- Conduct Performance Reviews**

In addition to the need for continuous communication between managers and their employees, a special time should be set for a formal discussion of an employee's performance. Since improved performance is a common goal of appraisal systems, withholding appraisal results is absurd. Employees are severely handicapped in their developmental efforts if denied access to this information. A performance review allows them to detect any errors or omissions in the appraisal, or an employee may disagree with the evaluation and want to challenge it. Constant employee performance documentation is vitally important for accurate performance appraisals. Although the task can be tedious and boring for managers, maintaining a continuous record of observed and reported incidents are essential in

building a useful appraisal. The appraisal interview will be discussed in a later section.

## **7- Due Process**

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

## **8- Legal Implications**

Employee lawsuits may result from negative evaluations. Employees often win these cases, thanks in part to the employer's own performance appraisal procedures. A review of court cases makes it clear that legally defensible performance appraisal systems should be in place. Perfect systems are not expected, and the law does not preclude supervisory discretion in the process. However, the courts normally require these conditions:

- Either the absence of adverse impact on members of protected classes or validation of the process.
- A system that prevents one manager from directing or controlling a subordinate's career.
- The appraisal should be reviewed and approved by someone or some group in the organization.
- The rater, or raters, must have personal knowledge of the employee's job performance.
- The appraisal systems must use predetermined criteria that limit the manager's discretion.

Mistakes in appraising performance and decisions based on invalid results can have serious repercussions. For example, discriminatory allocation of money for merit pay increases can result in costly legal action. In settling cases, courts have held employers liable for back pay, court costs, and other costs related to training and promoting certain employees in protected classes. An employer may also be vulnerable to a negligent retention claim if an employee who continually receives

unsatisfactory ratings in safety practices, for example, is kept on the payroll and he or she causes injury to a third party. In these instances, firms might reduce their liability if they provide substandard performers with training designed to overcome the deficiencies. It is unlikely that any appraisal system will be immune to legal challenge. However, systems that possess the characteristics discussed above are more legally defensible. At the same time, they can provide a more effective means for achieving performance management goals.

## **9- Appraisal Interview**

The appraisal interview is the Achilles' heel of the entire evaluation process. In fact, appraisal review sessions often create hostility and can do more harm than good for the employee–manager relationship. To minimize the possibility of hard feelings, the face-to-face meeting and the written review must have performance improvement, not criticism, as their goal. The reviewing manager must use all the tact he or she can muster in discussing areas needing improvement. Managers should help employees understand that they are not the only ones under the gun. Rating managers should emphasize their own responsibility for the employee development and commitment to support. The appraisal interview definitely has the potential for confrontation and undermining the goal of motivating employees. The situation improves considerably when several sources provide input, including perhaps the employee's own self-appraisal. Regardless of the system used, employees will not trust a system they do not understand.

### ***9-1 Scheduling the Interview***

Supervisors usually conduct a formal appraisal interview at the end of an employee's appraisal period. It should be made clear to the employee as to what the meeting is about. [115] Employees typically know when their interview should take place, and their anxiety tends to increase if their supervisor delays the meeting. Interviews with top performers are often pleasant experiences for all concerned. However, supervisors may be reluctant to meet face-to-face with poor performers. They tend to postpone these anxiety-provoking interviews.

## **9-2 Interview Structure**

A successful appraisal interview should be structured in a way that allows both the supervisor and the subordinate to view it as a problem-solving rather than a fault-finding session. The manager should consider three basic purposes when planning an appraisal interview:

1. Discuss the employee's performance. Focus on specific accomplishments<sup>1</sup>.
2. Assist the employee in setting goals and personal-development plans for the next appraisal period.
3. Suggest means for achieving established goals, including support from the manager and firm.

For instance, a worker may receive an average rating on a factor such as the quality of production. In the interview, both parties should agree to the specific improvement needed during the next appraisal period and specific actions that each should take<sup>2</sup>.

During performance reviews, managers might ask employees whether their current duties and roles are effective in achieving their goals. In addition to reviewing job-related performance, they might also discuss subjective topics, such as career ambitions. For example, in working on a project, perhaps an employee discovered an unrealized aptitude. This awareness could result in a new goal or serve as a springboard to an expanded role in the organization. The amount of time devoted to an appraisal interview varies considerably with company policy and the position of the evaluated employee. Although costs are a consideration, there is merit in conducting separate interviews for discussing:

- (1) Employee performance and development and
- (2) Pay. Many managers have learned that as soon as the topic of pay emerges in an interview, it tends to dominate the conversation, with performance improvement taking a back seat. For this reason, if pay increases or bonuses are involved in the appraisal, it might be advisable to defer those discussions for one to several weeks after the appraisal interview.

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<sup>1</sup> For More See: *Cite Specifics*. Communication Briefings, April 2010. 29: p. 6.

<sup>2</sup> For More See: *Performance Prep*. Communication Briefings, March 2010. 29: p. 9.

### ***9-3 Use of Praise and Criticism***

As suggested at the beginning of this section, conducting an appraisal interview requires tact and patience on the part of the evaluator. Praise is appropriate when warranted, but it can have limited value if hasn't clearly deserved. If an employee must eventually be terminated because of poor performance, a manager's false praise could bring into question the "real" reason for being fired<sup>1</sup>. Criticism, even if warranted, is especially difficult to give. The employee may not perceive it as being constructive. It is important that discussions of these sensitive issues focus on the deficiency, not the person. Effective managers minimize threats to the employee's self-esteem whenever possible. When giving criticism, managers should emphasize the positive aspects of performance; criticize actions, not the person; and ask the employee how he or she would change things to improve the situation. Also, the manager should avoid supplying all the answers and try to turn the interview into a win-win situation so that all concerned gain.

### ***9-4 Employees' Role***

From the employees' side, two weeks or so before the review, they should go through their diaries or files and make a note of all projects worked on, regardless of whether or not they were successful (Charlene Kesee, 2010). The best recourse for employees in preparing for an appraisal review is to prepare a list of creative ways they have solved problems with limited resources. They will look especially good if they can show how their work contributes to the value of the company. This information should be on the appraising manager's desk well before the review. Reminding managers of information they may have missed should help in developing a more objective and accurate appraisal.

### ***9-5 Overcoming Appraisal Interview Difficulties***

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

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<sup>1</sup>Addressing Performance Problems 7 Steps to Success. HR Specialist October 2009. 7: p. 6.

### *9-5-1 Before the Interview*

- Make sure that the conditions mentioned previously have been met (e.g., the employee knows the standard by which his or her work will be evaluated), and he or she has a copy of the appraisal form.
- Select an appropriate time for the appraisal conference. Do not choose a time when the employee has just had a traumatic personal event or is too busy at work to take the time needed for a meaningful conference.
- Give the employee a two- to three-day advance notice of the scheduled appraisal conference so he or she can be prepared mentally and emotionally for the interview.
- Be personally prepared mentally and emotionally for the conference. If something should happen to interfere with your readiness for the interview, it should be canceled and rescheduled.
- Schedule uninterrupted interview time. Hold the interview in a private, quiet, and comfortable place. Forward your telephone calls to another line and ask another manager to answer any pages you may have during the performance appraisal.
- Plan a seating arrangement that reflects collegiality rather than power. Having the person seated across a large desk from the appraiser denotes a power–status position; placing the chairs side by side denotes collegiality.

### *9-5-2 During the Interview*

- Greet the employee warmly, showing that the manager and the organization have a sincere interest in his or her growth.
- Begin the conference with a pleasant, informal note.
- Ask the employee to comment on his or her progress since the last performance appraisal.
- Avoid surprises in the appraisal conference. The effective leader coaches and communicates informally with staff on a continual basis, so there should be little new information at an appraisal conference. Cohen (2000) goes so far as to assert that if the employee first hears about a performance concern during the appraisal, the manager has not been doing his or her job.

- Use coaching techniques throughout the conference.
- When dealing with an employee who has several problems—either new or long-standing—don't overwhelm him or her at the conference. If there are too many problems to be addressed, select the major ones.
- Conduct the conference in a nondirective and participatory manner. Input from the employee should be solicited throughout the interview; however, the manager must recognize that employees from some cultures may be hesitant to provide this type of input. In this situation, the manager must continually reassure the employee that such input is not only acceptable but desired.
  - Focus on the employee's performance and not on his or her personal characteristics.
  - Avoid vague generalities, either positive or negative, such as “your skills need a little work” or “your performance is fine.” Be prepared with explicit performance examples. Be liberal in the positive examples of employee performance; use examples of poor performance sparingly. Use several examples only if the employee has difficulty with self-awareness and requests specific instances of a problem area.
  - When delivering performance feedback, be straightforward and state concerns directly. Indirectness and ambiguity are most likely to inhibit communication than enhance it, and the employee is left unsure about the significance of the message.
  - Never threaten, intimidate, or use status in any manner. The appraiser must make sure that the person's self-esteem is not threatened, because this will prevent the nurturing of a meaningful and constructive relationship between the manager and employee.
  - Let the employee know that the organization and the manager are aware of his or her uniqueness, special interests, and valuable contributions to the unit. Remember that all employees make some special contribution to the workplace.
  - Make every effort to ensure that there are no interruptions during the conference.
  - Use terms and language that are clearly understood and carry the same meaning for both parties. Avoid words that have a negative connotation. Do not talk down to employees or use language that is inappropriate for their level of education.

- Mutually set goals for further growth or improvement in the employee's performance. Decide how goals will be accomplished and evaluated and what support is needed.
- Plan on being available for employees to return retrospectively to discuss the appraisal review further. There is frequently a need for the employee to return for elaboration if the conference did not go well or if the employee was given the unexpected new information. This is especially true for the new employee.

### *9-5-3 After the Interview*

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

## **10- Evaluating the HR function**

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

### *10-1 Approaches to evaluation*

The research conducted by Armstrong and Long(1994)established from discussions with chief executives and other directors that the most popular basis for qualifying HR practitioners was their judgment related to factors such as:

- Understanding of the organization - its mission, values, critical success factors,product-marketing strategies, technology or method of operation and distinctivecompetences;
- Effectiveness of contributions to top management team decision-making on corporate/business issues;
- The extent to which inventory, realistic and persuasive proposals were made onHR strategies, policies and programs;
- The capacity to deliver as promised;
- The quality of the advice and services they provided, assessed mainly in subjective terms - e.g., it is practical, it meets my needs, it solves my problem, they (the services) are efficient, they respond quickly to requests for help or advice;
- The ability to build and maintain stable and cooperative relationships with trade unions;
- The ability to handle difficult situations such as downsizing;
- In very general terms, the contribution they make to developing the corporate culture, their influence on management style and their abilities as facilitators and managers of change;
- Their overall credibility and ability to work as a full member of the top management team.

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

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

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

### ***10-2 Overall methods of evaluation***

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

- Process criteria - how well things are done; and
- Output criteria - the impact made by the process of organizational and operational performance, is the effectiveness of the end-result.

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

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

### ***10-3 Types Of Performance Measures***

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

- Money measures, which include maximizing income, minimizing expenditure and improving rates of return.
- Time measures express performance against work timetables, the amount of backlog and speed of activity or response.
- Measures of effect include attainment of a standard, changes in behavior (of

colleagues, staff, clients or customers), physical completion of the work and the level of take-up of a service.

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

### ***10-3 Evaluation criteria***

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

- Organizational effectiveness - but it may not be possible to separate HR and organizational effectiveness, which will be affected by external events, and this approach does not provide a base for decisions about HR policy and practice;
- Specified goals - this is a plausible method, if good measures of goal attainment can be used and if allowance is made for unanticipated events;
- Specified quantified measures - labor costs, turnover and productivity have high credibility but may be difficult to interpret and can be affected by non-HRM factors and are insufficient on their own;
- Stakeholder perspective - this uses the subjective views of key interest groups, eg the board's, on personal effectiveness, and is probably the most satisfactory method.

### ***10-4 Practical Methods of Evaluation***

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

- Quantitative - macro (organizational);
- Quantitative - micro (specified aspects of employee behavior or reaction);
- Quantitative/'qualitative - achievement of specified goals;
- Quantitative I qualitative - achievement of standards set in service level agreements;
- Qualitative - macro - an overall and largely subjective assessment of the

- personnel function;
- Qualitative - client satisfaction is 'stakeholder perspective';
- Qualitative - employee satisfaction, also 'stakeholder perspective';
- Utility analysis;
- Benchmarking.

#### *10-4-1 Organizational Quantitative Criteria*

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

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

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

Another reason for using quantified macro-measures, as pointed out by Tyson (1985), is that

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

#### *10-4-2 Specific Quantified Criteria*

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

### *10-4-3 Employee Behavior Criteria*

Employee behavior criteria include:

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

In some of these areas, for example employee retention and absenteeism rates, the HR function cannot be held entirely accountable. But it is a shared responsibility and the measures will indicate problem areas which may be related to the quality of the advice or services provided by the function.

### *10-4-4 HR Department Service-Level Criteria*

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

- Average time to fill vacancies;
- Time to respond to applicants;
- Ratio of acceptance to offers made;
- Cost of advertisements per reply/engagement;
- Training hours/days per employee;
- Time to respond to and settle grievances;
- Cost of induction training per employee;
- Cost of benefits per employee;
- Measurable improvements in productivity as a direct result of training;
- Measurable improvements in individual and organizational performance as a

direct result of the operation of performance-related pay and performance management schemes;

- Ratio of HR department costs to profit, sales turnover or added value;
- Personnel costs in relation to budget;
- Ratio of HR staff to employees.

The usefulness of those measures is variable, as is the practice of collecting reliable information. Figures on training days per employee do not mean much in themselves unless there is some measure of the relevance and impact of that training. To rely on this measure would be like rewarding sales representatives on the basis of the sales volume they generate rather than the contribution their sales make to profit and fixed costs.

It is also possible that the costs of collecting and analyzing some sorts of information may not be justified by the benefits that they could theoretically produce the shape of improved performance. It is a matter of judgment to select the criteria which are likely to be the most relevant, and this will depend on the circumstances of the organization and the particular pressures to which it and its personnel function are being subjected. It may be appropriate to highlight some criteria for a period and then, if the problem has been resolved, focus attention on other areas.

