LEARNING OUTCOMES

After studying this chapter, you should be able to do the following:

8-1 Discuss the difference between performance management and performance appraisals. PAGE 276
8-2 Identify the necessary characteristics of accurate performance management tools. PAGE 279
8-3 List and briefly discuss the purposes of performance appraisals. PAGE 280
8-4 Identify and briefly discuss the options for what to evaluate in a performance appraisal. PAGE 283
8-5 Briefly discuss the commonly used performance measurement methods and forms. PAGE 287
8-6 Identify and briefly discuss available options for the rater/evaluator. PAGE 293
8-7 Briefly discuss the value and the drawbacks of a 360-degree evaluation. PAGE 297
8-8 Identify some of the common problems with the performance appraisal process. PAGE 298
8-9 Identify the major steps we can take to avoid problems with the appraisal process. PAGE 300
8-10 Briefly discuss the differences between evaluative performance reviews and developmental performance reviews. PAGE 302
8-11 Define the key terms found in the chapter margins and listed following the Chapter Summary. PAGE 309
Practitioner’s Perspective

Cindy remarks that although performance evaluation can be uncomfortable for both managers and employees, failure to accurately and honestly evaluate performance is never a good choice. She recalls the time that a supervisor, Annette, came to see her.

“I want to fire Christine,” Annette said angrily. “She entered the wrong invoice numbers again, and now I have to stay and correct her mistakes—again!”

“Is this common?” Cindy asked. “Have you expressed your concerns or initiated a performance improvement plan?”

“She does it all the time, but I usually don’t catch it until after she is off for the day,” Annette replied. “By morning, it doesn’t seem worth my time to go over it with her.”

“How about her performance evaluation?” she asked next. “Have you brought Christine’s poor performance to her attention at her annual evaluation?”

“Well, no, I always give all my employees a satisfactory rating—it’s easier that way,” answered Annette.

Without ever bringing Christine’s unacceptable performance to her attention and thus giving her a chance to change, firing or otherwise severely disciplining Christine at this point would be questionable. How can this problem be avoided? In Chapter 8, you will learn how to create and utilize a performance evaluation process that works.

PERFORMANCE MANAGEMENT SYSTEMS

After we have recruited, selected, and trained employees, we must evaluate how well they perform their jobs so they know how they are doing. Therefore, performance evaluation is an important part of the jobs of managers and HRM staff.¹ We need to figure out how to manage employees’ performance over time to ensure that they remain productive and

E. Job Analysis/Job Design (required)
   4. Performance management (performance criteria and appraisal)

H. Performance Management (required)
   1. Identifying and measuring employee performance
   2. Sources of information (e.g., managers, peers, clients)
   3. Rater errors in performance measurement
   4. Electronic monitoring
   5. Performance appraisals
   6. Appraisal feedback
   7. Managing performance

Q. Organization Development (required—graduate students only)
   5. Improving organizational effectiveness
   9. Ongoing performance and productivity initiatives
Hopefully become even more capable as they progress in their careers. So the primary purpose of performance appraisal should be to help employees to continuously improve their performance. Remember our earlier discussion about the fact that human resources are typically one of the few resources we can leverage to create a sustainable competitive advantage for the firm. Based on that, we need to ensure that our human resources perform at as high a level as possible. To this end, we discuss in this section the difference between performance management and performance appraisal, and we present the performance appraisal process.

It is worth noting right at the beginning that many people in organizations do not like performance appraisal systems and do not think that these systems have the ability to improve employee performance. One study even noted that 58% of HR managers don’t like their own performance review processes! Routinely, there are calls to do away with performance appraisal processes. Netflix is one company that has completely stopped doing formal performance appraisals, even though the CEO noted that “excellent colleagues trump everything else.” (Netflix still does complete informal 360-degree appraisals. We will introduce you to these shortly.) So why does this process continue to be used by most major organizations all over the world? We will work to answer that question in this chapter, and then in the trends section, we will look at some alternatives to the historical performance appraisal process.

**Performance Management Versus Performance Appraisal**

“In a knowledge economy, organizations rely heavily on their intangible assets to build value. Consequently, performance management at the individual employee level is essential and the business case for implementing a system to measure..."
and improve employee performance is strong." Committing management time and effort to increase performance not only meets this goal but also decreases turnover rates.

How do we manage performance within the organization? The most common part of the process, and the one with which we are most familiar, is the process of the performance appraisal, or evaluation. (In this chapter, we will use the terms performance evaluation, performance appraisal, and just appraisal interchangeably.) However, the performance appraisal process is not the only thing that’s done in performance management. Performance management is the process of identifying, measuring, managing, and developing the performance of the human resources in an organization. Basically we are trying to figure out how well employees perform and then ultimately improve that performance level. When used correctly, performance management is a systematic analysis and measurement of worker performance (and communication of that assessment to the individual) that we use to improve performance over time.

Performance appraisal, on the other hand, is the ongoing process of evaluating employee performance. Performance appraisal should not be simply a once- or twice-a-year formal interview. As its definition states, performance appraisal is an ongoing process. Employees need regular feedback on their performance, so give routine and candid assessments. Performance appraisals are reviews of employee performance over time, so appraisal is just one piece of performance management. Although we will spend most of the chapter discussing performance appraisals, there are several other significant pieces to performance management that we already covered in past chapters and will cover in future chapters. We already discussed “strategic planning,” which provides inputs into what we want to evaluate in our performance management system, in Chapter 2. We also discussed the major method of identifying performance requirements in a particular job when we went through “job analysis and design” in Chapter 4. In Chapter 7, we discussed “training and development,” which obviously plays a part in performance management. Additionally, we will discuss motivating employees, coaching and counseling, employee relations, compensation, and other pieces in Chapters 9 through 14. Now that we understand the difference between performance management and performance appraisal, let’s look at the performance appraisal process.
WORK APPLICATION 8-1

Select a job you have or have had. Do you or did you know the organization’s mission and objectives? Briefly state the mission. If you don’t know it, find out. Do you understand how your job fits or helps to meet the organization’s mission and objectives? Explain in some detail.

The Performance Appraisal Process

Exhibit 8-1 illustrates the performance appraisal 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 in that job? We already learned how to do a job analysis in Chapter 4, but as shown in Exhibit 8-1, 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 of measuring performance, how can we assess that performance? We will discuss performance measurement methods in the next part of this section, and in the section “How Do We Use Appraisal Methods and Forms?” we will discuss these topics in more detail.

**Step 3: Informal performance appraisal—Coaching and discipline.** Performance appraisal should not be simply a once- or twice-a-year 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 we will discuss it in more detail 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 involved in preparing for and conducting the performance appraisal.
In the chapter sections to come, we discuss why we assess performance, what we assess, how we assess it, 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.

**Accurate Performance Measures**

To effectively assess performance, we need to have clear standards for and methods of measuring performance. The American National Standards Institute (ANSI) has outlined the minimum required elements of a performance management system for goal setting, performance review, and performance improvement plans. For details, visit the ANSI website at http://www.ansi.org. We should also accurately measure employee performance so employees will know where they can improve. This in turn should lead to training employees to develop the new skills they need to improve their performance.

Also, to be an accurate measure of performance, our measure must be valid, reliable, acceptable and feasible, specific, and based on the mission and objectives. Let’s discuss each of those requirements here.

