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**Performance Management:  
Creating an Effective Appraisal  
System**

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Performance Management:  
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The existence of an effective performance management system is often the major differentiator between organizations that produce adequate results and those that excel. Without a focus on performance management at all levels of an organization, it is hard to see how an organization can find a competitive advantage that is based on its talent.

It is far from easy to get performance management right in an organization. The corporate world is littered with companies whose employees never have an effective performance appraisal. People at all organizational levels go through the motion of formulaic performance appraisals with astonishing insincerity and have little to show for it. There also are numerous examples of situations where individuals thought they were doing the right thing and performing well only to find out they were mistaken when they have their annual appraisals. Finally, in many organizations, performance appraisals simply aren't done either because of employee resistance or because managers "dry lab" (fake) them.

**PERFORMANCE MANGEMENT OBJECTIVES**

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<sup>1</sup> Based on Lawler, E.E. and Worley, C. Management Reset: Organizing for Sustainable Performance: San Francisco: Jossey Bass, 2011

An effective performance management system needs to accomplish four things (Lawler, 2008). First, it needs to define and produce agreement on what performance is needed. The bedrock of any performance management system should be agreement on what needs to be done and how it should be done. Without a clear definition of what kind of performance is desired, it is impossible to develop and motivate individuals who can meet or exceed performance standards. It also is key to guiding the performance of individuals so that it supports the organization's strategy and plans.

Second, it needs to guide the development of individuals so that they have the skills and knowledge needed to perform effectively. To be effective, a performance-management system needs to help employees gain the skills and knowledge they need in order to perform effectively.

Third, it needs to motivate individuals to perform effectively. Even the best talent will perform at a high level only if motivated to do so. When it comes to performance, high levels of both talent and motivation are needed.

Finally, it needs to provide data to the organization's human capital information system. It needs to be the primary source of information about how individuals are performing and what skills and knowledge exist in the workforce. This information is a critical input to talent management as well as to strategic planning.

## **DOING EFFECTIVE APPRAISALS**

The research evidence shows that the performance appraisals which are done as part of a performance management system are usually poorly done, and in most

organizations, are dreaded both by the individuals doing them and the individuals being appraised. As a result, the failure rate of performance management systems is high. It is tempting to say that, indeed, the appraisal part of the performance management process wastes more time than it is worth. Indeed an increasing number of books and articles argue that there is no use even trying to do appraisals right because the appraisal piece of performance reviews simply cannot be done well (Culbert, 2010). It is a kind of “unnatural act”!

The argument against doing performance appraisals usually includes the point that regular feedback is much more effective than is a once a year appraisal. If ongoing feedback is provided, and this is a big if, there is no doubt that it is a very important part of a performance management system and can partially substitute for a formal performance appraisal. But it does not provide valid data about the performance of individuals that can be used to determine rewards and support talent management decisions, only an appraisal can provide it.

The message of inevitable failure undoubtedly gives some comfort to those who have failed performance appraisal systems, but it doesn't seem to be leading to very many organizations not doing appraisals. Indeed my data show that the recession led to most companies putting more focus on doing appraisals. I think this is the right response: organizations need to do appraisals the right way, not abandon them. Let's look at the key features that need to be built into a performance management system in order for it to produce high quality appraisals.

#### Principle 1: Start at the Top

The performance management system must start with, be led by, and be committed to by senior management and the board. The board needs to appraise itself and appraise the CEO. The CEO needs to appraise his or her direct reports and the appraisal process has to cascade down the organization so that every level experiences it.

In the best of all worlds, goals are first set at the top and then cascaded down so that individuals at each level have goals that are tied to the overall strategic direction of the organization. This assures that there will be alignment in terms of what is done at different levels in the organization and that the strategic direction of the organization will be implemented.

It is not an overstatement to say that if the senior management of an organization is not fully committed to the performance management process, it is simply better not to have a performance management system at all (Lawler, 2003). Committed in this case means not just giving lip service to having an effective process, but being part of the performance management system themselves and being role models to the individuals who report to them. This is why the appraisal system needs to begin at the board level and cascade down the organization. All too often in traditional organizations performance appraisal is something “the top tells the middle to do to the bottom.”

### Principle 2: HR Should Support, Not Own the System

In all too many organizations, the human resource function is the owner of, and the implementer of, the performance management system. For a number of

reasons, this is the wrong way to position and manage the system. There is nothing wrong with the HR function handling the logistics but it should not be its system. HR managers should not be the ones who act as the conscience of the organization and be the ones who drive and sell it.