#### *10-4-5 Achievement of Specified Goals*

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

The specified objectives could be expressed in terms such as:

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

- The new performance management system to be fully operational within the next six months.

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

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

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

#### *10-4-6 Service Level Agreements*

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

- The nature of the function or service provided;
- The volumes and quality to be achieved for each of these services;
- The response times to be achieved by the provider when receiving requests for help.
- For an HR function, service level standards could be drawn up for such activities as:
- Response to requests for help or guidance in specific areas, e.g. recruitment,

training, handling discipline cases and grievances and health and safety;

- The time taken to prepare job descriptions, fill vacancies or conduct a job evaluation;
- The amount of time lost through absenteeism or work-related sickness or accidents;
- The proportion of disciplinary and grievance issues settled at the time of the first involvement of HR;
- The number of appeals (successful and unsuccessful) against job evaluation decisions;
- The results of evaluations by participants of the training provided by the function.

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

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

#### *10-4-7 Subjective Overall Evaluation*

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

- The quality of the advice and services provided as observed or experienced

directly by the evaluator;

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

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

#### *10-4-8 User reaction measures*

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

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

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

anticipated impact on motivation, commitment and performance.

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

#### *10-4-9 Employee Satisfaction Measures*

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

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

#### *10-4-10 Individual evaluation*

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

### *10-4-11 Utility analysis*

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

- A problem - gap between what is desired and what is currently being achieved;
- A set of alternatives to address the problem;
- A set of attributes - the variables that describe the important characteristics of the alternatives (such as effects on productivity, costs and employee attitudes);
- A utility function, or a system to combine the attributes into an overall judgment of each alternative's usefulness.
- Utility analysis focuses on:
  - Quantity - the effect of work behaviors over time;
  - Quality - the production of large improvements or the avoidance of large reductions in the quality of those work behaviors;
  - Cost - the minimization of the costs of developing, implementing and maintaining programs.

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

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

- It is likely to correct decisions that otherwise would have been incorrect.
- The corrections are important and produce large benefits.
- The cost of conducting the information does not outweigh the expected benefit of

correcting decisions.

### *10-4-12 Benchmarking*

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

## **11- Preferred approach**

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

Perhaps, as a Guest and Peccei (1994) suggest:

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

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

## **12- Auditing the HR function**

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

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

2. To what extent are there well-articulated and agreed HR strategies which are aligned to the business strategy and which are integrated with one another?
3. What role is HR currently playing? Is this role appropriate in the context of the organization?
4. To what extent has the responsibility for HR issues been devolved to line management?
5. How well does HR reconcile the need for devolution with the need to ensure that organizational, ethical and legal obligations and requirements are being met consistently?
6. What evidence exists that HR is being innovative in a practical and business-like way, based on an analysis of the business and people needs of the organization and benchmarking?
7. How well is HR performing by reference to quantitative measures such as added value per employee, absenteeism and attrition?
8. How well is HR performing in terms of service delivery in fields such as recruitment, training, reward management, health and safety, the management of equal opportunity and diversity, advice on employment law and legal obligations, the provision of employee assistance programs and the maintenance and use of personnel information systems?
9. To what extent does HR express proper concern for ethical considerations, the interests of all stakeholders (employees as well as management), enhancing the quality of working life and achieving a satisfactory work/life balance?
10. What contribution has HR made to the improvement of the employee relations climate?
11. How well is HR regarded by its customers - management, line managers, employees generally, employee representatives, as measured by formal assessments or opinion surveys?
12. Is the HR function well-organized and properly staffed with qualified professionals who are actively concerned with continuous professional development?

## **THE PERFORMANCE APPRAISAL PROCESS**

Exhibit 1 illustrates the performance appraisal (PA) process. Note the connection between the organization's mission and objectives and the performance appraisal process. Here we briefly discuss each step of the process:

### ***Step 1. Job analysis***

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

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

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

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

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

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

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

In the major sections to come, we discuss "why" we assess performance, "what" we assess, "how" we assess, and "who" conducts the performance appraisal. Then we discuss performance appraisal problems and how to avoid

them, and we end the performance appraisal process with the actual formal review session. But before we leave this section, we need to understand a critically important part of each step in the performance appraisal process—accurate performance measurement.

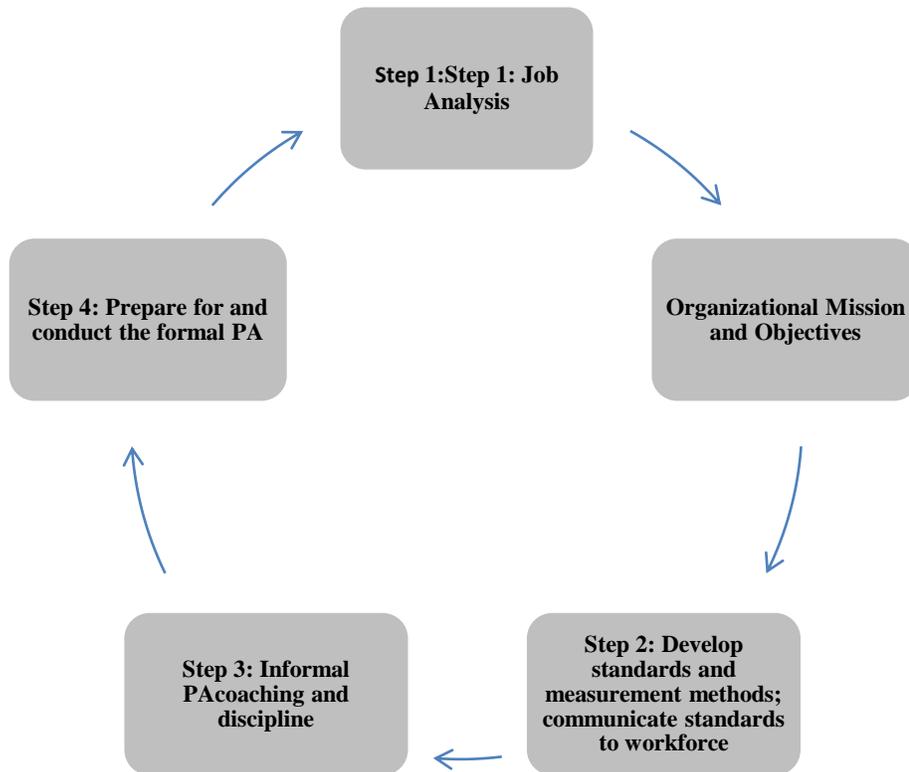


Exhibit 1 The Performance Appraisal Process

## **Chapter 4**

# **Performance Management**

### **PERFORMANCE MANAGEMENT DEFINED**

Performance management can be defined as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors (Armstrong and Baron, 1998).

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

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

### ***The meaning of performance***

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

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

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

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

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

The definition of performance leads to the conclusion that when managing the performance of teams and individuals both inputs (behavior) and outputs (results) to be considered. This is the so-called 'mixed model' (Hartle, 1995) of performance

management which covers competency levels and achievements as well as objective setting and review.

## **PURPOSE OF PERFORMANCE MANAGEMENT**

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

## **PRINCIPLES OF PERFORMANCE MANAGEMENT**

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

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

## **CONCERNS OF PERFORMANCE MANAGEMENT**

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

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

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

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

## **ETHICAL CONSIDERATIONS**

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

- Respect for the individual - people should be treated as 'ends in themselves' and

- not merely as 'means to other ends';
- Mutual respect - the parties involved in performance management processes should respect each other's needs and preoccupations;
  - Procedural fairness - the procedures incorporated in performance management should be operated fairly to limit the adverse effect on individuals;
  - Transparency - people affected by decisions emerging from the performance management process should have the opportunity to scrutinize the basis upon which decisions were made.

## **THE SCOPE OF PERFORMANCE MANAGEMENT**

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

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

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

### **1- The Holistic Approach To Performance Management**

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

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

## **2- The Concept Of Performance Management As An Integrating Force**

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

### ***2-1 Vertical integration***

Integration is achieved vertically with the business strategy and business plans and] goals. Team and individual objectives that support the achievement of corporate goals are agreed. These take the form of interlocking objectives from the corporate level to the functional or business unit level and down into teams and the individual level. Steps need to be taken to ensure that these goals are in alignment. This can be a cascading process so that objectives flow down from the top and at each level team or 1 individual objective are defined in the light of higher-level goals. But it should also be a bottom-up process, individuals and teams being given the opportunity to formulate their own goals within the framework provided by the overall purpose and values of the organization. Objectives should be agreed, not set, and this agreement should be reached through the open dialogues that take place between managers and

individuals throughout the year. In other words, this needs to be seen as a partnership in which responsibility is shared and mutual expectations are defined.

### ***2-2 Horizontal integration***

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

## **BACKGROUND TO PERFORMANCE MANAGEMENT**

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

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

## **THE PROCESS OF PERFORMANCE MANAGEMENT**

Performance management is a continuous and flexible process that involves managers and those whom they manage acting as partners within a framework that

.Sets out how they can best work together to achieve the required results. It focuses on future performance planning and improvement rather than on retrospective performance appraisal. It provides the basis for regular and frequent dialogues between managers and individuals or teams about performance and development needs. Performance management is mainly concerned with individual performance and development but it can also be applied to teams.

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

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

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

Performance management can be described as a continuous self-renewing cycle, as illustrated in Figure 2The main activities are:

- Role profile, in which the key result areas and competency requirements are agreed.
- The performance agreement or contract, which defines expectations - what the individual has to achieve in the form of objectives, how performance will be measured and the competencies needed to deliver the required results. This could be described as the performance planning stage.

- The personal development plan, which sets out the actions people intend to take to develop themselves in order to extend their knowledge and skills, increase their levels of competence and to improve their performance in specified areas. This is the performance development stage.
- Managing performance throughout the year, which is the stage in which action is taken to implement the performance agreement and personal development plan as individuals carry on with their day-to-day work and their planned learning activities. It includes a continuous process of providing feedback on performance, conducting informal progress reviews, updated objectives and, where necessary, dealing with performance problems and counseling.
- Performance review, which is the formal evaluation stage when a review of performance over a period takes place, covering achievements, progress and problems as the basis for a revised performance agreement and personal development plan. It can also lead to performance ratings.

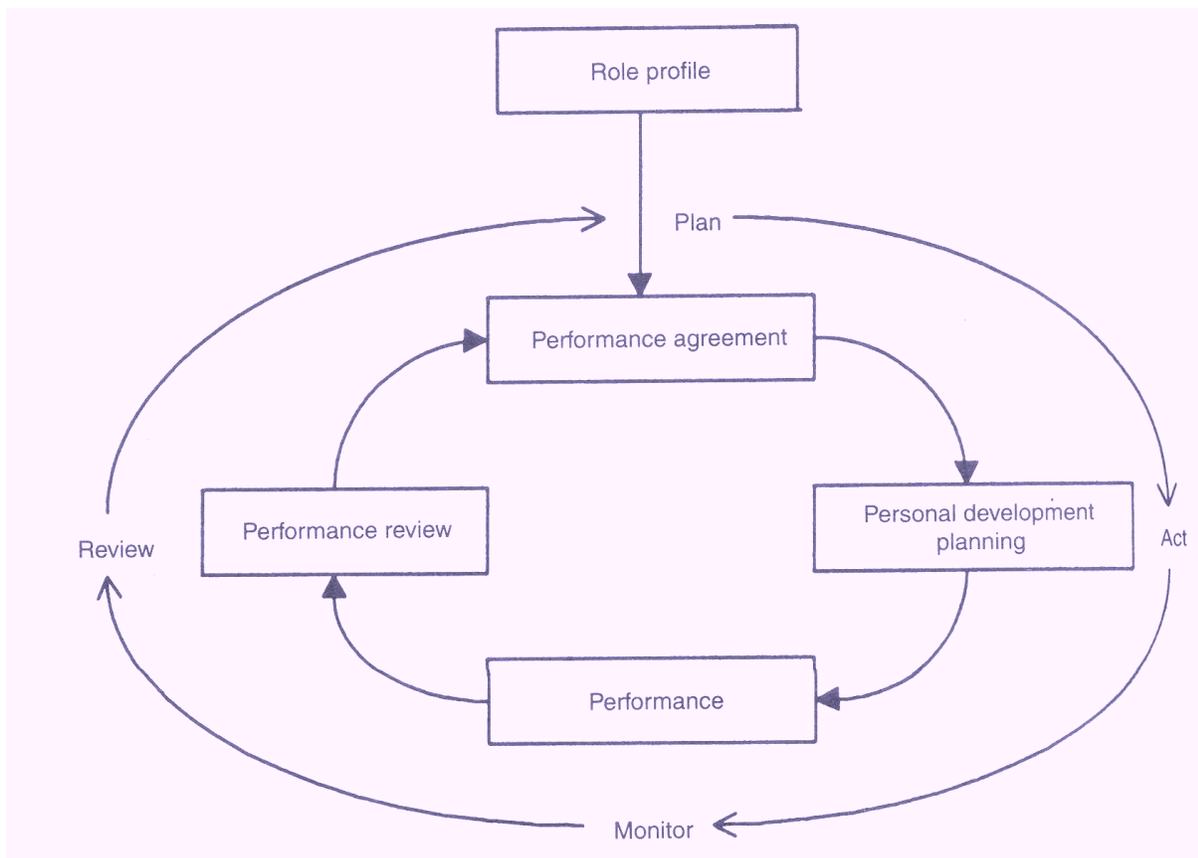


Figure 2: The performance management cycle

### **1- Role profile**

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

### **2- Performance agreements**

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

- Objectives and standards of performance - the results to be achieved defined in terms of targets and standards,
- Performance measures and indicators - to assess the extent to which objectives and standards of performance have been achieved.
- Competency assessment - how levels of competency will be assessed, including discussions to clarify expectations by reference to the competence profile in the role definition and agreements on the sort of evidence that will be useful in assessing competency.
- Core values or operational requirements - the performance agreement may also refer to the core values of the organization for quality, customer service, team

working, employee development etc., which individuals are expected to uphold in carrying out their work. Certain general operational requirements may also be specified in such areas as health and safety, budgetary control, cost reduction and security.