**VALID AND RELIABLE.** As in all areas of our people management process, we must do our best to make sure that all of our performance management tools are valid and reliable. Here again, we can pull out and dust off the OUCH test as a quick way to ensure fairness and equity in the performance management and appraisal process. We remember by now that OUCH stands for Objective, Uniform in application, Consistent in effect, and Has job relatedness. However, we still need to analyze validity and reliability in some detail.

If we are not using a valid and reliable measurement, then it makes no sense to use it. If you recall, we discussed reliability and validity in Chapter 4. Recall that valid means that a measure is true and correct; a valid measure is a factual one that measures the process that you wanted to measure. On the other hand, reliable means the measure is consistent; it works in generally the same way each time we use it.

**ACCEPTABLE AND FEASIBLE.** In addition to validity and reliability, we need to look at a couple of other characteristics of our performance measures—acceptability and feasibility. Acceptability means that the use of the measure is satisfactory or appropriate to the people who must use it. However, in performance appraisal, this isn’t enough. To be acceptable, an evaluation tool must also be feasible. Is it possible to reasonably apply the evaluation tool in a particular case, or is it too complex or lengthy to work well? As an example, if the performance evaluation form is two or three pages long and covers the major aspects of the job that is being evaluated, and if managers and employees both believe that the form truly evaluates performance measures that identify success on the job, then managers and employees are likely to feel that the tool is acceptable and feasible to use. However, if the manager must fill out a 25-page form that has very little to do with the job being evaluated, the manager may not feel that the form is acceptable or feasible, at least partially due to its length, even if the employees do.

Conversely, if the manager fills out a two-page evaluation that they feel is a true measure of performance in an employee’s job, but the employee feels that the evaluation leaves out large segments of what is done in the work routine, the employee may not feel that the form is acceptable and feasible. If either management or employees feel that the form is unacceptable, it most likely will not be used correctly. (This would also mean that the person would not see the evaluation as a valid measure.) So, we always have to evaluate the acceptability and feasibility of a measure.
Next, we want any evaluation measure to be specific enough to identify what is going well and what is not. The word **specific** means that something is explicitly identified or defined well enough that all involved completely understand the issue. In performance appraisals, a specific form provides enough information for everyone to understand what level of performance has been achieved by a particular employee within a well-identified job.

Creating specific measures is the only way to use a performance appraisal to improve the performance of our employees over time. The employees have to understand what they are and are not doing successfully. Many times, evaluation forms may be too general in nature to be of value for modifying employee behaviors because we want the form to serve for a large number of different types of jobs. This can create significant problems in the performance appraisal process.

**BASED ON THE MISSION AND OBJECTIVES.** Finally, you want to make sure that your performance management system leads to the accomplishment of your organizational mission and objectives. As with everything else we do in HR, we need to ensure that the performance management process guides our employees toward achievement of the company’s mission and objectives over time. As managers in the organization, making sure of this connection will allow us to reinforce employee behaviors that aim at achieving organizational goals, and it will also allow us to identify for our employees things that they may be doing that actively or unintentionally harm our ability to reach those goals.

Thus, stating specific objectives saying exactly what each person in each job should achieve, or their performance outcomes, leads to accurate assessment that can increase performance. For some examples of inaccurate measures of performance, complete Applying the Concept 8-1.

**WHY DO WE CONDUCT PERFORMANCE APPRAISALS?**

As you can begin to see already, the appraisal process gets to be extremely complicated very quickly. And remember, anytime that a process in an organization is complicated, it is going to cost a lot of money. So why do we even do performance appraisals? What’s the value provided to the organization and to the individual that makes the process of evaluating the performance of our workers so critical?

If performance appraisals are done in the correct manner, they **can** provide us with a series of valuable results. However, if not done correctly, the process of evaluating employee performance can actually lead to lower levels of job satisfaction and productivity. Let’s discuss three major reasons (communicating, decision making, and motivating) why performance evaluations are completed in organizations.

**Communication (Informing)**

The first major reason for performance appraisals is to provide an opportunity for formal communication between management and the employees concerning how the organization believes each employee is performing. All of us know intuitively that successful communication requires two-way interaction between people. “Organizations can prevent or remedy the majority of performance problems by ensuring that two-way conversation occurs between the manager and the employee, resulting in a complete understanding of what is required, when it is required, and how the employee’s contribution measures up.”

Communication always requires that employees have the opportunity and ability to provide feedback to their bosses in order to make sure that their communication is understood. So in performance appraisals, the communication process requires that we as managers communicate with the employee to provide them with information about how we believe they’re doing in their job. However, the process also requires...
that we provide the opportunity for the employee to speak to us concerning factors that inhibit their ability to successfully perform for the organization.

Factors in a job that management may not know about can include lack of training, poorly maintained equipment, lack of necessary tools, conflict within work groups, and many other things that management may not see on a daily basis. If the communication component of the performance appraisal process does not allow for this two-way communication, managers may not know of the obstacles that the employee has to overcome. We can only resolve problems when we know about them. So as managers, we need to communicate with our employees to find out when issues within the work environment are causing a loss of productivity so we can fix them. Thus, two-way communication is a critical component of correcting problems through the performance appraisal process.

**Decision Making (Evaluating)**

The second major purpose of performance appraisal is to allow management to make decisions about employees within the organization. We need to make decisions based on the information we get from our communication. Accurate information is necessary for management decision making and is absolutely critical to allow the manager to improve organizational productivity. We use information from annual performance appraisals to make evaluative decisions concerning our workforce, including such things as pay raises, promotions, demotions, training and development, and termination. When we have valid and reliable information concerning each individual within our division or department, we have the ability to make decisions that can enhance productivity for the firm.

If, for instance, through the process of coaching (the third step of the performance appraisal process), we find that several machine operators are having trouble keeping their equipment in working order, then that information would quite likely lead to a needs assessment (as discussed in Chapter 7) to determine whether or not maintenance training is necessary for our group of operators. Without our rigorous evaluation process, we might not learn of this common problem in a timely fashion, and the result could be significant damage to very expensive equipment. This and similar types of information frequently come to the forefront as we go through the performance appraisal process. Therefore, decision making based on good communication is a very large part of why we take the time to do annual performance appraisals.
Motivation (Engaging)

The third major purpose of performance appraisals is to motivate our employees to improve the way they work, which in turn will improve organizational productivity overall. But what is motivation, and are performance appraisals normally motivational? Well, from a business perspective, motivation can be defined as *the willingness to achieve organizational objectives*. We want to create this willingness to achieve the organization’s objectives, which will in turn increase organizational productivity.

Our evaluative decisions should lead to development of employees. Returning to the above example of the machine operators having trouble keeping their equipment in working order, making the decision to train employees leads to their development, which then improves their individual performance, as well as better utilizing organizational resources.

Evaluating and Motivating = Development

An effective performance appraisal process has two parts—evaluating and motivating—and it does both parts well. Evaluating is about assessing past performance, and motivating is about developing employees to improve their future performance. But are both parts done well? Have you ever been in a position of being evaluated and debriefed as an employee? Was the process motivational? Most of us would probably reply no. Think about the appraisal process and how it was carried out. Here we discuss problems with evaluation and how to overcome them, as well as how to motivate employees. We also suggest separating formal assessment meetings designed to evaluate or motivate.