### Principle 3: Cascade Strategy and Goals to all Levels

The starting point for an effective performance management process should be the business strategy of the organization. It should guide a goal setting process that leads to individuals, teams, and business units having transparent goals and objectives that are directly tied to the strategy of the business. In order for this to be effective, the goal setting process has to begin at the top of the organization and cascade down. As a part of the process, there should be agreement on what will be accomplished, how it will be accomplished, and the measurement processes that will be used to assess whether the goals were accomplished and whether they were accomplished in the correct manner.

### Principle 4: Set Measurable Goals

The appraisal system needs to be based on goals whose achievement is measurable (Locke and Latham, 1990). All too often appraisals are based on personality traits (e.g., reliable, trust worthy), vague and immeasurable goals, and a host of poorly defined attributes and outcomes. Measurable goals need to be set and individuals assessed against them. This applies both to the skills and

competencies individuals are expected and need to develop, and of course, their performance deliverables—the how and the outcomes of it.

A word of caution is in order here about the mistakes that organizations often make in using goal driven performance management systems. There is one mistake that is the most serious, it involves goal difficulty. The effectiveness of goals as motivators is very much influenced by their difficulty, particularly how difficult they are seen to be by the individuals who have the goals. Easy to achieve goals are poor motivators because there is a tendency for individuals to work at a level that will lead them to reach the goal, not at their maximum performance level. Very difficult goals or as they are sometimes called, extreme stretch goals are much more dysfunctional.

When individuals feel that they cannot reach a very difficult goal, there are essentially two things they can do, neither of which is a positive. They can simply give up and decide it is not worth trying because the goal and the reward that is attached to it are not reachable. The second is to try to figure out how to “beat the system” in order to reach the goal. This can lead to unethical behavior, illegal behavior and excessive risk taking.

#### Principle 5: Set Talent Development Objectives

The performance management process should not just establish what performance goals are to be accomplished, it also should deal with the skills and competencies individuals and teams need to have in order to accomplish them. It

should assess their development needs, plan for their development, and support their acquiring the skills they need in order to accomplish their goals.

Individuals should be assessed on their skills and competencies. This is critical because their skills and competencies determine what their value is in the market and therefore what their compensation level should be. It also is a key input to the talent management system. Finally, information about them should be a critical input to the organization's strategic planning because it indicates the competencies and capabilities that the organization has and can develop.

#### Principle 6: Rate Outcomes, Rate Performance but Don't Rank

Setting performance and development goals is the first critical step in establishing an effective performance appraisal process, but it is only the beginning. An effective assessment and scoring of how and how well the goals are accomplished is the next step. The assessment process should be relatively easy if good goals exist, good agreement exists on how goal accomplishment will be measured, and the right measurement approach is used.

Some organizations (e.g., Exxon) rank-order hundreds, or in some cases thousands, of people from first to last, numbering them from one to whatever the total number of individuals is in the part of the organization that is being appraised. This effort is like trying to measure the length of an object to the closest thousandth of an inch using an ordinary straight ruler; the information needed to measure performance so precisely just isn't available. Not only does ranking create bad data, it sends the wrong message about how the organization values its talent. Instead of



showing a concern for individuals and fairness in assessing them, it sends the message that the organization values structure and rules.

Another seriously flawed rating practice is forced distributions (Lawler, 2002). Some organizations (for example, GE, EDS, and Accenture) require their managers to identify a certain percentage of their reports who are failing, often 5–10 percent, and a certain percentage who are doing particularly well, often 15–20 percent.

The forced-distribution approach ignores the reality that some work groups have no poor performers and others have no good performers. It causes managers to disown the appraisal outcome and say things like, “I was just following the rules, I had to give someone a low rating” when they deal with a “poorly” performing employee.

Forced distributions, are particularly dysfunctional when there are automatic reward system consequences attached to individuals falling in different areas of the distribution. A clear example is programs that state that the bottom ten percent or so of the distribution will be fired each year. Numerous studies show that this produces a great deal of “gaming” behavior on the part of the individuals making the ratings (Lawler, 2008). They do everything they can to be sure that they are not faced with having to fire individuals who simply should not be fired. For example, they sometimes transfer them to other areas in order to protect them. Another even more dysfunctional thing they do is to hire individuals who they think will be poor performers so they will have them available to fire when it comes time for forced distribution appraisals to be done.

### Principle 7: Train Managers and Employees

It is critical that organizations train everyone on how their performance management system works. It is surprising how many organizations do not do this given the importance of the system and the fact that it is a relatively complex process that involves behaviors (goal setting and feedback) that many people are not skilled at. The training that is needed is not just a matter of explaining how the system works and what its purpose is. Individuals need to develop the interpersonal and feedback skills that lead to effective review sessions. All too often, organizations fail to provide any training to the managers who are expected to execute a performance management system. This is true despite the fact that one of the hardest things for many individuals to do is to give negative feedback to others and to handle difficult interpersonal interactions in a constructive way.