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

### ***2-1 Objectives***

Objectives describe something that has to be accomplished - a point to be aimed at, Objectives or goals (the terms are interchangeable) define what organizations, towns, departments and individuals are expected to achieve over a period of time. Objectives are expressed as:

- Targets - quantifiable results to be attained, which can be measured in such terms I as return on capital employed, output, throughput, sales, levels of service! Delivery, cost reduction, reduction of rejecting rates;
- Tasks/projects - to be completed by specifying dates to achieve defined results.

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

### ***2-2 Integrating objectives***

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

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

### ***2-3 Characteristics of good objectives***

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

Objectives should be 'SMART', IE:

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

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

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

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

### ***2-4 Defining objectives***

Information on objectives can be obtained by asking these questions:

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

### ***2-5 Performance standards***

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

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

### ***2-6 Performance measures***

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

- Measures should relate to results, not efforts.
- The results must be within the job holder's control.
- Measures should be objective and observable.
- Data must be available for measurement.
- Existing measures should be used or adapted wherever possible.
- Measures can be classified under the following headings:
- Finance - income, economic value added, shareholder value, added value, rates of return, costs;
- Output - units produced' or processed, throughput, new accounts;
- Impact - attainment of a standard (quality, level of service etc), changes in behavior (internal and external customers), completion of work/project, level of

take-up for a service, innovation;

- Reaction - judgment by others, colleagues, internal and external customers;
- Time - speed of response or turnaround, achievements compared with timetables, amount of backlog, time to market, delivery times.

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

### ***2-7 The balanced scorecard***

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

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

Businesses such as NatWest and Halifax PLC have modified this framework by measuring performance against four dimensions: financial results, customer service, internal processes (how well things are done) and people management. The balanced scorecard approach has then been extended to the measurement of individual performance, which is thus integrated with the organizational measures. The performance management cycle in Halifax is illustrated in Figure 3.

Another framework is provided by the European Foundation for Quality Management (EFQM) model as in Figure 4. This indicates that customer satisfaction, people (employee) satisfaction and impact in society are achieved through leadership.

This drives the policy and strategy, people management, resources and processes leading to excellence in business results and can be used as a basis for measuring individual as well as organizational performance.

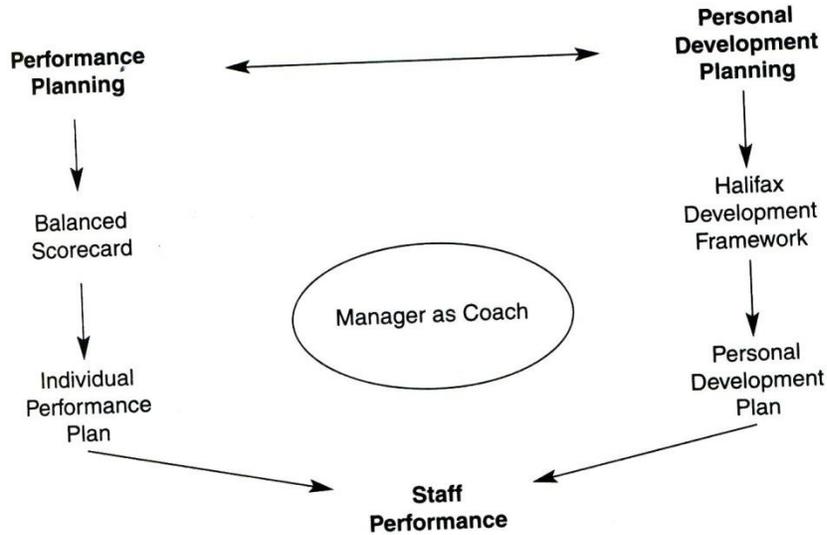


Figure 3: The performance management cycle at Halifax

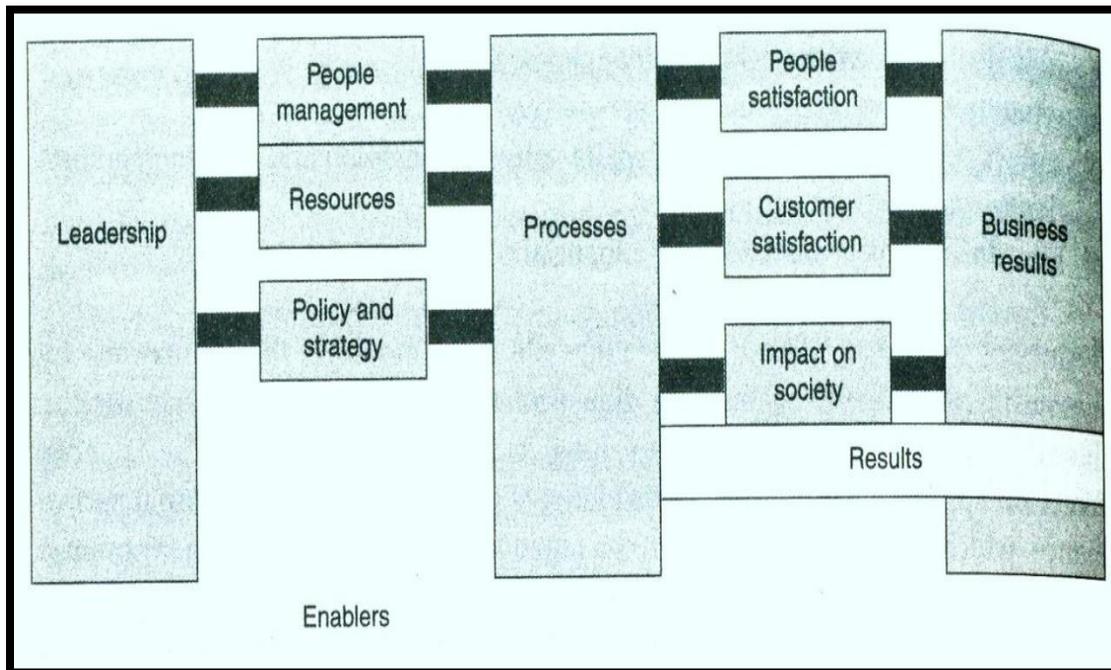


Figure 4: The EFQM model

### **3- Personal Development Plan**

Personal Development Planning is the process of creating an action plan based on awareness, values, reflection, goal-setting and planning for personal development within the context of a career, education, relationship or for self-improvement.

The PDP (personal development plan), also called an IDP (individual development plan) or PEP (personal enterprise plan), usually includes a statement of one's aspirations, strengths or competencies, education and training, and stages or steps to indicate how the plan is to be realized. Personal development plans may also include a statement of one's career and lifestyle priorities, career positioning, analysis of opportunities and risks, and alternative plans (Plan B), and a curriculum vitae.

In higher education, personal development plans typically include a portfolio containing evidence of the skills gathered over a particular timeframe. It is presumed in education that undertaking PDP will assist in creating self-directed independent learners who are more likely to progress to higher levels of academic attainment. It is also used in Human resource management.

Personal developments plans are often a requirement for employee CVs. Employees who are participating in business training are often asked to complete a personal development plan. A five year personal development plan can often be developed by an individual to organize personal goals and make them achievable within a certain time period.

### **4- Managing performance throughout the year**

Perhaps one of the most important concepts of performance management is that it is a continuous process which reflects normal good management practices of setting direction, monitoring and measuring performance, and taking action accordingly. Performance management should not be imposed on managers as something 'special' they have to do. It should be treated as a natural process that all good managers follow. The sequence of performance management activities as described in this chapter does no more than provide a framework within which

managers, individuals and teams work together in whatever ways best suit them to gain better understanding of what is to be done, how it is to be done and what has been achieved. This framework and the philosophy that supports it can form the basis for training newly appointed or would-be managers in this key area of their responsibilities. It can also help in improving the performance of managers who are not up to standard in this respect.

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

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

#### ***4-1 The Continuing Process of Performance Management***

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

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

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

The process of continuing assessment should be carried out by reference to agreed objectives and performance standards and to work, development and improvement plans. Progress reviews can take place informally or through an existing system of team meetings. But there should be more formal interim reviews at predetermined points in the year, e.g. twice yearly. For some teams or individual jobs these points could be related to 'milestones' contained in project and work plans. Deciding when

such meetings should take place would be up to individual managers in consultation with their staff and would not be a laid-down part of a 'system'.

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

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

#### ***4-2 Updating Objectives And Work Plans***

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

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

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

#### ***4-3 Managing Continuous Learning***

Performance management aims to enhance what Alan Mumford (1994) calls 'delirote learning from experience', which means learning from the problems, challenges and successes inherent in people's day-to-day activities.

The premise is that every task individuals undertake presents them with a learning opportunity. This happens if they reflect or are helped to reflect on what they have done and how they have done it and draw conclusions as to their future behavior if they have to carry out a similar task. Any occasion when managers issue instructions to individuals or agree with them what needs to be achieved, followed by a review of how well the task was accomplished, provides a learning opportunity.

#### ***4-4 Dealing with performance problems***

The five basic steps required to handle performance problems are:

- 5- Identify and agree the problem. Analyze the feedback and, as far as possible, obtain agreement from the individual on what the shortfall has been. Feedback may be provided by managers but it should be built into the job. This takes place when individuals are aware of their targets and standards, know what performance measures will be used and either receives feedback/control information automatically or have easy access to it. They will then be in a position to measure and assess their own performance and take action. In other words, a self-regulating feedback mechanism exists. This is a situation that managers should endeavor to create on the grounds that prevention is better than cure.
- 6- Establish the reason(s) for the shortfall. When seeking the reasons for any shortfalls the manager should not crudely be trying to attach blame. The aim should be for the manager and the individual jointly to identify the facts that have contributed to the problem. It is on the basis of this factual analysis that decisions can be made on what to do about it by the individual, the manager or the two of them working together. It is necessary first to identify any causes that are external to the job and outside the control of either the manager or the individual. Any factors that are within the control of the individual and/or the manager can then be considered. What should be determined is the extent to which the reason for the problem is because the individual:
  - Did not receive adequate support or guidance from his/her manager;
  - Did not fully understand what he/she was expected to do;

- Could not do it - ability;
- Did not know how doing it - skill;
- Would not do it - attitude.

- 1- Decide and agree on the action required. Action may be taken by the individual, the manager or both parties. This could include:
  - Changing behavior - this is up to individuals as long as they accept that their behavior needs to be changed; the challenge for managers is that people will not change their behavior simply because they are told to do so.
  - Changing attitudes - this may be more difficult to change than behavior because attitudes are likely to be deep-rooted; it is often best to change behavior first and encourage attitude changes thereafter.
  - Clarifying expectations - job requirements, objectives and standards.
  - Jointly developing abilities and skills - joint in the sense that individuals may be expected to take steps to develop themselves but managers may provide help in the form of coaching, additional experience or training. Whatever action is agreed, both parties must understand how they will know that it has succeeded. Performance measures and feedback arrangements should be agreed.
- 2- Resource the action. Provide the coaching, training, guidance, experience or facilities required to enable agreed actions to happen.
- 3- Monitor and provide feedback. Take steps to monitor performance, ensure that feedback is provided or obtained and analyzed, and agree on any further actions that may be necessary. Individuals should be encouraged to monitor their own performance and take further action as required. This can be described as a 'self-managed learning process'.

## **5- Performance Reviews**

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

reaching agreement about what should be done in the future is what the discussion should be about.

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

### ***5-1 The Basis Of The Performance Review***

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

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

what it is all about. The performance review should take the form of a dialogue, not a top-down interview or 'appraisal'.

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

### ***5-2 Preparation***

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

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

### ***5-3 Self-assessment***

Preparation by the review as described above is, in effect, self-assessment or self-appraisal. This is getting people to analyze and assess their own performance as the basis for discussion and action. The advantages of self-assessment are that:

- It helps to generate less inhibited and more positive discussion;
- It involves reviewing actively in the review process;
- It is likely to reduce defensive behavior;
- It provides scope to run the review meeting as a constructive and open

dialogue by reducing the top-down element of traditional performance appraisals and minimizing their unilateral nature.

But self-assessment raises a number of issues. First, individuals must have clear targets and standards against which they can assess their performance. Second, there has to be a climate of mutual trust between the review and the reviewer. Reviews must believe that reviewers will not take advantage of an honest self-assessment. Third, there is the risk that individuals, especially where there is money at stake, will overestimate their performance, leaving their reviewers in the awkward position of having to correct them. In practice, if there are no ratings for performance-related pay purposes, many people underestimate themselves. This makes life easier for reviewers who can take the opportunity to boost the confidence of the review (Armstrong, 2005).

#### ***5-4 Guidelines for the meeting***

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

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

#### ***5-5 Agenda setting***

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

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

- 2- A point-by-point examination of the results of the objectives, actions and personal development plans agreed at the last meeting.
- 3- A discussion and agreement on the performance objectives for the next period in the shape of targets and standards of performance.
- 4- A discussion and agreement on the review's developmental objectives.
- 5- A discussion and agreement on the actions to be taken to ensure that the performance and developmental objectives are achieved, this will include the formulation of a personal development plan.
- 6- A general discussion of any other matters of concern, including the review's aspirations.
- 7- A check that there is mutual understanding of the objectives and action plans.
- 8- An agreement on action plans to conclude the meeting.
- 9- An alternative approach would be to structure the discussion around forms to be completed in advance by the reviewer and the review, covering the preparation points listed earlier.

### ***5-6 Conducting a constructive review meeting***

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

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

## **6- Performance Rating**

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

### ***6-1 Methods of Rating***

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

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

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

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

### *6-1-1 Describing The Levels*

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

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

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

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

*Highly effective* -Frequently exceeds agreed targets and standards and consistently performs in a thoroughly proficient manner beyond normal expectations.

*Effective*- Achieves agreed targets and standards and meets the normal expectations of the role.

*Developing* - A contribution that is stronger in some aspects of the role than others, where most objectives and standards are met but in some areas further development is required to become fully effective in meeting performance expectations.

*Improvable*- A contribution that generally meets or almost meets the standards expected but there is clearly room for improvement in a number of definable areas.

