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**Center for
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The Center for Effective Organizations**

**CEO Technical Report
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Performance Appraisal Research at The Center for Effective Organizations

The Center for Effective Organizations has conducted research on performance appraisal and, more generally, performance management for ten years. Our research has focussed not only on the effectiveness of various practices but also on the effectiveness of ways of designing and establishing these practices. This document is an executive summary of what we have learned over the decade.

As a result of our research we have no doubt that performance appraisal should be a key element in the overall human resource management strategy of an organization. For it to work, however, it must become an important part of the culture and activities of the organization. To accomplish this, appraisal practices must focus on the process of appraisal and the context in which it takes place instead of focussing on the form.

Agreement/Disagreement Between Managers and Subordinates

We have made it a practice to look at performance appraisal from both the appraisee's and appraiser's points of view. The two almost always disagree. Their disagreement is not just about level of performance. In fact disagreement about the subordinate's level of performance is moderate compared to disagreement about: characteristics of the subordinate's tasks, purposes of appraisal, bases for appraisal, nature of the feedback meeting between manager and subordinate, and reactions to the appraisal. One of the few things they usually agree upon is whether or not their appraisal meeting included discussion of pay. Otherwise there is little agreement, as a general rule, on what was discussed and what happened during the appraisal meeting.

Subordinate Participation

Since most appraisal events begin and end with disagreement, even when things go rather well, we have searched for what creates those few situations when initial disagreement is converted into agreement. Agreement results in those appraisal events that involve meaningful subordinate input into the appraisal itself. This occurs by such mechanisms as having the subordinate fill out a self appraisal, having the subordinate compile information that is submitted to the manager, or by postponing final evaluation until during or after the meeting between the manager and subordinate. Contrary to fears by many managers, input by subordinates does not tend to result in higher ratings compared to those situations where there is no subordinate input.

Culture

The culture must support performance appraisal. At the very least this means that top management should support and encourage performance management and act as role models of appropriate performance management practice. In addition, care must be taken to ensure that appraisal practices fit with and support valued

attributes of the organization's culture. For instance, highly participative cultures where performance depends on team work are not well served by individualistic appraisal practices that accentuate a hierarchical relationship between the employee and supervisor.

Job Design

The quality of the design of the job is reflected in the quality of the appraisal. Jobs that are not designed well--that are overly fragmented, for instance, or that lack the necessary authority--prevent the process of appraisal from going well. Appraisal achieves its purpose much better when the job is well defined in the first place and when the criteria for performance are clearly delineated. Good performance management demands clear job definition as well as appraisal.

Consequences for Pay

Regardless of the actual linkage between performance appraisal and pay, employees often expect there to be one. Potential linkage is an important issue for employees and when the pay consequences of performance are not discussed it reduces the likelihood that the appraisal will have positive results. It is therefore important that a discussion of that linkage or non linkage be a part of the appraisal event. Avoiding the issue is more counterproductive than productive.

Career Development

Career issues are very important to employees. They usually get little attention in appraisal systems, and because they are so important subordinates feel short changed. Career development is different enough from performance management that it probably deserves a separate process, nevertheless past performance is an important element of career discussions and, as with pay, managers should spend some time during appraisal discussions talking about how performance appraisal relates to career issues.

Usefulness of Appraisal

Many managers question whether the benefits of appraisal are worth the costs. Even when the consequences of appraisal are predominantly negative, however, one fact usually stands out: appraisal events are often the time during the year when managers and subordinates get together to talk about performance and related issues. For all its flaws most parties are reluctant to give up this rare forum. Subordinates, especially, crave this event.

Well done appraisals do make a difference. The higher the quality of the appraisal process the more the appraisal event results in performance improvement, improved working conditions for the subordinate, and better relations between the subordinate and the supervisor. High quality appraisal processes are recognized by high participation by both manager and subordinate, mutual goal setting, mutual task definition and planning, job and goal based performance criteria.

The actual rating that results from the appraisal process has only one effect. It can change the subordinate's view of what past performance was. It does not, in and of itself for instance, lead to better or worse relations between supervisor and subor-

dinate. In other words, the positive and negative effects that managers often associate with giving positive and negative feedback are really a result of how the feedback takes place rather than a result of the feedback message itself.

Reactions to Feedback

People do react to negative feedback. Our research reveals that people accurately hear negative feedback but protect their self esteem by rationalizing that a low rating does not reflect negatively on them. The more negative a rating is the more people are likely to form such attitudes as: their performance was due to things they could not control or that performance appraisal is not valuable or important. These tendencies to rationalize low ratings are counteracted when appraisees participate in evaluation, when appraisers have expertise in how to evaluate, and when appraisers have power over the appraisee's pay.