PROBLEMS IN EVALUATION. A common problem in appraisals is overpowering an employee during the evaluation debrief with large amounts of negative information that they have not heard during coaching. This tends to cause the employee to “turn off” or stop listening as the manager explains what is wrong. Employees will just “raise their shields” to ward off all of the negative information. This is a natural human trait. We are naturally suspicious of negative information for a variety of psychological reasons (i.e., defensive mechanisms), so when we are presented with a large amount of negative information, we tend to discount or even disbelieve it. Therefore, employees in such situations may consider the process unfair or one-sided and not an accurate measure of their performance, and as a result, the evaluation may become useless as a motivator that develops the employee.

AVOIDING PROBLEMS IN EVALUATION. To help overcome this problem during employee evaluations, an effective manager who is a good coach will generally never identify a weakness that the employee has not previously been made aware of during the formal appraisal interview. In other words, there are no surprises in a well-run evaluation. The evaluative part of the appraisal should only be a review of what the employee already knows and should be willing hear.

However, avoiding surprises is not enough. The appraisal debrief must be a well-rounded look at the individual employee, and it should identify both positive and negative factors in the employee’s behaviors and results within the job (and remember, the communication needs to be two-way). As the manager, we want to tell the employees what they did right but also where they have room for improvement. This more balanced approach to the debriefing process will minimize the risk that the employee will raise those shields and avoid listening.

Motivation

The willingness to achieve organizational objectives

Motivating Development. An important part of development is the need for managers to provide motivational opportunities for the employees to improve their...
performance over time. In other words, we need to tell them how to fix their own problems. We need to provide them with tools, training, or other methods that will allow them to improve to the point where their behavior is sufficient. Then, we must continually strive to get them to perform at an above-average level and ultimately become superior performers, helping them along the way through ongoing coaching between formal reviews.

If we provide employees with tools that allow them to improve over time, we’re not focusing on negative past results but on positive future potential results. If employees are given an honest opportunity to fix something that they know is a problem and are given the necessary tools or training, most will take advantage of that opportunity. So performance appraisals can be motivational if they are properly used and debriefed.

**SEPARATING EVALUATION AND DEVELOPMENT.** To improve both parts of the performance appraisal, we suggest splitting the debriefing into two separate interviews. The first meeting is to evaluate the employee’s past performance, pointing out strengths and areas for improvement; the employee is asked to think about how to improve performance. At the second meeting, manager and employee jointly come up with a developmental plan that should lead to increased performance, which in turn will result in a higher future evaluative rating during the next formal appraisal. We will discuss how to conduct the two separate interviews in the “Debriefing the Appraisal” section of this chapter.

**WHAT DO WE ASSESS?**

Now that we know why we conduct performance appraisals, the next step is to figure out what needs to be evaluated. In other words, we have to decide what aspects of the individual and their performance we’re going to measure. Discovering the best options for what to evaluate would come from analyzing the essential functions and qualifications required for a particular job, or in HR terms, our job analysis. We could then use these facts to design an appraisal instrument that uses measurable and observable factors to evaluate performance. However, we can’t evaluate everything that is done over the course of the year. We have to choose what we will focus on because what gets measured and evaluated gets done. So, our three primary options for what to evaluate are traits, behaviors, and results.

**Trait Appraisals**

Traits **identify the physical or psychological characteristics of a person.** We can evaluate the traits of an individual during the performance appraisal process. Can we accurately measure traits that affect job performance, can trait measures pass the OUCH test, are traits commonly measured, and should we measure traits as part of our performance appraisal process? Here we answer these questions, and we will answer these same questions for our behavior and results options.

**CAN WE ACCURATELY MEASURE TRAITS THAT AFFECT JOB PERFORMANCE?** Certainly, there’s some evidence that particular types of traits are valuable in jobs that require management and leadership skills. Characteristics such as inquisitiveness, conscientiousness, and general cognitive ability have been shown to have a reasonable link to job performance. But just how accurate is the link?

Many traits that most of us would be likely to focus on—such as physical attractiveness, height, and extroversion—actually have been shown to have very little bearing on job performance. If we’re going to use traits in performance evaluation, we
must ensure that we focus on traits that have a direct relationship to the essential functions of the job being done, and they have to be accurate measures.

Is using trait-based evaluation a good method of judging work performance? How many of us would want to have judgments made about our work based on our appearance or personality? Would you consider this to be a valid and reliable measure of your work performance? In most cases, it’s very difficult to show that personal traits are valid and reliable measures of work performance.

**GIVE TRAITS THE OUCH TEST.** Let’s take a look at trait-based measurements using the OUCH test. Is a physical characteristic such as height or a psychological characteristic such as attitude, cheerfulness, work ethic, or enthusiasm an objective measure of an individual’s work performance? We would have great difficulty in creating a quantifiable and factual link between height or enthusiasm and job performance. So when measuring traits, it’s difficult to meet the objective requirement of the OUCH test.

If we utilized these trait-based measures in all cases in employee evaluations, we would be able to meet the uniform in application requirement of the OUCH test. The third test—consistent in effect—would likely be extremely difficult to meet due to the fact that different racial, ethnic, social, and gender groups tend to have different physical and psychological characteristics. Remember, reliability is a measure of consistency.

Could we meet the has job relatedness test? Is a particular trait directly related to the essential functions of the job? In a very few cases, this may be true, but in most situations, physical and personality characteristics have less to do with success in the job than certain behaviors do. So it’s difficult to meet the has job relatedness test in most cases.

Finally, we need to ask the question of whether or not different supervisors would evaluate our traits differently, based on their traits. Would their individual biases based on their personality cause them to evaluate us differently? The answer is, of course, that different people will probably evaluate our traits differently.

**ARE TRAITS COMMONLY USED TO MEASURE PERFORMANCE?** Surprisingly, if you go to the local office supply store and look at standard evaluation forms that are available in preprinted pads, you will find that they usually list many traits as part of the evaluation. Why would this be the case? The simple answer is that at least some traits, both physical and psychological, are fairly easy to identify and we assume that they are related to how the individual will perform on the job. Many of us, individually and as managers, value certain things like enthusiasm, even if enthusiasm has very little to do with the ability to do a particular job or the actual results of job performance.

Certainly, there are some jobs where enthusiasm is critical. However, being an enthusiastic employee may have very little to do with success in the job, so if we evaluate individuals based on the characteristic of enthusiasm, we might make an error in judgment concerning their performance. And if we make errors in analyzing the performance of our employees, the appraisal form becomes much less acceptable to both the individual employee and management.

Finally, if our organization happened to be sued by a former employee who claimed that they were fired based on an appraisal process that was unreliable and not valid, it would be very difficult to defend trait-based evaluation forms due to their subjective nature.

**SHOULD WE MEASURE TRAITS?** Author Ken Blanchard said that there are too many evaluation items that can’t be objectively measured—such as attitude, initiative, and promotability. Therefore, it’s important to ask whether both managers and
employees will agree with the measured rating as being accurate. The bottom-line test (we will call it the Blanchard test) is this: Does everyone understand why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development)? We should only assess traits that meet the bottom-line test of having a direct and obvious objective relationship between the trait and success in the job.

Behavioral Appraisals

Our second option in the assessment process is to evaluate employees based on behaviors. You will recall that behaviors are simply the actions taken by an individual—the things that they do and say. Behavioral appraisals measure what individuals do at work, not their personal characteristics. Is this a good option to use in a performance appraisal process?