Note that these definitions ask raters to focus on definitions that compare performance to performance expectations and avoid ratings that compare employees, such as 'average' or 'below average'.

### *6-1-2 Arguments For Rating*

The arguments for rating are that:

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

### *6-1-3 Arguments Against Ratings*

The arguments against ratings are that:

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

- Managers might find it difficult to answer the question: 'What do I have to do to get a higher rating?' if there are no explicit definitions in the rating scale of the standards of performance expected of anyone in that particular role, which is most unlikely.
- Rating encourages managers to be dishonest. Either they rate everyone in the middle of a five-point range or the second point down in a four-point range (the central tendency), or they decide first on what they want a performance-related pay increase to be and rate accordingly.
- Rating can turn what may - should - have been an open, positive and constructive discussion into a top-down judgmental exercise.
- The positive developmental aspects of the review may be overshadowed by the knowledge that the end-product will be a rating that will inform a pay decision. In practice, the review and the preparation for the review may be entirely dominated by its pay implications, thus destroying its main purpose.
- To label people with a letter or a number is both demeaning and demotivating.
- Ratings convey opinions about past performance. They say nothing about the future.

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

The following comment on ratings was made by Englemann and Roesch (1996): To reduce the subjectivity of performance management systems and increase the focus on continuous improvement, organizations have tended to move away from rating categories or labels toward summary statements that are behavior orientated and more focused on future improvements.

And Fletcher (1993) made the point that in the UK: The use of ratings to compare individuals (even overall performance ratings), for so long a central element of appraisal forms and processes, is now declining.

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

#### *6-1-4 Achieving Consistency*

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

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

- Forced distribution. This requires managers to conform to a pattern, which quite often corresponds to the normal curve of distribution on the rather dubious assumption that performance levels will be distributed normally in each part of the organization. A typical distribution would be A = 5%, B = 15%, C = 60%, D = 15%, E = 5%. But managers and employees correctly resent being forced into predetermined categories and it produces win/lose situations. This approach sometimes takes the form of a quota system, which allocates the number of ratings managers are allowed to award in each category. This is also an arbitrary process and is universally resented by managers and their staff.
- Ranking. Staff is ranked in order of merit and then performance ratings are distributed through the rank order; for example: the top 5% get an A rating, the next 15% a B rating and so on. This is another form of forced distribution, which still depends on the objectivity and fairness of the rankings.
- Training. 'Consistency' workshops are run for managers to discuss how ratings can be objectively justified and test rating decisions on case study performance

review data. This can build a level of common understanding about rating levels.

- Peer reviews or moderating discussions. Groups of managers meet to review the pattern of each other's rating and challenge unusual decisions or distributions. This process of moderation is time-consuming but it can be a good way of achieving a reasonable degree of consistency, especially when the moderating group members share some knowledge of the performances of each other's staff as internal customers.
- Monitoring. The distribution of ratings is monitored by a central department. This is usually HR, which challenges any unusual patterns and identifies and questions what appear to be unwarrantable differences between departments' ratings.
- Behaviorally anchored rating scales (BARS). These are designed to reduce the rating errors, which it was assumed are typical of conventional scales. They include a number of performance dimensions such as teamwork, and managers rate each dimension on a scale as in the following example:
  - a. Continually contributes new ideas and suggestions. Takes a leading role in group meetings but is tolerant and supportive of colleagues and respects other people's points of view. Keeps everyone informed about own activities and is well aware of what other team members are doing in support of team objectives.
  - b. Takes a full part in group meetings and contributes useful ideas frequently. Listens to colleagues and keeps them reasonably well informed about own activities while keeping abreast of what they are doing.
  - c. Delivers opinions and suggestions at group meetings from time to time but is not a major contributor to new thinking or planning activities. Generally receptive to other people's ideas and willing to change own plans to fit in. Does not always keep others properly informed or take sufficient pains to know what they are doing.
  - d. Tendency to comply passively with other people's suggestions. May withdraw at group meetings but sometimes shows personal antagonism to others. Not very interested in what others are doing or in keeping them informed.

- e. Tendency to go own way without taking much account of the need to make a contribution to team activities. Sometimes uncooperative and unwilling to share information.
- f. Generally uncooperative. Goes own way, completely ignoring the wishes of other team members and taking no interest in the achievement of team objectives. [125]
- b) It is believed that the behavioral descriptions in such scales discourage the tendency to rate on the basis of generalized assumptions about personality traits (which were probably highly subjective) by focusing attention on specific work behaviors. But they do take a considerable amount of effort to develop properly and there is still room for making subjective judgments based on different interpretations of the definitions of levels of behavior.

#### *6-1-5 Documentation*

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

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

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

## **PERFORMANCE MANAGEMENT FORMS AS WORKING DOCUMENTS**

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

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

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

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

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

A typical set of forms used by a large housing association in association with a competency framework is shown in Figure 5.

## **1-Introducing Performance Management**

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

When planning the program of introducing the following points need to be covered:

- Where and how should performance management be introduced?
- Who should be covered?

- When should reviews take place?
- What sort of reviews should be held?
- What use should be made of pilot tests?
- What briefing arrangements should be made?

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

Name of manager:	Job title	Date of review:
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**(1) WHAT IS TO BE DONE**

**(2) HOW IT IS TO BE DONE**

Key result	Agreed results to be achieved	Joint review of results achieved
A		
B		
C		
D		
E		
F		
G		
H		
I		
J		

Competency area	Profile	Joint	Development need
Knowledge and skills			
Manage performance			
Manage oneself			

Manage others			
Manage relationships			
Manage communications			
Manage customer service			
Manage continuous			
Manage resources			

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

### (3) PERSONAL DEVELOPMENT PLAN

Key result area/competence	Development need	Method of meeting need	Target date	Review of achievement

COMMENTS:

Line manager:

Senior line manager:

Individual:

Signed (line manager):	Date:
Signed (senior line manager):	Date:
Signed (individual):	Date:

Figure 5: continued

***Where and how should performance management be introduced?***

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

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

An intermediate approach adopted by some decentralized organizations is for the centre (top management) to require all divisions and business units to introduce performance management in accordance with certain general principles, which have been discussed and agreed with local management and, preferably, staff. The business units proceed to develop their own processes, but the Centre provides help as required and may monitor the introduction of performance management on each division to ensure that it is happening according to plan and in line with corporate principles and values.

The most common and best method of introduction is to set up a project team or working group for this purpose with management and staff representatives. This provides for different opinions and experiences to be considered, serves as a base for wider consultation and communications to take place and generally helps to achieve understanding and acceptance of the process. More general consultation is very desirable. As many people as possible should be brought into the discussions. Workshops and focus groups can be used to develop and discuss ideas. The aim is to get the maximum amount of 'buy-in' to the new process as possible.

### ***Who should be covered?***

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

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

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

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

### ***When should reviews take place?***

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

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

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

### **2- Pilot Tests**

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

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

### **3- Prepare Briefing Papers**

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

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

## **MONITORING AND EVALUATING PERFORMANCE MANAGEMENT**

It is important to monitor the introduction of performance management very carefully but it is equally vital to continue to monitor and evaluate it regularly, especially after its first year of operation.

The best method of monitoring and evaluation is to ask those involved - managers, individuals and teams - how it worked. As many as possible should be seen, individually and in groups, to discuss the points set out in the last section of this chapter. It is also desirable to scrutinize a sample of completed forms to check on how well and thoroughly they have been completed. The evaluation can be carried out by members of the project team and/or by the personnel function. An independent consultant or adviser can be used to conduct a special review.

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

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

# Chapter 5

## 360-Degree Feedback Appraisal System

### INTRODUCTION

Traditional performance appraisal involves bosses assessing their staff. Yet the people who actually work with us – peers, subordinates, suppliers and customers – can often provide far more accurate and useful insights into our strengths, weaknesses and scope for development<sup>1</sup>.

One of the more important ways that employees can develop is to receive ratings of their performance from their co-workers bosses, peers, subordinates, and others. Known as 360-degree feedback, this activity is now widely used by human resources professionals and in leadership development programs.

The United States armed forces first used 360 degree feedback to support the development of staff in the 1940s. The system gained momentum slowly, but the 1990 most Human Resource (HR) and Organizational Development (OD) professionals understood the concept. The problem that was collecting and collating the feedback demanded a paper-based effort reports. The first led to despair on the part of practitioners, the second of gradual erosion of commitment by recipients.

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<sup>1</sup>parag, p.w.m. 360-degee feedback a management tool. hr folks international 2011

Introducing the 360-degree feedback can loosen up a rigid corporate culture and cast light on the vital process factors – teamwork, communications, decision-making and morale – that underlie long-term business success. The essential principles are explained further.

When the first online 360 degree feedback tools appeared in 1998, it became possible to request feedback from raters anywhere in the world by email, to customize automated systems, and to generate reports for recipients in minutes. In recent years, internet-based services have become the norm, with a growing menu of useful features: e.g. multi languages reporting and aggregate reporting.

In human resources or industrial/organizational psychology, 360-degree feedback, also known as multi-rater feedback, multi source feedback, or multi source assessment, is employee development feedback that comes from all around the employees. “360” refers to the 360 degrees in a circle.

The feedback would come from subordinates, peers, and managers in the organizational hierarchy (Newble, Paget, McLaren, 1999; Norcini, 1999), as well as self-assessment, and in some cases external sources such as customers and suppliers or other interested direct reports, or a traditional performance appraisal, where the employees are most often reviewed only by their managers. Interpersonal skills and behaviors have been consistently recognized as lying at the heart of satisfying clinical encounters (southgate, 1999). Lack of such skills and inappropriate behaviors are a potent cause of system failure (Excellence, 2001).

The results from 360-degree feedback are often used by the person receiving the feedback to plan their training and development. The results are also used by some organizations for making promotional or pay decisions, which are sometimes called “360”-degree review.

## **TYPICAL 360 DEGREE EVALUATORS**

- Officers’ supervisor
- Peers/ colleagues
- Direct/ indirect reports

- The individual themselves

Typically, performance appraisal has been limited to a feedback process between employees and supervisors. This multiple-input approach to performance feedback is sometimes called “360-degree assessment” to connote that full circle.

360-Degree feedback is aimed at improving performance by providing a better awareness of strengths and weaknesses. The employee receives feedback, in anonymous form, on performance ratings from peers, superiors and subordinates (Kaplan, 1994).

Feedback from multiple sources, such as superiors, peers, subordinates and others has a more powerful impact on people than information from a single source, such as their immediate supervisor. Employees view performance information from multiple sources as fair, accurate, credible and motivating. They are more likely to be motivated to change their work habits to obtain the esteem of their co-workers than the respect of their supervisors (Edwards and Ewen, 1994).

Many organizations have found that single source appraisals provide inflated evaluations, giving nearly all ratees high performance ratings. This process creates an environment in which employees feel entitled to regular raises and promotions without providing them the information needed for development. Managers find it difficult to provide specific and critical feedback so they tend to shy away from addressing performance problems.

The 360-degree feedback appraisal, also known as multi-source assessment or full circle feedback, gathers evaluation data from all of those who work most closely with the person being evaluated, regardless of position. The collective intelligence these people provide gives the appraisee a clear understanding of personal strengths as well as areas that need further development (Edwards and Ewen, 1994). A prime advantage is that 360 provides a more comprehensive view of employee performance. Not only does this method provide feedback from a variety of viewpoints, it also minimizes the bias problems that are inherent to evaluations.

The more appraisers an employee has, the more likely the biases of the raters will tend to cancel one another out, and the more their perspectives will combine to give a complete, accurate and honest picture.

It is not unusual for both the managers and his or her raters to be anxious about how these data will be used. The expectations for what managers should do with their 360-degree feedback should be clear before the process begins.

Managers should also be told what kind of organizational support will be made available to them. Co-workers who will be part of the process also need to know that this is an assessment for development not a performance appraisal, or part of a salary or promotion review. The attitudes of 360-degree users are critical to the system's effectiveness. Inaccurate feedback systems or more importantly the perception of inaccurate feedback process can lead to any number of unpleasant outcomes including punitive feedback, inappropriate development goals, emotional distress, organizational cynicism and nonparticipation.

Simms(1996) recommended an action plan be developed to implement a subordinate appraisal system in the Texarkana, Texas Fire Department. The results of his study indicated that the subordinate appraisal of supervisors could be a viable accepted system that could improve the overall performance appraisal process.

David Lobdell in his research project *Selecting An Appropriate Performance Appraisal Program For Spokane Valley Fire Department*, (1997) recommended that 360 degree appraisal was the most beneficial for a fire department in today's work environment. Four basic methods were identified in his research:

- The conventional top down,
- The peer rating,
- The bottom up where employees rate their supervisors,
- The 360 degree evaluation which he states is a combination of the other three.

Lobdell (1997) recommended that the evaluation be implemented carefully and that they should be used only for employee self evaluation and development. The individual ratings should be kept confidential and should be fairly short. He recommended that training must be conducted for both giving and receiving feedback before the program is implemented, and the program should be evaluated periodically and modified to meet the changing needs of the organization.

He recommended the evaluation be fairly short and that it should be able to be

completed in about thirty (30) minutes. The performance on which the employee is being rated should be clearly understood and related to the position held. There should be a minimum of five to six evaluators to protect anonymity and provide sufficient perspective. The immediate supervisor of the appraise should receive the completed evaluations. He should tabulate them onto a clean form with the comments (Palmer, Rayner, Wall, 2007).

## **IMPORTANCE OF THE 360 DEGREE EVALUATION**

Conducting performance reviews in general, provides a number of valuable functions for organizations. They allow an organization to:

- Translate department/organization’s mission into specific achievable goals
- Manage performance rather than react to it
- Reduce overlap of job duties and ineffective, inefficient use of employee skills
- Provide written acknowledgment of completed work
- Gain new information and ideas from staff
- Discuss skill and career development Protect organization from unfounded charges of discrimination
- Reduce stress for the supervisor -- managing rather than reacting
- Reduce stress for the employee – what is expected is made clear (alexander, 2006).
- Feedback can provide organization value, allowing us to identify needs and set goals for organizational development and training within the university.
- Individual get a broader perspective of how they are perceived by others than previously possible.