Purposes of Appraisal

People use different criteria for appraisal and change the level of the rating depending upon the purposes they have in mind. For instance, if the purpose is to determine a bonus a performer may be rated as very good because of his on-the-job performance but if the purpose is to determine promotion the same performer may be rated poor because of his interpersonal and leadership skills. People will also consider different purposes for appraisal depending on the level of performance. For instance, if performance is judged as low then the manager is likely to have skill development and job clarification as possible purposes. If performance is judged to be high then the manager is likely to use appraisal to recognize the employee or to discuss the employee's career.

Organizations tend to use appraisals for many purposes. Sometimes these purposes can work at odds with one another. While organizations can be somewhat successful at limiting purposes to avoid such conflicts, attempts to limit the purposes of appraisal are only partially successful because individual managers and employees always impose their own purposes on appraisals. The chances of appraisals working at cross purposes are lessened when purposes are surfaced and mutual understanding is reached about whether and in what ways appraisal will serve them. This is why, for instance, that it pays to talk about pay, promotion, and careers during appraisals. These reflect purposes that subordinates have. Failure to discuss these subordinate issues can sabotage a manager's efforts to pursue other purposes like developing the subordinate's skills.

Team vs. Individual Performance Management

Performance management and appraisal most commonly happen at the individual level. In settings where people have to work together and where there is considerable change, however, we have found that it is more beneficial to appraise and manage the performance of groups and teams. Appraising the performance of teams (especially when teams appraise themselves) results in more effective team performance and more effective individual performance. Measuring individual performance only slightly results in improved individual performance and either has no effect on group performance or actually decreases it. In other words it is more productive in these settings to start with organizational and group performance and

assess individual performance within that context than it is to start with individual performance and assume that good individual performance automatically means good group or organizational performance.

Designing Performance Appraisal

Performance appraisal is often perceived in organizations as a form: imposed by the Personnel or Human Resources function, that is time consuming, and that has little or nothing to do with the important business issues of management. The notion of "appraisal" focuses attention on measurement and evaluation of performance. Therefore "designing performance appraisal" has often been equated with "designing measurement forms." Problems with performance appraisal have tended to be treated as problems with measurement. In fact, however, problems with appraisal have to do with the ways performance is managed in the organization and with the ways appraisal results are used.

The secret to the design of effective performance appraisal is to make sure appraisal systems fit with their organizational contexts and that people carry out the processes as they are envisioned. Both of these are best achieved by the way the design process is carried out.

Business strategy is set by top management. Making sure performance management is consistent with business strategies requires top management involvement in the process of thinking through how business goals translate into appraisal practices. The result of this process should give the right direction to the design process and insure the continued support of top management as the design takes shape. Although it may be impractical to have top management carry out the entire design process, they should keep continued input throughout.

Participants and others who input into the design process should be drawn from the various operational realities of the organization. This includes line management, employees, functional areas, business units, and pertinent human resource systems. The process of involving these various groups can be complex. Design issues should deal with the connections between performance appraisal and such things as: compensation, development and other human resource systems; matrix structures, team based management, technologies, union presence, natural work cycles, management styles, and other organizational realities. One result will be a determination of such things as whether and how much to have uniform appraisal practices versus practices that are tailored to different organizational contexts. The uniformity/tailoring balance is one that will have to be revisited continually throughout the design process.

The appraisal system itself should be designed by employees that are familiar with the organizational contexts in which it will be used. Implementation of appraisal practices should be planned by employees that represent the organizational contexts in which it will be used.

Participation during design and implementation planning ensures that appraisal practices will fit with the organizational context in which they must function, but it does not influence how well users of the system actually carry out practices as

designed. The way implementation is carried out does this. In order for implementation to work people using performance appraisal must participate in determining how to use it. In a sense, people must be allowed to design each of their own performance appraisal events. This means that training must equip people to do this and must be available to everyone, managers and subordinates.

Performance appraisal events will have the greatest involvement and ownership when the participants in it, usually manager and subordinate, both participate in determining the important parameters of appraisal. These parameters are determined by clarifying the purposes, defining what performance is to be, deciding what the criteria of evaluation will be, determining how and when appraisal will occur, measuring what the level of performance is, and agreeing on what the consequences of the appraisal will be.