**CAN WE ACCURATELY MEASURE BEHAVIORS THAT AFFECT JOB PERFORMANCE?** As a general rule, it is much better to use behaviors in an appraisal than it is to use traits. While an individual supervisor or manager may make a mistake in judgment about the traits of an employee, physical actions or behaviors can be directly observed, and as a result, they are more likely to be a valid assessment of the individual's performance.

**GIVE BEHAVIOR THE OUCH TEST.** Let's take a look at a behavioral evaluation using the OUCH test. Would an evaluation based on actions taken by an employee be objective? In general, directly observing and evaluating an action is significantly more objective than making an attempt to judge a trait like individual effort. If we applied the same evaluation of behaviors to all of the individuals in the same type of job, we would have a reasonable certainty that we were being uniform in application. The same thing would be true here in evaluating the concept of consistent in effect.

So, it comes down to whether or not a behavior-based evaluation has job relatedness. Would a behavioral evaluation be directly related to the essential functions of a job? The answer is that it would be if we made sure that we chose behaviors that were necessarily a part of successfully accomplishing a task. For instance, if we determine that a person acts correctly in filling out a requisition form, putting the proper information in the correct blocks, and providing the requisition to the appropriate person who would then order the material, then we are assessing behaviors that are job related. If, however, we evaluated the action of walking to the lunchroom and walking back to one's workstation, would we be measuring a valid job-related behavior? The answer is more than likely no. Of course, this is a silly example, but it should help you understand that no matter what we do in the evaluation process, we need to ensure that our actions are job related.

OK, but would behavioral evaluations be defensible in the situation of our fired employee above? Would it be possible for us to show that our evaluation process was valid and reliable? If we choose to measure job-related behaviors, it becomes much easier for the organization to defend the validity and reliability of the appraisal process. Observation of actions that are directly related to a job would provide at least some presumption of validity as well as reliability, purely because the behaviors are directly job related. Again, if we chose behaviors that could not be directly associated with the job, the validity and reliability of the measures would be suspect.

**SHOULD WE MEASURE BEHAVIOR?** Are behaviors that measure performance more acceptable to the individual employee and the managers than personal traits? In fact, evidence shows that most individuals are very comfortable with the evaluation of their performance being based on “what they do,” not “who they are.” In general, the most useful and therefore most acceptable feedback to employees is feedback on specific job-related behaviors. As managers, though, we still need to be cognizant of the fact that a behavioral evaluation can be a poor
measure of work performance unless the behaviors chosen are directly applicable to being successful in the job. So as with traits, the Blanchard test asks whether employees understand why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development).31

**Results Appraisals**

Our final option is to evaluate the results, or outcomes, of the work process. **Results** are simply a measure of the goals achieved through a work process. Using results as an evaluation measure provides management with an assessment of the goals that were achieved in a particular job over time.

**CAN WE ACCURATELY MEASURE RESULTS THAT AFFECT JOB PERFORMANCE?** Is measuring the outcomes of a particular individual’s job a valid and reliable measure of that person’s performance? Well, results are certainly concrete measures of what has happened in the organization. However, could results of a job have been skewed based on factors that were outside the control of the individual who is performing that job? The answer is obviously that the results could be affected by many other factors besides the individual’s performance. For example, standards could be set too low and be too easy to achieve, or they could be set too high and thus be impossible to achieve.

Even though this is true, the measurement of results is the final organizational measure of success. The results produced through organizational processes provide the company with its return on investment—in this case, its investment in the people in the organization. So, organizations really like to measure results.

**GIVE RESULTS THE OUCH TEST.** Let’s take a look at the OUCH test concerning results-based evaluations. Is a result achieved in a particular job a concrete, factual measure that can easily be quantified? Obviously, it is a very **objective** measure of what has happened in that particular job. If we apply the same results-based measure to each similar job, then our measure is **uniform in application.** The measure of results would almost certainly be consistent across different groups of employees, so we would also meet the **consistency in effect** requirement of the OUCH test. And of course, if we are measuring the results of what happens in a job, we are certainly providing a measure that **has job relatedness.** So with a quick scan, we can see that a results-based performance appraisal meets the requirements of the OUCH test better than do either of the other two options.

**SHOULD WE MEASURE RESULTS?** Results-based evaluations, like behavior-based evaluations, are typically very acceptable to both the employee and the manager. Employees readily accept results-based appraisals because they feel that such appraisals are one of the fairest methods of analyzing their performance. After all, results are the most concrete measures available—either the result was achieved, or it wasn’t. We can also defend this type of appraisal much more easily than we can defend the other two options, even in court. It tends to be very easy for the organization to go into a courtroom and show that an individual’s results were objectively lower than those achieved by other people in the same or similar jobs, if such an action becomes necessary.

But is a performance evaluation measured on results valid and reliable? The results-based evaluation would most likely be highly valid and would usually be reliable, assuming that we were able to take into account factors outside the individual’s control that nonetheless affect job performance. So as with traits and behaviors, the Blanchard test asks: Does everyone understand why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development)?32
Chapter 8: Performance Management and Appraisal

Which Option Is Best?

Our three options concerning what we evaluate are traits, behaviors, and results. But which option is best? The answer’s not as easy as you might think. Certainly, results-based and behavior-based evaluations are more defensible due to the fact that they are more reliable and valid than trait-based evaluations. But we have to include a large number of factors in order to select which option is best in a particular situation.

For example, if we need to evaluate employees who work on the assembly line, we may need to evaluate behaviors such as punctuality. Do they show up to work on time? If we have an employee who produces at 150% of the standard when they show up, but they only show up 2 or 3 days a week, that creates a problem for the whole assembly line. In that case, we may need to evaluate attendance and punctuality (behaviors) because everyone on the assembly line depends on everyone else.

However, if we have individuals who don’t do their actual work where managers can see and measure traits and behaviors—for example, people who work from home (telecommuters) and independent outside salespeople—then we need to rely on results-based measures. Other employees are often not affected by the hours that the telecommuters and salespeople work. It will not matter when they are at the office, as long as they get the job done. The firm will be concerned with how much they produced or sold. So circumstances dictate which method we will use; we cannot say one method will always be superior to the other two.

How Do We Use Appraisal Methods and Forms?

The formal performance appraisal usually involves the use of a standard form developed by the HR department to measure employee performance. Again, “If you can’t measure it, you can’t manage it.” But you must be careful how you measure success, as the assessment should be as objective as possible, not subjective. Employees need to know the standards and understand what good performance looks like, and they need to be able to measure their own performance. If you are stuck with a form that has subjective sections, work with your employees to develop clear, accurate standards.

Exhibit 8-2 lists the commonly used performance appraisal measurement methods and forms and displays them on a continuum based on their use in evaluative assessment.

### Assessment Options

Write the letter corresponding to each of the following assessment options for measuring performance before the situation describing it.

- a. traits
- b. behavior
- c. results

6. On the assessment form question number 7, “willingness to take responsibility,” I’m giving you an average rating.

7. You have to stay calm and stop yelling at your coworkers.

8. You only sold 25 units 3 weeks in a row. You know the standard is 35, so I’m giving you a formal warning that if you don’t get up to standard in 2 weeks, you will be fired.

9. When you promote one of the women, make sure she is attractive.

10. I’m pleased with your performance. It is only your second week on the job, and you are already producing the standard 10 units per day. I don’t think it will be long before you exceed the standard and get bonus pay.