- Gaining acceptance of the principle of multiple stakeholders a measure of performance.
- Clarified to employees critical performance aspects.
- Opens up feedback and gives people a more rounded view of performance than they had previously.
- Provides reliable and user-friendly feedback reports.
- Direct reports and peers, rather than management /supervisors are better to judge some skills such as leadership.
- An individual can better manage their own performance and careers.
- A rounded view of the individual`s /team`s/ organization`s performance and what the strengths and weaknesses are.

## **WHAT IS 360-DEGREE FEEDBACK?**

### **1- What's In A Name?**

360-degree feedback has been labeled by many names as:

- Multi-rater feedback
- All-round feedback
- 360-degree feedback
- 360-degree appraisal
- 540-degree feedback
- 400-degree feedback
- 180-degree feedback
- Peer appraisal
- Upwards feedback

All these terms represent different ways of describing the same thing. The numbers indicate the different rater groups used. Thus 180-degree feedback describes top-down and bottom-up feedback, whereas numbers greater than this

imply feedback from more groups across the organization. The definition, which applies to all these terms, is:

The systematic collection and feedback of performance data on an individual or group, derived from a number of the stakeholders in their performance<sup>1</sup>.

The data collection is systematic, i.e. done in some systematic way via questionnaires or interviews. This formalizes people's judgments coming from the natural interactions they have with each other. There is both a collection and a feedback process; data is gathered and then fed back to the individual participant in a clear way designed to promote the individual participant in a clear way designed to promote understanding, acceptance and ultimately changed behavior. The performance of either an individual or a group can be measured. The sources of data are stakeholders in the participant's (the person being rated) performance. Stakeholders are people (called 'respondents') who are both affected by your performance and deal with the participant closely enough to be able to answer specific questions about the way you interact with them.

Thus 360-degree feedback symbolizes transition from top-down, single-stakeholder, results-only measurement to something much more multi-dimensional and process-oriented.

## **WHAT IS A 360 DEGREE REVIEW?**

A 360 degree performance review is a formalized process whereby an individual receives feedback from multiple individuals or "raters" who regularly interact with the person being reviewed, commonly referred to as "the learner". The objective is to provide the learner with feedback on their performance behaviors and outcomes as well as their potential, while identifying and establishing development goals. As a result of this feedback, the learner is expected to be able to set goals for self development which will support the advancement of their careers and in turn benefit the organization. The raters typically represent the learner's boss, peers, subordinates, customers and

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<sup>1</sup>parag, p.w.m. 360-degee feedback a management tool. hr folks international 2011, p 64

sometimes even their significant others. Their own self assessments complete the circle (Alexander, 2006).

Multi-source feedback, or 360-degree assessment, is an important part of the assessment of people in the workplace, in both health and industry. Almost all published work concentrates on content validity and generalizability. However, an assessment system needs construct validity, and has to have practicability and acceptability, without sacrificing fitness for purpose, content validity or inter-rater reliability (Wood, 2006).

An organization needs to decide up front if the purpose of the feedback is developmental only, or if it will be evaluated and linked to the promotion and reward. A 360 degree process is most often used as an assessment tool for personal development rather than evaluative and experts warn that linking 360 degree feedback to administrative actions such as selection or pay could skew the feedback and become detrimental to the process. For example, if the results of a 360 degree process are tied to an employee's eligibility for advancement either in pay or position, the raters, who may see themselves as competitors, may become motivated to provide negative feedback. The process would be seen as a control tool, negatively impacting its reliability and validity within that organization (Alimo-Metcalfe, 1998).

Raters respond to a variety of standardized questions evaluating the learner's competencies, performance behaviors and performance outcomes either by inputting feedback into a computerized system or by recording responses using a paper format. Although the learner actively selects who the raters are, the author of the specific feedback is anonymous. The feedback is typically collected and compiled into a report for the learner, breaking the feedback down into a series of ratings and scores on a numerical scale indicating areas of strengths and opportunities for development.

The role of the feedback coach is to assist the learner with interpreting the report and to ultimately assist in identifying areas to be developed, so an effective plan for improvement can be established. A feedback coach may be anyone internal or external to the organization, which has been properly trained in this area. Often times it is a Human Resource professional, a manager, or someone in a leadership position within that organization. Some organizations discount the need

for a feedback coach believing that simply providing feedback is enough to motivate a learner to change. There is existing empirical data however that shows the importance of a feedback coach in this process. Proper training of the feedback coach is critical to its success. Coaches need to understand how to analyze the data and must be trained in the skill of delivering feedback. Lack of training or ineffective training of the feedback coach can lead to the program's loss of credibility and can sabotage future efforts.

The theory held by organizational leaders who choose this tool, is that this process will be embraced by its employees and the benefit to the organization will appear in the form of improved performers who are more aware of their strengths and developmental needs. Expert opinions vary regarding the validity of this theory (Kamen, 2003).

The 360 degree performance review process intends to provide a more global and accurate view of the employee's performance. The accuracy of the 360 degree process depends on whether the respondents interact regularly with the learner and whether the learner reveals him/herself to others. Since a learner can be different with each person, it would follow that there is a benefit to having many respondents involved. The underlying assumption of the 360 degree technique is that the accuracy and scope of the assessment of the individual increase when consulting a full circle of daily business contacts, as opposed to one supervisor. The view of most practitioners is that the use of more raters leads to more accurate results for the individual (Church, 1997).

In order for the ratings were accurate or simply careless. This feature serves to point out unusual trends in responses and might encourage the rater to be more thoughtful in their responses. It is possible that such a feature may increase the validity of the 360 degree feedback process over a paper process. A validity caution such as this is not part of a paper process (Edwards and Ewen, 1996).

## **WHAT DOES IT ACTUALLY MEASURE?**

Many organizations have developed sophisticated ways of measuring their success as corporate entities, the achievements of departments, and teams and the contribution of individuals, which demonstrate:

- The tendency when assessing individuals to look not just at the results achieved – but how they were achieved
- The increasing emphasis by organizations on measuring employee opinions on a number of issues, such as communications or morale, achievement of corporate standards of behavior or values
- The use of external measures by organizations to assess how others see them from outside, typically using market research or other forms of survey to assess customer satisfaction. Some asking for similar feedback from their suppliers.
- The assessment of teams and departments by looking at what happens within the group-communication and decision making processes. This data is coupled with the views of internal customers and others on team quality and service
- The increasing use of business excellence models as part of the total quality movement and the need to have more precise, data-focused ways of measuring them

Any or all of these circumstances may be suitable candidates for 360-degree feedback. In practice it is used to assess how teams interact with their members and customers, and how individuals interact with the stakeholders in their performance. Thus managers can be assessed in terms of the competencies they possess, or more specifically through the detailed behaviors which constitute them. Besides managers, power and value of 360-degree feedback has made engineers, pilots. Sales people, human resource professionals, customer service staff, secretaries and supervisors part of the assessment and feedback process.

## **DOES THE ASSESSMENT?**

The answer is “Anyone who works with the participant closely enough to form a view.” The list of potential respondents is as follows:

- Yourself
- Boss
- Other bosses (previous boss, boss’s own boss etc.)
- Staff
- Team members
- Peers
- Internal customers
- External customers
- Suppliers
- Friends and family members
- Collection of people from a mixture of the groups listed above

## **CAN PEOPLE’S PERCEPTIONS BE TRUSTED?**

Many organizational thinkers believe that perception is a reality. In other words what your colleagues see you doing or hear you saying is real to them, describes the person you are, and forms the basis of their opinion about you, it also governs how they respond to you. However people see only the tip of the iceberg and 360-degree feedback respondents comment only on what they see, because this for them is reality. The intentions, background or reasons behind what they see might be perfectly rational and understandable – but if they remain invisible or unexplained then people will respond only to what appears on the surface. In 360-degree feedback there are as many realities as there are respondents.

## **WHAT IMPACT WILL 360-DEGREE FEEDBACK HAVE ON THE ORGANIZATION?**

If 360-degree feedback is planned and implemented in a thoughtful manner the impact on the organization will be very beneficial especially in the following areas:

- ***Quality and quantity of data:*** Large amount of detailed information, not hitherto available on a person's performance, are generated by 360-degree feedback. The nature and variety of respondents and the face validity of the activities measured make it much easier for participants to understand what is said and use it as the basis for change and development.
- ***Communications:*** The application of 360-degree feedback is an exercise in open management. We now have communication upwards and across the organization whereas before it may have only been downwards.
- ***Motivation:*** Organizations introducing a 360-degree feedback often finds that it has a morale-boosting effect. The feedback contains a mixture of strengths and areas for development. Obviously the former can be motivating per se, but for those people who try to change their behavior and succeed there is an even greater improvement in morale. Finally, 360-degree feedback changes attitude to performance, that what gets measured gets done.
- ***Roles:*** The role of everyone involved in a 360-degree feedback project is changed – sometimes subtly, sometimes dramatically. Participants find themselves asking for feedback information from colleagues. Respondents find themselves in a position of influence over participants. The boss's role can change from being the handler down of judgments on performance based in relatively limited information to being a facilitator, coach, or counselor. The role implications for human resources function are strategic as well as individual. The human resources function is in a much better position to measure the success of its strategic initiatives and to use this information for better planning and implementation in the future. 360-degree feedback also has profound implications for the skills of the individual human resources practitioner who has to work with the participant as a partner, drawing out his ideas, helping him make and implement development plans.
- ***The customer:*** 360-degree feedback gives internal as well as external customers the opportunity to make their views known about such matters as

reliability of service, attention to their needs, communication, problem-solving, and working in partnership.

## **HOW QUICKLY CAN A 360-DEGREE FEEDBACK PROJECT BE CARRIED OUT?**

The various stages in the 360-degree feedback process are as follows:

The minimum time required for the first five stages is two months, and that is after the project has been planned and communicated. The whole process from initial idea to the observation of a permanent improvement in performance, can take up to a year, and if any one stage is neglected then the results can be disappointing.

## **WHY HAS A 360-DEGREE FEEDBACK BECOME SO POPULAR RECENTLY?**

The following four forces have encouraged the rapid growth of 360-degree feedback in the recent years:

- Changes in the roles of the employee and what the organization expects of the employee such as Encouragement given to collaboration and team working, continuous improvements, reduction in employee numbers and levels of management, flexibility etc.
- An emphasis on measurement within organizations to assess views, suggestions, attitudes, motivations, morale, personalities, aptitude, skills, potential and career ambitions of employees
- The influence of new management concepts
- Management attitudes and receptiveness

## THE USE AND APPLICATION OF 360 – DEGREE FEEDBACK

Some uses of 360-degree feedback carry more risks than others. The implications differ with each use. However beginning the project with the understanding of the potential pitfalls helps to ensure the chance of success.

Some applications of 360-degree feedback can be summarized as follows:

- **Self-development and individual counseling:** With 360-degree feedback for self-development, the responsibility for action lies more with the participant. The organization should take as supportive role in the provisos of solutions

### *Pitfalls*

- The participant may react badly to feedback
- Requires clear briefing and skilled one-to-one facilitation
- A participant may not complete or carry out their action plan

### *Opportunities*

- The participants are very keen to learn and devote more time to a deep understanding of the feedback and its implications
- Opportunity for building a close and effective relationship between facilitator or with others who might be involved in the process, e.g. mentors or boss.

- **Part of ‘organized’ training and development:** Many organizations now see 360-degree feedback as part of formal training programs which allow participants to use other course delegates as a resource

### *Pitfall*

- People might feel threatened to receive feedback in a group setting
- Lack of time for facilitation and reflection
- Trained facilitators are required

### *Opportunities*

- Formal sessions can be run in which the participants can share their data and tap into each other’s experience and skills
- An opportunity to share needs and development plan on an informal basis

- **Team building:** Team feedback is a relatively new development that that presents a number of opportunities for improved team working

*Pitfalls*

- Individual team member feedback can be threatening
- Pressure on team members to share or discuss feedback with others in a team-building session
- Skilled facilitators are required

*Opportunities*

- Feedback can be gathered before any team event happens
- Capable of being turned into concrete actions from which the team or its members will benefit

- **Performance/appraisal management:** To make the best use of 360-degree feedback in performance appraisal, managers have to adopt different types of observation and coaching skills through proper training

*Pitfalls*

- Might promote a culture of tale-telling, putting the boot in, and over-critical
- Some appraising managers might have difficulty in adapting to the new role demanding
- Concentration on processes as well as results
- Being more observant than they otherwise might be
- Describing the tip of the iceberg of the performance
- Acting as a facilitator

*Opportunities*

- Results in performance improvement
- Promote self-awareness for the participant
- Encourage self-development
- Clarifies problems
- Stimulates change
- Builds participant's confidence
- Reinforces useful behaviors

- **Strategic or organization development:** Some organizations are using the technique as a driver of cultural change

#### *Pitfalls*

- Requires signal from the top management
- Risk of disillusionment resulting from the failed promises of a better tomorrow

#### *Opportunities*

- Creates altered relationships in terms of more supportive management and better team working
  - Changes in attitude to performance
  - Changes in the ways in which people give and receive feedback
  - Helps to establish the concept of the internal customer
- **Evaluation/validation of training and development:** 360-degree feedback can be used to evaluate training initiatives. The four areas of analysis used for evaluation of training methods are reacting, learning, behavior and results. 360-degree feedback presents a great opportunity to improve the analysis of behavior and results
  - **Remuneration:** There are cases for (performance and process relate data) and against (biased feedback) using 360-degree feedback to determine pay
  - **Total Quality Management:** 360-degree feedback approach makes the people and team issues within total quality easier to get grips with, by acting as a catalyst for changes in performance and the adoption of a new culture.

A study in 360-degree feedback to leaders conducted by Arizona State University has supported the hypothesis that improvement in leaders consideration and employee development behavior will lead to positive changes in employee job Satisfaction and engagement, and reduce their intent to leave (Brett, 2006).

A Watson Wyatt's Human Capital Index (HCI) study found that 360-degree Feedback programs were associated with a 10.6 percent decrease in shareholder Value.