While we are on the topic of training appraisers, it is important to point out that training is needed for the individual's being appraised as well. Getting feedback about the performance and reviewing their development is not a comfortable situation for most people and not something that they have the skills to handle well. Thus, the most effective performance management training systems train both the appraiser and the appraisee. A good way to do this is to have them role play an actual feedback situation before they go "live" with the actual appraisal of the individual. This is clearly an area where individual coaching can help and is often needed.

### Principle 8: Link Rewards to Performance but discuss development separately

An important feature of an effective performance management system is the degree to which it impacts the reward system; in other words, the degree to which it leads to pay increases, bonuses, stock options, and promotions. Over the years, there have been articles and books which have claimed that performance management processes should separate the appraisal of performance from the discussions about salary increases and promotions (Meyer, Kay and French, 1965; Kohn, 1993). This may indeed make some of the discussions easier, but it is not the way to make money and other tangible rewards effective motivators (Lawler, 2000).

Given the importance of goals and money as motivators, it is definitely not appropriate to have a review process that separates the discussion of performance accomplishment and financial rewards (Latham, 2006). They need to be discussed together and tied together so that individuals see a clear connection between how well they perform and how well they are rewarded. Yes, it's true that some individuals work simply for the feeling of accomplishing a goal, and of course, for the mission of the organization. But, for others, the relationship between pay and performance is critical to their motivation. The research on this clearly shows that motivation is only likely to exist when there is a direct and immediate tie between the results of a performance appraisal and rewards.

What should be separated from the discussion of financial rewards is the development needs of individuals. Research shows that discussing training and development at the same time as past performance and rewards are discussed doesn't work (Lawler 2000). The discussion of performance and rewards typically

dominates the meeting and prevents meaningful discussions about development activities. Development activities need to be paired with the discussion of future goals and goal accomplishment, not with a backward look at past performance. The key here is combining two forward looking events, future performance objectives and what it takes to reach those objectives rather than combining retrospective events with future events.

#### Principle 9: Appraise the Appraisers

Given the importance of performance management appraising how well managers do them is a logical and important part of the entire performance management process. A good manager simply needs to do good appraisals. Goals need to be set well, progress checked and feedback given, the right competencies developed, and of course, performance assessed well and rewards distributed accordingly. In order to motivate managers to do these activities well, it is important that they be appraised and rewarded on how well they do them. The failure to appraise and reward managers for the appraisals they do speaks volumes about the low priority given to this activity.

#### Principle 10: Consider Having Review Discussions On-line

The traditional approach to appraisals calls for face-to-face discussions between the appraiser and the appraisee. There are a number of reasons why it is said to be important to have a face-to-face discussion including the perception that is likely to lead to better feedback and more meaningful discussions about how

performance can improve. That said there are a number of problems with face-to-face discussions.

There is research which shows that individuals are very anxious before and during performance reviews (Culbert, 2010; Meyer, Kay, and French, 1965). They often don't hear quite a bit of what is said to them during appraisals because their mind either shuts down or they are still thinking about something that was said at the beginning of the discussion which they are trying to evaluate and decide how to react to. In short, face-to-face meetings often do not produce good communication between an appraiser and the individual being appraised.

One way to improve face-to-face appraisals certainly is to give individuals a look at a draft version of the appraisal before it is discussed and then have the discussion. This allows the individual to get over what may be the shock that occurs when they first see the appraisal and for them to decide what questions and issues they want to raise. It also allows them to correct any problems in the ratings. It is not uncommon when goals are set and when goal performance is being measured for bad data to creep in and for an individual being appraised to correctly point out there has been a mistake. Obviously it leads to a better discussion if data validity and credibility issues can be resolved before a discussion of the consequences of the appraisal take place.

Organizations should also ask the people who are being appraised to respond and provide input at the end of the performance appraisal period. They should be able to present their version of how well they have performed their work assignments against their preset goals. My research supports the value of giving

people this opportunity before their appraiser reaches a performance judgment. It leads to more accurate appraisals and to individuals' believing they have been fairly appraised (Lawler, 2003).

Let's move to another question. Does there really need to be a face-to-face discussion at all? In today's world where we interact so comfortably and frequently on the internet (at least some of us do) it seems quite reasonable and in fact potentially more functional to have performance appraisals done on-line. It gives individuals a chance to think a bit before they make their responses and provides an opportunity to check issues for accuracy and meaningfulness. Overall, it may be time to rethink the technology of performance reviews as well as to improve them in terms of their accuracy, validity and centrality.

### Conclusion

Perhaps the best way to summarize and conclude our discussion of performance management is to say that those who argue for abandoning performance appraisals may well be right when it comes to organizations that are not willing or able to follow the ten principles presented here. However, by abandoning them, they are giving up on a potentially valuable tool that when used properly, can make a significant contribution to their organization's effectiveness.

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