Work Application 8-4

Very briefly describe a job you have or had. Describe how your performance was assessed based on traits, behavior, and/or results.

**H5**

Performance Appraisals
and developmental decisions. In this section, we discuss each of the measurement methods and forms, starting with the developmental methods and working toward the evaluative ones.

**Critical Incidents Method**

The critical incidents method is a performance appraisal method in which a manager keeps a written record of the positive and negative performance of employees throughout the performance period. There is no standard form used, so it is a method. Here, and for each of the other methods and forms, let’s answer two questions: Why and when do we use the method or form, and how do we use it?

**WHY AND WHEN DO WE USE THE CRITICAL INCIDENTS METHOD?**

Most formal reviews only take place once or twice a year. But do you want to wait for a formal review before you talk to employees about what they are doing well and when they are not performing up to expectations? No, you want to let them know how they are doing on an ongoing basis. Also, let’s say you are a manager with 12 employees. Can you really remember everything each of them did well, when they messed up, and on what dates to evaluate their total performance over the past 6 to 12 months? Odds are, you can’t. However, many managers don’t keep a record of critical incidents, which leads to the problem of inaccurate measures during the formal review meeting.

We use critical incidents to do a good assessment of the entire review period, and we coach during the entire review period when needed for developmental decisions. We need to continually conduct informal coaching and discipline when needed as we make notes of critical incidents to use during the formal review. With clear standards and coaching, you can minimize disagreements over performance during the formal performance appraisal because employees will know what is coming.36

Although critical incidents are commonly used for developmental decisions, they are also used for evaluative decisions. For legal purposes, a list of documented critical incidents is especially important to have leading up the evaluative decision of firing employees. We will discuss discipline and documentation in Chapter 9.

**HOW DO WE USE CRITICAL INCIDENTS?**

Managers commonly keep a file folder on each employee, in either hard-copy or electronic form. Critical incidents are important employee actions, not minor ones, which help or hurt performance. Every time an employee does something very well, like beating a tough deadline or keeping an angry customer from terminating a business relationship with the firm, a note goes in the employee’s file. Notes also go into the file every time the employee’s behavior hurts performance, such as when the employee comes to work late or doesn’t meet quality standards. Each note is usually written by the manager and/or
is in the form of documentation, such as a warning, a performance report, or a letter from a happy customer thanking the employee for doing a great job.

Coaching is part of this ongoing process, and it involves helping employees succeed by monitoring their performance through giving feedback to praise progress and to redirect inappropriate behavior as often as needed. One error managers tend to make is focusing on the negative actions of employees. Remember that a good, balanced evaluation includes both positive and negative feedback, so look for good performance, not just poor performance, and praise it when you see it.

Management by Objectives (MBO) Method

The management by objectives (MBO) method is a process in which managers and employees jointly set objectives for the employees, periodically evaluate performance, and reward employees according to the results. Although there is a three-step process, there is no standard form used with MBO, so it is a method. MBO is also referred to as work planning and review, goals management, goals and controls, and management by results.

**WHY AND WHEN DO WE USE THE MBO METHOD?** The MBO method is one of the best methods of developing employees. As with the use of critical incidents, employees get ongoing feedback on how they are doing, usually at meetings scheduled at regular intervals. We can use the MBO method successfully with our employees if we commit to the process and truly involve employees rather than trying to make them believe that our objectives are theirs.

On an organization-wide basis, MBO is not too commonly used as the sole assessment method. It is more commonly used based on the evaluative assessment during the development part of the performance appraisal. One difficult part of MBO is that in many situations, most employees will have different goals, making MBO more difficult and time-consuming than using a standard assessment form.

**HOW DO WE USE MBO?** MBO is a three-step process:

- **Step 1: Set individual objectives and plans.** The manager sets objectives jointly with each individual employee. The objectives are the heart of the MBO process and should be accurate measures of performance results. To be accurate, objectives should be SMART. They need to be Specific, Measurable, Attainable, Relevant, and Time based. Being specific, measurable, and time based is fairly easy to determine in a written goal, but attainable and relevant are more difficult. So we developed a model based on the work of Max E. Douglas, and we have provided two examples in Model 8-1 that we can use when setting objectives for ourselves or others.

- **Step 2: Give feedback and evaluate performance.** Communication is the key factor in determining MBO’s success or failure, and employees should continually critique their own performance. Thus, the manager and employee must communicate often to

**WORK APPLICATION 8-5**

Select a job you have had. Did your boss use critical incidents in your evaluations? Assess how well your boss used coaching between formal performance appraisal meetings to review your performance.

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**Setting Objectives Model**

<table>
<thead>
<tr>
<th>(1) To</th>
<th>(2) Action Verb</th>
<th>(3) Specific and Measurable Result</th>
<th>(4) Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>To</td>
<td>produce</td>
<td>20 units per day</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>To increase widget productivity 5% by December 31, 2015</td>
<td></td>
</tr>
</tbody>
</table>

**Management by objectives (MBO) method** A process in which managers and employees jointly set objectives for the employees, periodically evaluate performance, and reward employees according to the results.
review progress. The frequency of evaluations depends on the individual and the job performed. However, most managers do not conduct enough review sessions.

**Step 3: Reward according to performance.** Employees' performance should be measured against their objectives. Employees who meet their objectives should be rewarded through recognition, praise, pay raises, promotions, and so on. Employees who do not meet their goals, so long as the reason is not out of their control, usually have rewards withheld and even punishment given when necessary.

**Narrative Method or Form**

The narrative method or form requires a manager to write a statement about the employee's performance. There often is no actual standard form used, but there can be a form, so it can be a method or a form.

**WHY AND WHEN DO WE USE THE NARRATIVE METHOD?** A narrative gives the manager the opportunity to give the evaluative assessment in a written form that can go beyond simply checking a box to describe an assessment item. The manager can also write up a developmental plan of how the employee will improve performance in the future. Narratives can be used alone, but they are often combined with another method or form. Although the narrative is ongoing, it is commonly used during the formal review.

**HOW DO WE USE THE NARRATIVE METHOD OR FORM?** The system can vary. Managers may be allowed to write whatever they want (i.e., use the method), or they may be required to answer questions with a written narrative about the employee's performance (i.e., use the form). Let's discuss both here.

The no-form narrative method can be the only assessment method used during the formal review process. But the narrative method, when used alone, is more commonly used with professionals and executives, not with operative employees. How we write the formal narrative assessment varies, as writing content and styles are different. A narrative based on critical incidents and MBO results is clearly the best basis for the written assessment.

The narrative is also often used as part of a form. For example, you have most likely seen an assessment form (such as a recommendation) that has a list of items to be checked off. Following the checklist, the form may ask one or more questions requiring a narrative written statement.

**Graphic Rating Scale Form**

The graphic rating scale form is a performance appraisal checklist form on which a manager simply rates performance on a continuum such as excellent, good, average, fair, and poor. The continuum often includes a numerical scale, for example from level 1 (lowest performance level) to 5 (highest). The self-assessment and Skill Builder exercise 8-1 uses a graphic rating scale form; it is found at the end of this chapter.