Nowak (1992) suggests that a necessary condition for initiating and sustaining behavioral change is the ability to interpret critical feedback from others in a positive fashion. We therefore recommend that, at a minimum, feedback recipients should have access to a qualified feedback giver who has experience with the assessment. These individuals will help managers make sense of the mounds of data by highlighting themes and helping to select target areas for development.

One study found that managers who follow up on their formal feedback. (E.g. Follow-up feedback sessions with raters) show significant improvement in their effectiveness as a leader. They also found a relationship between the frequency of follow-up and perceived positive change. This study and others have under-scored the importance of follow-up as a way to positively alter perceptions of the effects (Goldsmith, 2001).

Atwater et al. (1998), has suggested that self other agreement reflects a self awareness and is related to several outcome measures including leadership and managerial effectiveness. In additional, this study explores the importance of the direction of disagreement, suggesting that those who are in-agreement with their other receive the highest ratings, followed by under-raters (those who rate themselves below their other), and over-raters (those who rate themselves above their other) receive the lowest ratings.

Edwards, (1993) his studies based on the leadership serving of air force officers, he found that agreement between self and subordinates was more important in predicting promotion rates than agreement between self and supervisor or self and peers (Edwards and Ewen, 1994).

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

## 360-DEGREE FEEDBACK DEFINED

360-degree feedback has been defined by Ward (1995) as:

*The systematic collection and feedback of performance data on an individual or group derived from a number of the stakeholders on their performance' (p.20).*

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

Performance data in a 360-degree feedback process can be generated for individuals (as shown in Figure 6) from the person to whom they report, their direct reports, their peers (who could be team members and/or colleagues in other parts of the organization) and their external and internal customers.

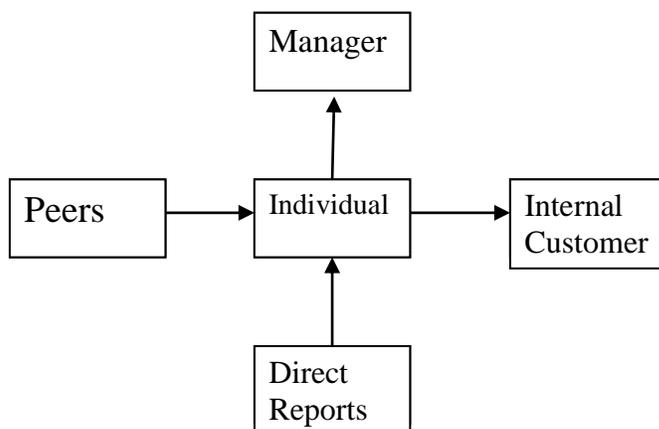


Figure 6: 360- degree feedback model

The range of feedback could be extended to include other stakeholders - extend customers, clients or suppliers (this is sometimes known as 540-degree feedback), self-assessment process may also be incorporated using for comparison purposes ( same criteria as the other generators of feedback.

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

individuals as a result of the feedback may be provided by a member of the HR department or by an outside consultant.

## **USE OF 360-DEGREE FEEDBACK**

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

- 71 per cent used it solely to support learning and development;
- 23 per cent used it to support a number of HR processes such as appraisal, resourcing and succession planning;
- 6 per cent used it to support pay decisions (Handy, Devine, Heath, 1996).
- A 1997 survey by the Performance Management Group (unpublished) of 22 organizations using 360-degree feedback found that:
  - 77 percent either disagreed or strongly disagreed with the statement that it is 'a personal development tool and should not be used for wider HR or organizational purposes';
  - 81 percent disagreed or strongly disagreed that 'the natural use of 360-degree feedback is to provide a basis for reward' (Armstrong, 2005).

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

## **RATIONALE FOR 360-DEGREE FEEDBACK**

The main rationale for 360-degree feedback has been expressed by Turnow (1993) as follows:

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

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

- 360-degree feedback can become a powerful organizational intervention to increase awareness of the importance of aligning leader behavior, work unit results and customer expectations, as well as increasing employee participation in leadership development and work unit effectiveness.
- 360-degree feedback recognizes the complexity of management and the value of input from various sources - it is axiomatic that managers should not be assessing behaviors they cannot observe, and the leadership behaviors of subordinate may not be known to their managers.
- 360-degree feedback calls attention to important performance dimensions which may hitherto have been neglected by the organization.

## **360-DEGREE FEEDBACK EVALUATION METHOD**

The 360-degree feedback evaluation method is a popular performance appraisal method that involves evaluation input from multiple levels within the firm as well as external sources.

The 360-degree method is unlike traditional performance reviews, which provide employees with feedback only from supervisors (Tracy Gallagher, 2008). In this method, people all around the rated employee may provide ratings, including senior managers, the employee himself or herself, supervisors, subordinates, peers, team members, and internal or external customers (Sean Drakes, 2008). As many as 90 percent of Fortune 500 companies use some form of

360-degree feedback for either employee evaluation or development(Tracy Maylette and Juan Riboldi, 2007). Many companies use results from 360- degree programs not only for conventional applications but also for succession planning, training, and professional development.

Unlike traditional approaches, 360-degree feedback focuses on skills needed across organizational boundaries. Also, by shifting the responsibility for the evaluation of more than one person, many of the common appraisal errors can be reduced or eliminated. Software is available to permit managers to give the ratings quickly and conveniently. The 360-degree feedback method may provide a more objective measure of a person's performance. Including the perspective of multiple sources results in a broader view of the employee's performance and may minimize biases that result from limited views of behavior.

Having multiple raters also makes the process more legally defensible. However, it is important for all parties to know the evaluation criteria, the methods for gathering and summarizing the feedback, and the use to which the feedback will be put. An appraisal system involving numerous evaluators will naturally take more time and, therefore, be more costly. Nevertheless, the way firms are being organized and managed may require innovative alternatives to traditional top-down appraisals.

According to some managers, the 360-degree feedback method has problems. Ilene Gochman, director of Watson Wyatt's organization effectiveness practice, says, ( Patrick J. Kiger, 2006) "We've found that use of the 360 is actually negatively correlated with financial results." General Electric's (GE) former CEO Jack Welch maintains that the 360-degree system in his firm had been "gamed" and that people were saying nice things about one another, resulting in all good ratings (John F. Welch Jr., Jack, 2001). Another critical view with an opposite twist is that input from peers, who may be competitors for raises and promotions, might intentionally distort the data and sabotage the colleague. Yet, since so many firms use 360-degree feedback evaluation, it seems that many firms have found ways to avoid the pitfalls.

Google has a different approach to 360-degree feedback as it provides managers and employees to nominate 'peer reviewers' from anywhere across the organization. According to the company's manager of HR technology and

operations, Melissa Karp, “People are fairly candid in their feedback.” (Aliah D. Wright, 2008). One might ask, what happens at Google when people write unconstructive comments? Karp said, “managers are encouraged to use that as a ‘coachable moment’ to talk to the person who wrote something unconstructive. However, at Google this hasn’t been too much of a problem.”( Kathryn Tyler, 2005) The biggest risk with 360-degree feedback is confidential. Many firms outsource the process to make participants feel comfortable that the information they share and receive is completely anonymous, but the information is very sensitive and, in the wrong hands, could impact careers (Tyler, 2005).

## **HOW AND WHEN DID 360-DEGREE FEEDBACK DEVELOP?**

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

But things have changed. Information regarding an employee’s performance is now sought for more than just the annual performance evaluation for some of the following reasons (Hirsch, 1994; Holt, Noe, & Cavanaugh, 1996; Jones & Bearley, 1996). Because of changes in the business environment, employees who once felt satisfied and secure in their jobs now find themselves responsible for their own careers (Nowack, 1993; O’Reilly, 1994; Romano, 1993). Also, empowerment has made leadership a necessary competency for all levels of employees (Crystal, 1994) and downsizing has made it important for even skilled managers to be aware

of their own strengths and weaknesses to remain competitive (Hirsch, 1994; Hoffman, 1995). In addition, teams and partnering initiatives have made communication and managerial effectiveness vital to individual and organizational success (Melymuka, 1994; Peters, 1996).

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

## **WHAT ARE THE BENEFITS OF 360-DEGREE FEEDBACK?**

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

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

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

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

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

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

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

Atwater, 1993).

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

In addition to generating "buy-in," self-ratings offer unique insight into how self-perception affects managerial performance. In many 360-degree feedback instruments, self-ratings are compared to ratings from other groups. Some assessment systems compare self-ratings to normative data (Jones & Bearley, 1996). There have been a few studies, and more are emerging, on the comparison of self- and others' ratings. For the purposes of this review, these studies are not presented in depth. There are, however, some practical implications that relate to the degree of agreement between self- and others' ratings. The primary finding is that discrepancies between self- and others' ratings can provide important insights about managerial and leadership effectiveness (Nilsen & Campbell, 1993). Although there is little research on the causes of these differences, many users of 360-degree assessments feel that understanding the differences between one's self-view and the views of others is an essential step in leadership development (Dalton, 1996; McCauley & Moxley, 1996). Adding self-awareness to the assessment, therefore, can lead to greater impact of the feedback. This type of impact can only be obtained when the assessment provides feedback from all perspectives relevant to a manager's effectiveness, including self-ratings. 360-degree assessments can be used to reinforce organizational values and vision (Crystal, 1994; Heisler, 1996; London & Smither, 1995; O'Reilly, 1994; Parker-Gore, 1996; Shaver, 1995; Sweet, 1995).

According to Parker-Gore (1996), organizational cultures must be reinforced and developed. In this capacity, 360-degree feedback can reiterate the value of specific

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

## **HOW SHOULD 360-DEGREE FEEDBACK BE USED?**

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

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

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

feedback for an appraisal is that both self-ratings and the ratings of co-workers tend to be inflated when collected for decision-making purposes (Antonioni, 1996).

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

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

***Feedback for development and appraisal .*** Some organizations are now attempting to incorporate 360-degree feedback into their appraisal and developmental processes (Dunnette, 1993; London & Beatty, 1993). This trend is evolving as companies attempt to maximize the potential of this method. The literature suggests, however, that 360-degree assessments first be used for only one purpose in order to acclimate employees to the system (Jones & Bearley, 1996). These assessments can then slowly be administered for other organizational purposes. This will ensure that the feedback will be accepted and effective for both developmental and decision-making purposes (Romano, 1993). It also may be necessary to develop separate assessments for each purpose, because feedback

gathered for development is not necessarily applicable to pay or promotion decisions (Harvey, 1994; Yukl & Lepsinger, 1995). If 360-degree feedback is to be used in more than one way, it should be collected and interpreted according to its intended use.

## **HOW DO YOU INTEGRATE 360-DEGREE FEEDBACK INTO ORGANIZATIONAL DEVELOPMENT SYSTEMS?**

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

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

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

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

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

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

***Administer the assessment.*** After deciding what 360-degree instrument to use, how to use its feedback, and preparing the participants for the process, the assessment instrument can be administered (Bracken, 1994). According to Shaver (1995), design and administration of the assessment can affect the outcome of the process. Most 360-degree feedback instruments are questionnaires that use scaled

items to assess employees (Shaver, 1995; Yukl & Lepsinger, 1995), but some include sections for open-ended responses. It is necessary to consider the medium for the data collection in advance. An important factor to consider is who will be evaluated (Hirsch, 1994; Sweet, 1995; Ward, 1995). Feedback for development has been gathered both for fast-track, high-performing employees and for employees who lack the necessary skills to be effective (Hirsch, 1994; Jones & Bearley, 1996). However, 360-degree systems are now being used throughout organizations for every level of employee. Once the employees to be assessed are decided upon, it is necessary to determine who will provide the ratings (Mohrman et al., 1990).

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

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

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

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

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

Using feedback from multiple sources is vital to the effectiveness of development plans for two reasons. First, it provides potentially accurate and diverse information on where employees stand in relation to where they should be in terms of skills and behaviors. Second, 360-degree feedback may increase self-awareness and provide insight into how employees' behavior and performance affects those around them. Both of these aspects are thought to be important contributions of 360-degree feedback.

To use multi-rater feedback for development, certain factors should be considered relating to both the organization and the individual. On the organizational level, development should be encouraged and supported (Denton, 1994). After an individual's developmental needs are identified, it is necessary for the organization to play an active role in the development process (Bracken, 1994). Organizational support can take various forms, from a simple show of support to extensive and specific training (Yukl & Lepsinger, 1995). Organizational support for individual development may require a shift in the culture of the organization, and it may take time for development based on 360-degree feedback to reach its maximum potential.

Using 360-degree feedback for performance appraisal also involves follow-up. If the feedback is linked to pay and promotion decisions, then an appeal process may be necessary (Mohrman et al., 1990). There should be an opportunity for the employee involved to react to the feedback and the associated decisions. This is especially true in the early stages of implementing a 360-degree system for

performance appraisal. Because performance appraisal focuses on past performance and behavior, it should be followed by plans or suggestions to improve future performance (Hirsch, 1994). Essentially, performance appraisals evaluate what an employee has done, whereas feedback for development addresses how the employee gets things done (London & Beatty, 1993).

## **WHAT ARE FUTURE TRENDS AND RESEARCH NEEDS FOR 360-DEGREE FEEDBACK?**

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

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

A future trend to watch for is the administration of 360-degree feedback over the Internet. Several vendors are developing 360-degree-feedback processes that will be delivered over the World Wide Web (WWW). The method shows

some promise because it eliminates the need for passing out and collecting paper forms or diskettes containing an instrument. A downside to this trend is that all employees do not yet have access to PCs or to the Internet.

Many of the publications annotated here call for further research on the 360-degree-feedback process. Not only is more research needed related to business initiatives and impact, there is a need for additional research on the psychological implications of giving and receiving 360-degree feedback (London & Beatty, 1993; Yammarino & Atwater, 1993). This research showed

be targeted toward issues such as rater psychology, self-awareness, and feedback receptivity; it should also focus on the overall impact and design of 360-degree feedback, including the possible effects of electronic administration and customization of 360-degree-feedback instruments.

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

## **THE QUESTIONNAIRE**

360-degree feedback processes usually obtain data from questionnaires, which measure from different perspectives the behaviors of individuals against a list of competencies. In effect, they ask for an evaluation: 'how well does... do...?'

competency model may be one developed within the organization or the competency headings may be provided by the supplier of a questionnaire.