**WHY AND WHEN DO WE USE THE GRAPHIC RATING SCALE FORM?** The graphic rating scale form is probably the most commonly used form during the formal performance appraisal (primarily for evaluative decisions), but use of the form should lead to development decisions as well. Why the popularity? Graphic rating scales can be used for many different types of jobs, making them a kind of one-size-fits-all form that requires minimal time, effort, cost, and training. Walk into an office supply store and you can find pads of them. But on the negative side, graphic rating scales are not very accurate measures of performance because the selection of one rating over another, such as an excellent versus good rating, is very subjective.
For example, think about professors and how they measure performance with grades. Some give lots of work and few As, while others give less work and almost all As.

**How Do We Use the Graphic Rating Scale Form?** It is very simple, and we have most likely all used one. For example, many colleges let students assess professors at the end of a course, and all the students do is check a box or fill in a circle to give their rating. One of the problems with this method is that some of us don’t bother to actually read the questions. Based on our biases, some of us just go down the list, checking the same rating regardless of actual performance on the items. To be fair, this problem is not common with managers formally evaluating their employees. However, it does tend to occur when customers evaluate products and services, including when students assess professors.

To overcome this problem, we can reverse the scale from good to poor on different questions, but this is unfortunately not commonly done. Why isn’t this done all the time? Some managers who make the scales do not know they should do this. Also, some who do know they should reverse the scales don’t because they don’t want to end up with overall ratings being pushed to the middle because people don’t read the questions.

**Behaviorally Anchored Rating Scale (BARS) Form**

A behaviorally anchored rating scale (BARS) form is a performance appraisal that provides a description of each assessment along a continuum. As with rating scales, the continuum often includes a numerical scale that runs from low to high.

**Why and When Do We Use the BARS Form?** The answers to why and when are the same here as they are with graphic rating scales, so let’s focus on the differences between graphic rating scales and bars forms. BARS forms overcome the problem of subjectivity by providing an actual description of the performance for each rating along the continuum, rather than that one simple word (excellent, good, etc.) that graphic rating scales provide. A description of each level of performance makes the assessment a more objective, accurate measure.

So if BARS forms are more accurate, why aren’t they more commonly used than graphic rating scales? It’s partly economics and partly expertise. Again, the graphic rating scale can be used for many different jobs, but BARS forms have to be customized to every different type of job. And developing potentially hundreds of different BARS forms takes a lot of time, money, and expertise. Even when a firm has an HR staff, the question becomes “Is developing BARS forms the most effective use of our time?” Obviously, the answer is “It depends on the types of jobs being evaluated and the resources available to complete the evaluation process.”

**How Do We Use BARS Forms?** As with graphic rating scales, we simply select a level of performance along a continuum. College accreditation associations are requiring more measures of student outcomes as assurance of learning, and as part of that process, they want more BARS rubrics as evidence. So in college courses, especially for written assignments, professors give out rubrics that describe in some detail the difference between an excellent (A), good (B), average (C), poor (D), and not acceptable
(F) grade, using multiple criteria to put together a final grade. Here is a very simple example of making a graphic rating scale item into the more objective BARS.

Attendance—excellent, good, average, fair, poor

becomes

Attendance—number of days missed 1, 2, 3–4, 5, 6 or more

**Ranking Method**

**Ranking** is a performance appraisal method that is used to evaluate employee performance from best to worst. There often is no actual standard form used, and we don’t always have to rank all employees. This method can be contentious, as evidenced by recent announcements by Microsoft and Yahoo. In late 2013, Yahoo announced that it was adopting a ranking system, but later the same day, Microsoft announced that it was dropping its forced ranking system.

**WHY AND WHEN DO WE USE THE RANKING FORM?** Managers have to make evaluative decisions such as determining the employee of the month, who gets a raise or promotion, and who gets laid off. So when we have to make evaluative decisions, we generally have to use ranking. However, our ranking can, and when possible should, be based on other methods and forms.

Managers can also use ranking for developmental purposes by letting employees know where they stand in comparison to their peers—meaning managers can use rankings to motivate employees to improve their performance. For example, when one of the authors passes exams back to students, he places the grade distribution on the board. This does not in any way affect the current grades—but it lets students know where they stand, and he does it to motivate them to improve.

**HOW DO WE USE RANKING?** Under the ranking method, the manager compares an employee to other similar employees, rather than to a standard measurement. An offshoot of ranking is the forced distribution method, which is similar to grading on a curve. Predetermined percentages of employees are placed in various performance categories—for example, excellent, 5%; above average, 15%; average, 60%; below average, 15%; and poor, 5%. The employees ranked in the top group usually get the rewards (a raise, a bonus, or a promotion), those not in the top tend to have rewards withheld, and the ones in the bottom group sometimes get punished. In Skill Builder 8-1, you are asked to rank the performance of your peers.

**Which Option Is Best?**

While this section does not contain an exhaustive list, it provides examples of each of the major methods of performance appraisal. Which appraisal method or form is best depends on the objectives of the organization. Using a combination of the methods and forms is usually superior to using just one. For developmental objectives, the critical incidents, MBO, and narrative methods work well. For administrative decisions, a ranking method based on the evaluative methods, and especially graphic rating scales or BARS forms, works well.

Remember that the success of the performance appraisal process does not just lie in the formal method or form used once or twice a year. It depends on the manager’s human relations skills in ongoing critical incidents coaching, and it also depends on effective measures of performance that are accurate enough to let everyone know why they are rated at a given level (evaluative) and how they should improve (developmental) for the next assessment.

**PerformanceReview.com** is one website that has been designed to help managers write complete and effective performance appraisals online. The site offers practical advice to guide managers through the appraisal process.
Chapter 8: Performance Management and Appraisal

WHO SHOULD ASSESS PERFORMANCE?

Now that we’ve learned the why, what, and how of the performance appraisal process, we next need to discuss the options for choosing a rater or evaluator. There are a number of different options concerning who should evaluate the individual employee, and the decision needs to be based on a series of factors. Let’s take a look at our options for deciding who should evaluate an employee.

Supervisor

When we ask who should evaluate an employee, the most common response is that their immediate supervisor should do it. But why would the supervisor be the best person to evaluate an employee? Well, the supervisor is supposed to know what the employee should be doing, right? Certainly, supervisors are frequently one of the best and most commonly used options as an evaluator for the employees under their control. However, this is not always the case due to problems with supervisor performance assessments.

PROBLEMS WITH SUPERVISOR EVALUATIONS. What if the supervisor doesn’t see the employee very frequently? This may not be all that uncommon in a modern organization. Many times today, supervisors may be in a different building or even a different city from that of the individuals they supervise. Virtual teams, Internet-linked offices, telecommuting, and other factors cause supervisors to not be in constant touch with their employees, unlike the situation 20 or 30 years ago.

There are other problems as well. What if there’s a personality conflict? Supervisors are human, just like their employees, and they may just not relate well to some of their employees. This may cause a personal bias for or against certain employees that may invalidate the appraisal process.

What if the supervisor doesn’t know what you’re supposed to be doing in your job? Aren’t supervisors always supposed to know every job for which they are responsible? Again, 30 years ago, this may have been true. However, in today’s work environment, with the amount of information necessary to do the complex tasks that organizations must accomplish in order to compete, nobody can know every job. There’s just too much information for any one individual to learn. So jobs have been segmented down into smaller and smaller areas, and the supervisor may not know each of those jobs in great detail. So there are certainly problems that can occur in the case of a supervisor being responsible for a subordinate employee’s evaluation process.

Appraisal Methods and Forms

State which of the following assessments is being described in each of the given situations, writing each assessment’s corresponding letter before the situation(s) in which it is described.