The dimensions may broadly refer to leadership, management and approaches to work. The headings used in the Performance Management Group's Orbit 360-degree questionnaire are:

- Leadership;
- Team player/manage people;
- Self-management;
- Communication;
- Vision;
- Organizational skills;
- Decision making;
- Expertise;
- Drive;
- Adaptability.

The leadership heading, for example, is defined as: 'Shares a clear vision and focuses on achieving it. Demonstrates commitment to the organization's mission. Provides a coherent sense of purpose and direction, both internally and externally, harnessing the energy and enthusiasm of staff.'

### **1- Ratings**

Ratings are given by the generators of the feedback on a scale against each heading. This may refer both to importance and performance, as in the PILAT questionnaire which asks those completing it to rate the importance of each item on a scale of 1 (not important) to 6 (essential), and performance on a scale of 1 (weak in this area) to 6 (outstanding). [125]

### **2- Data processing**

Questionnaires are normally processed with the help of software developed within the organization or, most commonly, provided by external suppliers. This enables the data collection and analysis to be completed swiftly, with the minimum of effort and in a way that facilitates graphical as well as numerical presentation.

Graphical presentation is preferable as a means of easing the process of assimilating the data. The simplest method is to produce a profile as illustrated in Figure 7.

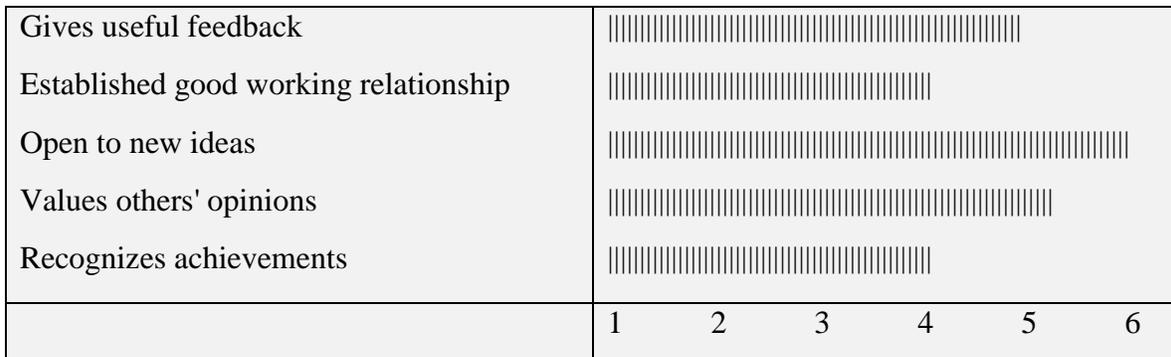


Figure 7: 360-degree feedback profile

Some of the proprietary software presents feedback data in a much more elaborate form.

### 3- Feedback

The feedback is often anonymous and may be presented to the individual (most commonly), to the individual's manager (less common) or to both the individual and the manager. Some organizations do not arrange for feedback to be anonymous. Whether or not feedback is anonymous depends on the organization's culture - the more open the culture, the more likely is the source of feedback to be revealed.

### 4- Action

The action generated by the feedback will depend on the purposes of the process, development, appraisal or pay. If the purpose is primarily developmental, the catnip may be left to individuals as part of their personal development plans, but the planning process may be shared between individuals and their managers if they have access to the information. Even if the data only goes to the individual, it can 1

discussed in a performance review meeting so that joint plan can be made, and then is much to be said for adopting this approach.

## **5- Development and implementation**

To develop and implement 360-degree feedback the following steps need to be taken:

- 1- Define objectives - it is important to define exactly what 360-degree feedback is expected to achieve. It will be necessary to spell out the extent to which it is concerned with personal development, appraisal or pay.
- 2- Decide on recipients - who is to be at the receiving end of feedback. This may be an indication of who will eventually be covered after a pilot scheme.
- 3- Decide on who will give the feedback - the individual's manager, direct reports, team members, other colleagues, internal and external customers. A decision will also have to be made on whether HR staff or outside consultants should take part in helping managers to make use of the feedback. A further decision will need to be made on whether or not the feedback should be anonymous (it usually is).
- 4- Decide on the areas of work and behavior on which feedback will be given - this may be in line with an existing competency model or it may take the form of a list of headings for development. Clearly, the model should fit the culture, values and the type of work carried out in the organization. But it might be decided that a list of headings or questions in a software package would be acceptable, at least to start with.
- 5- Decide on the method of collecting the data - the questionnaire could be designed in-house or a consultant's or software provider's questionnaire could be adopted, with the possible option of amending it later to produce better fit.
- 6- Decide on data analysis and presentation - again, the decision is on developing the • software in-house or using a package. Most organizations installing 360-degree feedback does, in fact, purchase a package from a consultancy or software house. But the aim should be to keep it as simple as possible.
- 7- Plan initial implementation program - it is desirable to pilot the process, preferably at the top level or with all the managers in a function or department.

The pilot scheme will need to be launched with communications to those involved about the purpose of 360-degree feedback, how it will work and the part they will play. The aim is to spell out the benefits and, as far as possible, allay any fears. Training in giving and receiving feedback will also be necessary.

- 8- Analyze outcome of pilot scheme - the reactions of those taking part in a pilot scheme should be analyzed and necessary changes made to the process, the communication package and the training.
- 9- Plan and implement full program - this should include briefing, communicating, training and support from HR and, possibly, the external consultants.
- 10- Monitor and evaluate - maintain a particularly close watch on the initial implementation of feedback, but monitoring should continue. This is a process that can cause anxiety and stress, or produce a little practical gain in terms of development and improved performance for a lot of effort. [125]

### **360-DEGREE FEEDBACK – ADVANTAGES AND DISADVANTAGES**

The survey conducted by the Performance Management Group in 1997 (unpublished) revealed that respondents believed the following benefits resulted from using 360-degree feedback:

- Individuals get a broader perspective of how they are perceived by others than previously possible.
- Increased awareness of and relevance of competencies.
- Increased awareness by senior management that they too have development needs.
- More reliable feedback to senior managers about their performance.
- Gaining acceptance of the principle of multiple stakeholders as a measure of performance.
- Encouraging more open feedback - new insights.

- Reinforcing the desired competencies of the business.
- Provided a clearer picture to senior management of individual's real worth (although there tended to be some 'halo'-effect syndromes).
- Clarified to employees critical performance aspects.
- Opens up feedback and gives people a more rounded view of performance than they had previously.
- Identifying key development areas for the individual, a department and the organization as a whole.
- Identify strengths that can be used to the best advantage of the business.
- A rounded view of an individual/team's/the organization's performance and what its strengths and weaknesses are.
- It has raised the self-awareness of people managers of how they personally impact upon others - positively and negatively.
- It is supporting a climate of continuous improvement.
- It is starting to improve the climate/morale, as measured through our employee opinion survey.
- Focused agenda for development. Forced line managers to discuss development issues.
- Perception of feedback as more valid and objective, leading to acceptance of results and actions required.
- But there may be problems. These include:
  - People not giving frank or honest feedback;
  - People being put under stress in receiving or giving feedback;
  - Lack of action following feedback;
  - Over-reliance on technology;
  - Too much bureaucracy.
- These can all be minimized if not avoided completely by careful design, communication, training and follow-up (Armstrong, 2005).

## **360-DEGREE FEEDBACK – CRITERIA FOR SUCCESS**

360-degree feedback is more likely to be successful when:

- It has the active support of top management who themselves take part in giving and receiving feedback and encourage everyone else to do the same;
- There is commitment everywhere else in the process based on a briefing, training and an understanding of the benefits to individuals as well as the organization;
- There is a real determination of all concerned to use feedback data as the basis for development;
- Questionnaire items fit or reflect typical and significant aspects of behavior;
- Items covered in the questionnaire can be related to actual events experienced by the individual;
- Comprehensive and well-delivered communication and training programs are followed;
- No one feels threatened by the process - this is usually often achieved by making feedback anonymous and/or getting a third-party facilitator to deliver the feedback;
- Feedback questionnaires are relatively easy to complete (not unduly complex or lengthy, with clear instructions);
- Bureaucracy is minimized(Armstrong, 2005).

## **SOME COMMON MISTAKES USING 360-DEGREE FEEDBACK**

Scott Wimer & Kenneth (2006) reveal varied results. In some organizations, people rave about multi-rater feedback, claiming it's the cornerstone intervention for individual and organizational change; others say it has left people feeling betrayed, broken confidences, and heightened cynicism.

There are commonalities in the success stories and in the failures. Most organizations using the best practices anticipate potential mistakes and plan how to actively avoid them. You want to make sure to address the pitfalls before embarking on your own 360-degree process. The successful implementation depends on whether it truly addresses and is perceived to address, important performance issues in your organization. When done well, multi-rater feedback systems can lead to enormous positive change and enhance effectiveness of the individual, team, and organizational levels(Scott And Kenneth, 2006).

Here are 13 common mistakes to avoid when implementing a multi-rater assessment:

### **Mistake I: Having no clear Purpose**

One of the main reasons for the unsuccessful implementation of a 360-degree feedback process is the lack of a clear purpose. The feedback doesn't address an organizational performance issue or strategic need. Instead it's being done because it's the latest management trend, because a senior manager thinks it's a good idea, or because a recent benchmarking study reports that world-class organizations are doing it.

Many organizations use 360 degree systems trying to address specific performance issues and problems. Similarly, training and performance improvement consultants, in their never-ending search for the latest cutting-edge tools, may unwittingly recommend interventions that appear exciting, without regard to whether they fit the culture of the organization or address important needs.

**Suggestion.** Performing an intervention without a clear purpose is like prescribing an antibiotic for a virus; it doesn't treat the underlying problems and may lead to undesirable outcomes. Multi-rater interventions can be powerful. They should be designed and implemented to address specific business and strategic needs. For example, managers may need to enhance the critical competencies for competitive performance, based on feedback from multiple internal and external stakeholders. Or people may be operating "in a vacuum" and need to open channels of feedback to be able to serve customers better. Or the compensation and reward systems may be outdated and 360-degree feedback may be a way to bring about actual or symbolic change. Or the organizational hierarchy may have become rigid and 360-

degree feedback is a way to develop a different culture that emphasizes continuous feedback and improvement.

Whatever the needs, it's imperative to have a clear and well-defined understanding or contract with employees on why the organization's undertaking a 360-degree feedback process. Ideally, the process should be designed for a specific purpose (for example, management development, succession planning, performance management, coaching, or career development). It shouldn't be to meet the needs of often conflicting human resource systems. It's also a poor idea to use 360 feedback just because other organizations are doing it or you've been given a green light by a self-diagnosing client who'd like to give it a try. That generally results in an intervention that misses the mark, which can undermine any future events to use a 360-degree process when organizational conditions may be more conducive.

## **Mistake 2: Using it as a substitute**

Multi-rater feedback isn't a substitute for managing a poor performer. It's a process for helping people gain a rich, accurate perspective on how others view their management practices, interpersonal style, and effectiveness. It shouldn't take the place of managers assessing and managing people's performance.

Managers can be tempted to use 360 feedback to facilitate a behavior change in poor performers. They may think it can motivate them to improve, based on the feedback they get. Rather than manage employee's performance day-to-day, they see multi-rater feedback as a panacea. It's not uncommon to hear managers murmuring, "If I only had an objective way to deliver constructive feedback to employees, I'd be able to manage their performance better."

Although feedback delivery from a 360-degree process can stimulate an employee's self-awareness, it can't replace direct communication between that employee and his or her manager.

**Suggestion.** When you see managers substituting 360-degree feedback or some other performance improvement tool for effective management, call it to their attention. Be sure not to collude with them, in an attempt to avoid unpleasant, but

necessary management tasks. Ideally a training or performance improvement consultant can encourage managers to make feedback an ongoing, day-to-day process that contributes to keeping an organization healthy-instead of a once-a-year event that managers must check off their to-do lists.

In addition to the one-time benefits of exchanging feedback, it's also a way to get people accustomed to living in a feedback-rich environment. In high-performing teams, exchanging performance feedback is encouraged. It's important to remember that managers are responsible for confronting under-performance or inappropriate behavior in a constructive way. Although others' feedback can be valuable, it's no substitute for managers establishing and communicating performance goals or for tracking performance towards achieving those goals. Managers must be willing to confront unacceptable behavior and manage poor performers on an ongoing basis. They should provide feedback to their staff on an as-needed basis, without relying on a 360-degree feedback system as a replacement for performance management. They're unlikely to get people to change unless they give them timely, specific, and useful feedback to correct undesirable or unproductive behavior.

### **Mistake 3: not conducting a pilot test**

There's a danger in being too ambitious too soon when introducing any major change in an organization. Most 360-degree feedback systems represent a radical departure from the way people are traditionally given feedback and managed. The concept of upward feedback to a supervisor or manager and collecting information from peers, staff, and customers may be considered radical in a top down cultures.

Consequently, initiating a culture change of information-sharing shouldn't be taken lightly. It requires a change in people's mindset and day-today behavior. They have to refocus their energies and rethink who the key stakeholders are. To bring about such a shift in a short time can be hazardous if the appropriate groundwork isn't lit.

**Suggestion.** Find a stakeholder within the organization who has a strategic business need that can be addressed by using a 360-degree feedback process. Introduce the process on a pilot basis so that it can be evaluated to determine its effectiveness and potential impact on the identified business need. Involve others in the

planning, implementation and evaluation to modify the pilot program. Look for ways to integrate the multi-rater process with other HR systems. For example, hold employees accountable for implementing performance development plans that become part of the organization's performance planning and evaluation systems. Build in checkpoints to evaluate progress and collect data to support the effectiveness and success of your 360-degree process.

#### **Mistake 4: Not involving key stakeholders**

It's important to involve key stakeholders in the design and implementation of a 360-degree process. They need to be aware of important decisions and the rationale behind them. They should provide input to such decisions and assist with the implementation.

Many performance improvement consultants have battle scars from the change efforts that got throttled because certain key players weren't included. Those key people either withheld their support or actively sabotaged the effort. Despite the idealism of most performance improvement consultants and others involved in organizational change, there are usually winners and losers. That's particularly true of 360-degree feedback interventions. Feedback has the power to enhance or diminish people's reputations. The more that accountability and information-sharing are built into the process, the more important it is for stakeholders to participate.