- a. critical incidents method
- b. MBO method
- c. narrative method and forms
- d. BARS forms
- e. graphic rating scale forms
- f. ranking method

____ 11. Hank is not doing a good job, so you decided to talk to him about it and keep track of his performance regularly.

____ 12. Your employees perform different tasks. You want to create a system for developing each of them.

____ 13. Sara is moving, has applied for a job at another company, and asked you for a letter of recommendation.

____ 14. You started a new business a year ago, and you are extremely busy focusing on sales, but you want to develop a performance appraisal form you can use with all 14 of your employees, who do a variety of jobs.

____ 15. You have been promoted, and you have been asked to select your replacement.
AVOIDING SUPERVISOR REVIEW PROBLEMS. A simple way to overcome these problems is to have others, in addition to the supervisor, assess performance. Also, multiple measures can make a performance assessment more accurate. Using other evaluators and multiple measures can help overcome personal bias and provide information that supervisors don’t always know about.

Peers

Since the supervisor is not always knowledgeable enough to make a valid assessment of employee performance, another possible option is to use coworkers or peers of the individual employee as appraisers. When would it be valuable to use peer evaluations in an organization? If the supervisor is absent or has infrequent contact with the employees, but each of the employees frequently interacts with multiple coworkers in a team or group, then peer evaluations may be valuable. Peers or coworkers also often know the job of the individual employee better than the supervisor does, and they are more directly affected by the employee’s actions, either positive or negative. In addition, peers can evaluate the ability of the individual to interact with others successfully in a group or team setting—something that may be very difficult for the supervisor to see unless they are intimately involved with the group.

PROBLEMS WITH PEER REVIEWS. There are certainly issues that can come up in peer evaluations that can cause the process to become less objective. In fact, research evidence regarding the validity of peer evaluations is really unclear. Personality conflicts and personal biases can affect how individual employees rate their peers. Individuals within a group or team may just have significantly different personality types, and these differences can cause friction within the workgroup that may spill over when it comes time to evaluate the person that they are in conflict with.

AVOIDING PEER REVIEW PROBLEMS. Because we know that these problems can occur within a peer evaluation, the manager can take the issues into account and adjust rating values as necessary. For example, assume you are the manager of a work group of six people who, in your opinion, work very well together and provide a quality work product. When you review a set of peer evaluations from the work group, you notice that two of the group members (a young male and an older female) gave each other significantly lower than average grades. However, the other four members of the group gave both of them good marks for their contributions to the group. This quite likely is a situation where a personality conflict has occurred between the two members that caused them to lower each other’s grades. Knowing that the other four members of the group evaluated these two individuals as valued members of the team, you may want to adjust the ratings from the two individuals to more closely match the overall evaluations from the team, noting that a personality conflict may have lowered their evaluations of each other. Some additional research shows that as peers evaluate each other more, their ability to provide relevant and valuable feedback increases, as does their personal confidence. So giving employees practice in peer evaluations can improve the validity and reliability of such evaluations.

Even with the potential for personality conflicts and bias, peer evaluations can give us good insight into the inner workings of a group or team when the supervisor has infrequent contact with the team. In Skill Builder 8-1, you will do a performance assessment of your peers.

Subordinates

Our next available option is to have the subordinates of an individual supervisor evaluate that supervisor. We would typically only use subordinate evaluation for managerial-level employees. However, who within the firm knows, and suffers the
consequences from, the actions of a supervisor more than the people who work for them? Subordinate evaluations can give us good insight into the managerial practices and potential missteps of people who control other employees in our organization. As a result, subordinate evaluations may give us valuable information that we would be unable to find out using any other means.

**PROBLEMS WITH SUBORDINATE REVIEWS.** Can subordinate evaluations cause problems within the department or workgroup? Is the potential for bias, especially from subordinates who have been disciplined by the supervisor, significant in this type of evaluation? Of course, the answer is yes—there is the potential for bias. Obviously, the subordinates may try to get back at their supervisor for giving them tasks that they did not want to perform or for disciplining them for failure in their jobs. There may also be a personality conflict, or some subordinates may be biased against their supervisor or manager for other reasons. So there are certainly negative aspects to subordinate evaluations. On the other end of the scale, the subordinates may inflate the capabilities of their manager, at least partly because of a lack of understanding of all the tasks and duties required of the manager. In fact, in a recent survey, about two thirds of employees rated their managers higher than the managers rated themselves.

**AVOIDING SUBORDINATE REVIEW PROBLEMS.** In all of these problem areas, if we know that there is a potential problem, we can most likely guard against it. In many cases, as we go through a group of subordinate evaluations, we will see one or two outliers providing either very high or very low marks for the supervisor. In such a case, we should probably throw those outliers out of the calculation when determining overall marks for the supervisor. It’s surprising how often these outliers are extremely easy to spot in a subordinate evaluation process.

Another significant issue in the case of subordinate evaluations is confidentiality. Subordinate evaluations must be confidential in nature or it is unlikely that the subordinates will provide an honest evaluation of their supervisor. Why is this the case? Obviously, if the evaluation is not confidential, the supervisor can and may exact retribution on subordinates who provide unflattering evaluations. So, if the evaluation is not anonymous, many of the subordinates will likely inflate the capabilities of the supervisor, which minimizes the value of the evaluation process itself. Even though subordinate evaluations have the potential for bias and other problems, we can help to overcome these problems, and subordinate evaluations can provide us with valuable information about the supervisor’s capabilities.

**Self**

Self-assessment is also an option in the performance appraisal process. Virtually everyone does a self-assessment, whether they are actually formally asked to do so as part of the assessment or not. It is required with MBO. Even when they are not asked to do a self-assessment, employees will still walk into the review discussion with some informal self-assessment that they will compare to the supervisor’s rating. But are self-evaluations valuable, or is the employee going to overestimate their individual capabilities and tell us that they’re perfect? (As you know, every chapter of this book has one or more self-assessments, and in the one for this chapter—Skill Builder 8-1 at the end of the chapter—you will assess your performance on a group project. If you want to, you can do the self-assessment now.)

**PROBLEMS WITH SELF-ASSESSMENTS.** Most of the research evidence shows that self-assessments tend to overestimate the individual’s ability to do a job. However, some of the research says that employees either underestimate or accurately estimate their job performance over time. A significant portion of the evidence seems to show
that individuals with lower overall levels of knowledge and skills tend to inflate their self-assessment of their abilities. Conversely, as individuals become more knowledgeable and more skilled, the evidence tends to show that they will either accurately estimate or even underestimate their capabilities in their jobs.

**AVOIDING SELF-ASSESSMENT PROBLEMS.** Based on the fact that most of the evidence shows that employees overestimate their ability to do their job, is self-assessment a valid performance measure? Here again, even though the measure may have validity concerns, if we know that self-evaluations tend to be skewed, we can most likely adjust for that. In addition, receiving information from the individual concerning their perception of their skill set is extremely valuable in a number of management processes—including plans for training and development opportunities, providing work assignments, and counseling and disciplinary measures. A big step in overcoming self-assessment problems, as well as other assessment problems, is the Blanchard test—which asks whether the employee understands why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development).

**Customers**

We may also want to ask customers to evaluate individuals within the company. We use the word *customers* in a broad sense to include people outside the organization, including customers for our products and services and suppliers to the firm. Customers can also be internal, including people in other departments of the firm (for example, the print shop that makes copies for other departments and the mail room that receives mail and delivers communications and products to the rest of the firm).