**Suggestion.** First, identify the key stakeholders. Get them involved and keep them informed. Stakeholders can be senior managers, the intended recipients of 360-degree feedback, their immediate supervisors or managers, and the potential providers of the feedback –such as staff, peers, team members, and customers. All parties should know the strategic competencies to be measured, the methods for gathering and summarizing the feedback, and how the feedback will be integrated with existing development or evaluation systems. That involvement is critical to ensure people's support and commitment to a fair, objective, and constructive feedback process. A particularly good way to get people involved is to have them help select the survey instrument or help generate specific questions that will measure the targeted competencies.

It's important to gain senior management's true commitment and involvement rather than a general blessing. The most potent demonstration of managers commitment is a willingness to also take part and receive feedback. Ideally, they could be the first group to receive feedback. Accepting it non-defensively and making positive changes can set a positive tone and provide a role model.

### **Mistake 5: Having insufficient communication**

Complete communication is especially important with 360-degree feedback. Given that some feedback can seem threatening, it's important that its purpose be communicated clearly. To avoid potential misunderstanding or feelings of betrayal, it's also essential to communicate clearly about confidentiality issues.

The logistics can be complex. Unattended little details can lead to major mishaps. Without making clear who needs to be rating who in what time frame and sorting out the mechanics of processing and issuing feedback, a theoretically smooth process can degenerate into a big, jumbled mess.

***Suggestion.*** Communicate, communicate, communicate! Be sure that all stakeholders and other interested parties have thoroughly discussed their concerns before implementation and that, at minimum, they understand the rationale underlying major decisions. Typically, there are judgment calls or unexpected questions that crop up. It helps for people to have come to a consensus about the overall approach before they have to make on-the-spot decisions.

Although not one of the most exciting aspects of a 360-degree feedback intervention, the coordination and administration are absolutely critical for success. Overseeing the administration can be a logistical challenge at best and a nightmare at worst. Regardless of the medium used such as on-line, paper-and-pencil or email, it's important to have clear decisions and a clearly communicated understanding on how the survey instruments will be distributed and processed and how feedback will be routed to people.

It's essential to communicate-and communicate-about such major issues as how confidentiality will be safeguarded and what the potential impact of negative feedback might be on someone's career. It's also important to communicate about lesser issues, such as whether written feedback will be transcribed verbatim or

summarized and what terms will be used for example, direct reports, team members, or respondents? It's a good practice to develop a written communication plan summarizing the administration, scoring, and overall feedback process. The plan should be shared with all parties.

### **Mistake 6: Compromising confidentiality**

Multi-rater feedback is based on the idea that people can feel safe providing anonymous feedback. It can be a death knell if confidentiality or anonymity is compromised or if there's the perception that it has been compromised.

*Suggestion.* At the outset, nail down which data is confidential and which is Anonymous. Communicate those decisions clearly. People need to know exactly what will be reported to whom, if they're to speak freely. Be rigorous in enforcing confidentiality agreements. Even though feedback recipients may argue (sometimes with merit) that they can benefit from more information, safeguarding the feedback providers' confidentiality is a greater concern.

Many subtle issues can affect the rigor of confidentiality agreements and the perceptions surrounding them. Be sure to address these issues:

- How to refer to respondents providing numerical or written feedback
- How written comments will be presented (transcribed or summarized?)
- How numeric or graphic data will be summarized and presented and how data will be sorted by category of n respondents
- What types and how much feedback, if any, will be shared with feedback providers
- What types and how much feedback, if any, will be shared by a person's manager
- How the results of the 360-degree process will be used in the organization for example, whether it will be integrated with existing performance management or succession development systems and who might have access to such information.
- What's the minimum number of respondents (or respondents per category) is in order for a person to receive feedback.

### **Mistake 7: Not making clear the feedback's use**

It can cause great confusion if you don't make sure people know whether the feedback will be used for evaluation or development purposes.

Some organizations use 360 degree feedback strictly as a development tool, and there are no repercussions for people getting negative feedback. Other organizations use 360-degree feedback as a vehicle for performance management, typically as an adjunct to existing systems. Sometimes, 360-degree feedback falls somewhere in between; its purpose is for development and evaluation.

*Suggestion.* There are important trade-offs to using 360-degree feedback as a development tool. Don't gloss over that issue just to get on with the process. If you decide to use it for development purposes, be sure to make that clear. If you decide to use it for evaluation purposes, start slowly and move gradually. Whatever the decision, it's ill-advised to change purposes after an intervention has begun.

Some people argue that for feedback to be most effective, it must be purely developed. Feedback providers have to know there's no pressure for them to be anything but honest and candid, and people will accept feedback more easily when they don't fear retribution. Others argue that if they're to invest a lot of time, effort, and money, it's a waste not to use feedback in employee evaluations.

Both views have merit. An important consideration is which approach is most congruent with an organization's culture. If 360 degree feedback is to be used in evaluation, it's important to make sure people think the rating system is fair. They may worry about undue influence or retribution. That's why it is advisable to start using 360 degree feedback for development only. When the process becomes familiar, people can be held more accountable and feedback can count towards their evaluations. What's most important is that conditions are clear and people know what they are.

### **Mistake 8: Not giving people sufficient resources**

People must have ways to act on the feedback they receive. A recurring problem is that people don't know what to do with the feedback they get. Insight isn't enough; people need guidelines—such as individual coaching, training, or self-study—for

taking action. Many people don't know how to address issues they've been made aware of, often out of the blue. That's especially true when the issues are interpersonal or psychological and people aren't inclined to think along those lines.

**Suggestion.** Give people the tools to use feedback product. The way it's delivered can have a big impact on how constructively people will use it. One way to deliver feedback is one-on-one with a trained professional who can explain and clarify the feedback and also deal with people's emotional reactions to disturbing information. Another approach is to provide feedback in a group setting with a supportive climate. After receiving feedback, people can benefit further from training, books, and other resources. If feasible, it's good to provide people with mentoring, coaching, job rotation, or changes in their work conditions so they can develop needed skills.

When possible you should design the mechanisms for facilitate transfer of learning from a multi-rater intervention at the front-end. For example, you can hold participants accountable for completing a development plan and discussing the plan with their managers at the end of the feedback process. Or you can encourage or require people to share their development plans with their staff or feedback providers.

### **Mistake 9: Not clarifying who “owns” the feedback**

Questions about access to and ownership of data are fraught with difficulties. When feedback is used for development people can feel less empowered if they don't own their data and if they don't have control over who gets to see it, and when and how that happens. When feedback is used for evaluation purposes, participants clearly don't own the data. They feel an even more lack of control if they weren't fully informed or didn't take part in the initial decision making on how data would be handled. It's bad when participants are subject to surprises about who sees the data and for what purposes it will be used. The worst case is when people are led to believe one thing and the situation changes after the process has begun.

**Suggestion.** To the extent possible, give people control over their own data. In a 360-degree process used for development, people will feel most empowered if they

get to choose exactly when and with whom they share their feedback. That doesn't mean taking a laissez-faire, hands-off approach.

Provide guidance on the best ways to share data so that it's constructive for everyone. It's also important not to exert subtle, unstated pressure to get people to share data when that may not be in their best interest.

If the feedback process is evaluated, it takes on more significance. When the process is incorporated into the performance management system, the organization owns the data, not the individuals. Within that context, however, there are still ways to give people control. If their views are considered in the design of the process and they're kept well informed throughout, they're less likely to feel that something is being done to them. Beyond being a matter of respect and dignity, it's also a question of fairness that people know exactly who has access to their feedback, how it will be treated, and what the potential ramifications are in their careers.

### **Mistake 10: Having “unfriendly” administration and scoring**

The administration and scoring of any 360-degree feedback process should be user-friendly. The process can entail a large and complex set of procedures. Sometimes, it's obvious who needs to fill out a survey and for whom. For example, if it's purely upward feedback and the feedback recipient has a manageable number of staff, everyone in his or her group fills out the survey. In other multi-rater systems, the selection of potential respondents can be more complex. For example, sometimes people get to choose who fills out surveys on them, or there may be random procedures for selecting from a pool of eligible raters. Without a good questionnaire and a logical and clearly communicated set of procedures, there's a danger of introducing a cumbersome, paper-intensive process. In such cases, the response rate may be low and the feedback less accurate because people may not be motivated to complete the survey.

**Suggestion.** Insist that “user-friendly” be high on the list of criteria when designing a 360 degree process. Spell out who needs to provide feedback to whom. Make sure there are fair, logical, and consistent criteria for selecting respondents. Certain feedback providers may have many surveys to complete. In such cases, a survey especially has to be simple and user friendly so that people don't feel burdened.

People in general don't like to complete a lot of paperwork, especially for HR driven projects. A survey should be clear, make sense to people, and be easy to complete in 10 to 15 minutes at most. Resist the temptation to include every conceivable question measuring every conceivable competency. It's better to err on the side of simplicity than comprehensiveness.

Different formats can work, but the most user-friendly surveys typically have items grouped by category, with a 5 or 7 point scale. A survey should have open-ended questions so respondents can comment on topics not covered in the rating scales.

### **Mistake 11: Linking to existing systems without a pilot**

A 360-degree feedback system should not be integrated casually with existing performance management and merit systems. Too often, organizations just patch them together. When a feedback process is new and unfamiliar, people may not treat their ratings of others with the concern for accuracy necessary for such systems to work. Only later, it might be discovered that feedback providers were engaged in a ratings game, which can prevent future trust of multi-rater evaluation. Research suggests that (unless there are considerable precautions) ratings are inflated when they are integrated into pay-for-performance systems compared with ratings used solely for development purposes.

When used for performance evaluation, the focus of a 360-degree process can be driven primarily by numerical scores and their weight in overall performance evaluation ratings and subsequent merit increases. It's important to clarify these issues:

- What performance factors should be evaluated
- How they should be evaluated in behavioral terms
- Who should provide feedback ratings
- How many feedback providers are required to ensure fairness and equity
- How they should be selected
- How their result should be weighted to provide an overall score
- How scores should be collected and summarized.

**Suggestion.** Organizations that have successfully integrated a 360-degree feedback system into their performance management and merit systems usually do a thorough job of piloting and evaluation. Typically a project team involving various stakeholders such as HR, line management, and field staff-is created to design and pilot the new performance management system. It's best to introduce the 360-degree rating system over several years. During the first year performance evaluation and merit increases should be based on traditional performance measures and the 360-degree results used only for development purposes.

That way, people can become comfortable with 360-degree ratings and the kinks can be worked out. It's essential to define relevant, measurable performance competencies and develop an administrative process that ensures confidentiality and ease of data collection before implementing the system. It can take several iterations and considerable fine-tuning before the pilot stage is completed. Only then can you proceed confidentially knowing that the introduction of 360-degree ratings will improve rather than hinder performance management.

### **Mistake 12: Making it an event rather than a process**

As with other training and development interventions, 360-degree feedback systems can be considered flavors of the month to try, taste and discard until something new comes along. Many organizations introduce 360-degree feedback with much fanfare. When resistance, negativity, or a non-supportive executive comes along (perhaps one who personally received some negative feedback) an organization may stop using the intervention with this chorus: "We tried 360-degree feedback and had a bad experience." Without follow-up, commitment to continuous improvement and the linkage of formal and informal organizational rewards to successful implementation, it's unlikely that a multi-rater system will have a positive effect.

**Suggestion.** A 360-degree feedback process should be repeated over time. That way, the intervention is truly a process aimed at increasing and improving critical competencies and behaviors rather than a single event providing a one-time snapshot to recipients. If they're given feedback in a supportive manner and have the opportunity to learn and practice new behaviors, it makes sense to also provide follow-up opportunities to receive new feedback – typically 8 to 12 months later.

Then, they can assess their attempts to change their behavior and identify future challenges.

For feedback recipients, the power of a 360-degree process comes from the continuous feedback of observers who have a context within which to identify what people do well and what they need to improve on. Continuous improvement is based on the tenet that feedback over time helps people focus on specific behaviors and approaches that affect competitive performance. Similarly, the administration of a 360-degree feedback system can benefit from on-going feedback and be continuously improved on, just as someone might walk down a dark hallway with a flashlight to avoid getting lost, organizations need to provide continuous illumination through 360 feedbacks.

### **Mistake 13: Not evaluating effectiveness**

People often speak of the merits of performing a systematic evaluation but don't actually do it. Too often, 360-degree feedback systems are implemented with the expectation that they'll translate automatically to improved management effectiveness, better team and individual performance; and enhanced relationships between people and their managers, staff, team members, customers, and others. But just learning that you have high blood pressure, for example, doesn't ensure that you'll do what's necessary to minimize the risks. Similarly, only through follow-up and evaluation will an individual or organization learn to what extent a behavior change was successful and whether it had an impact on performance.

Despite the growing popularity of 360 degree feedback and other multi-rater systems, few companies take the time to evaluate systemically the impact and effectiveness of these powerful interventions. Scattered comments from respondents or feedback from senior management are often the only form of evaluation that takes place.

**Suggestion.** Invest in a rigorous and systematic evaluation of the 360-degree process. Training and performance improvement consultants are well aware of how challenging it can be to 'teach old dogs new tricks' and sustain a successful behavior change over time. Even under the best conditions, complex management behaviors can be resistant to change. Multi-rater systems, when properly designed and implemented, make people aware of the crucial first step to changing their

behavior overcoming their own resistance. Even when they know what to focus on, they may not be motivated or have the inter-personals skills to go about making a change.

If you're committed to understanding what constitutes the successful implementation of a 360-degree process it's wise to take the time to evaluate its effectiveness and make alterations. You can conduct an evaluation through post-program surveys, focus groups, or a time-series analysis of critical individual or organizational outcomes such as employee grievances, morale assessed through employee satisfaction surveys, quantitative performance measures, implementation of development plans, or changes in relationships with a respondent's supervisor, staff, or peers. It's important to determine exactly how 360-degree feedback can be used to improve both individual and organizational performance (Scott & Kenneth, 2006).

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