When and why would we want to use customers in the evaluation process? We may want to use customers as evaluators when the individual being evaluated has frequent contact with internal or external customers. If an employee interacts routinely with internal or external customers, we need to know how those customers feel about their interactions with the employee. This particularly applies to external customers, who are the ones who ultimately pay the bills. It does not matter what else we do successfully if our customers are uncomfortable with their interactions with our employees. If *external* customers are upset about their interactions with our employees, then they have the ability to go elsewhere with their business. And even *internal* customers can create significant problems within the firm due to conflict between departments or divisions. So we want to ask internal and external customers to evaluate the individuals with whom they come into contact.

**PROBLEMS WITH CUSTOMER ASSESSMENTS.** What do you think the major problem would be with customer-based evaluations? One problem is that customer assessments commonly use simple rating scales, which we discussed as being very subjective. Also, customers are usually not trained to do an accurate assessment, so bias is a problem. For these and other reasons, the popular opinion is that customer evaluations are almost always skewed to the negative. However, research shows that this is not necessarily the case. In some situations, customer evaluations actually exceed internal evaluations.

**AVOIDING CUSTOMER ASSESSMENT PROBLEMS.** Regardless of whether or not customers will tell us when we’re doing an exceptional or acceptable job, customer evaluations provide us with valuable information concerning our employees who have direct customer contact. If this is the case, can we adjust the evaluation process knowing that customer evaluations are frequently skewed either positively or negatively? Obviously, we can. One of the basic methods of adjusting the customer evaluation process is by comparing the individuals being evaluated and identifying the ratios of negative and positive comments. This allows us to identify more successful and less
successful employees. Although this is an imperfect measure, it still provides value to the firm because customers’ perceptions are critical to our relationships with them. So, we need to measure this relationship.

360-Degree Evaluations

In some cases, the evaluation is expanded to everyone employees come into contact with through 360-degree feedback. The 360-degree evaluation analyzes individuals’ performance from all sides—from their supervisor’s viewpoint, from their subordinates’ viewpoint, from their customers (if applicable), from their peers, and from their own self-evaluation. Obviously, the 360-degree evaluation would give us the most accurate and best possible analysis of the individual and their performance within the company.

DuPont developed 360-degree reviews back in 1973, and they are still popular today. With the trend of structuring work in teams, peer evaluations are now used regularly. Those who fill out the appraisal form usually do so confidentially. The feedback from all these people is used to evaluate and develop the employee.

PROBLEMS WITH 360-DEGREE EVALUATIONS. If 360-degree evaluations are the best, then why don’t we always use them? The simple answer is time and money. It takes a significant amount of time for a group of individuals to evaluate one person if we use a 360-degree format. Using up so much organizational time obviously also costs us a significant amount of money. If we multiply those numbers by the time it takes everyone associated with the organization to evaluate one individual, the costs can quickly become massive.

AVOIDING 360-DEGREE PROBLEMS. Unfortunately, there really is no simple way to avoid these problems besides what is commonly done—simply not using 360-degree evaluations. The 360-degree evaluation format tends to be most valuable if it is used for purposes of individual development, rather than to make administrative evaluative decisions. A good 360-degree feedback system can provide specific suggestions about how to improve individual competencies. It can also go a long way toward minimizing some of the most common problems with the performance appraisal process, which we will review in the next section.

Whom Do We Choose?

Now that we know our options for who should conduct an evaluation of each employee, which option should we use? Again, we need to remember that each of the options costs us money because it takes time for the individual to perform the appraisal. So, we need to determine which option or options to use. We can combine any of these methods with any other, all the way up to the point of the 360-degree evaluation. However, we only want to use a 360-degree evaluation when it’s worth it. If it’s not necessary, then it doesn’t make a lot of sense due to the cost of this method.

For instance, is there any need to do a 360-degree evaluation of janitorial or housekeeping staff? Would this make sense? Obviously, it would not. In most cases, with low-level staff members, a supervisor’s evaluation is sufficient. This is true because even though only the supervisor does the formal assessment, the supervisor often gets informal feedback on the employee’s performance from customers and peers of that employee. Customers will often complain to the supervisor if the employee’s service is not satisfactory, and peers will complain about a fellow employee who is not meeting standards for some reason. The supervisor’s critical incident file is often written based on information received from peers and customers, and that reduces the influence of any personal bias the supervisor may have toward the employee.

LO 8-7

Briefly discuss the value and the drawbacks of a 360-degree evaluation.
What about the case of an outside salesperson? In this situation, the results tend to speak for themselves. Sales numbers are available to the salesperson and manager. If the supervisor rarely sees the individual but the customer interacts with our salesperson on a routine basis, we can ask the customer to do an evaluation of the salesperson and ask the salesperson for a self-appraisal. With the sales figures, a self-assessment, and customer feedback, we can develop a plan to increase future performance.

Finally, if we are evaluating the marketing manager for the firm, we may want to do a 360-degree evaluation because of the fact that this individual would affect all of the groups—subordinates, customers, peers, the organization, and themselves. So, we evaluate the specific situation and use the number of methods necessary to get an accurate assessment of the individual.

So once again, to get an understanding of the return on our investment, we need to do a cost-benefit analysis to determine when the benefits of increasing performance outweigh the costs of a particular person or group completing a performance appraisal. In essence, we attempt to maximize performance while minimizing the total cost of the appraisal process.

**PERFORMANCE APPRAISAL PROBLEMS**

During the performance appraisal process, there are common problems that we face. However, knowing these common problems, we can take measures to avoid them. So in this section, we discuss the problems first with simple ways to avoid each of them as an individual. Then we discuss what the organization can do to overcome these problems on an organization-wide basis. We can actually overcome multiple problems with the same method. See Exhibit 8-3 for a list of problems and ways to avoid them.

**Common Problems Within the Performance Appraisal Process**

Let’s briefly discuss each of the common problems during the performance appraisal process listed in Exhibit 8-3.

**BIAS.** Bias is simply a personality-based tendency, either toward or against something. In the case of performance assessment, bias is toward or against an individual employee. All human beings have biases, but supervisors especially cannot afford to allow their biases to enter into their evaluation of subordinates in the firm. This is very easy to say but very difficult to do. Biases make the evaluation process subjective rather than objective, and they certainly provide the opportunity for a lack of consistency in effect on different groups of employees. So to overcome the bias problem, we need to be objective and not let our feelings of liking or disliking an individual influence our assessment of that person.

**STEREOTYPING.** Stereotyping is mentally classifying a person into an affinity group and then identifying the person as having the same assumed characteristics as the group. Though stereotyping is almost always assumed to be negative, there are many incidents of positive stereotypes. However, regardless of whether the stereotype is positive or negative, making assumptions about individual employee characteristics based on their supposed membership in a group, rather than explicitly identifying the performance of the individual, creates the potential for significant error in evaluations. So we can avoid stereotyping by getting to know each employee as an individual and then objectively evaluating each employee based on their actual performance.
HALO ERROR. Halo error occurs when the evaluator forms a generally positive impression of an individual and then artificially extends that general impression to many of that individual’s categories of performance to create an overall evaluation of the individual that is positive.64 (Alternatively, the evaluator can form a negative initial impression and extend it to form an overall negative evaluation—this is sometimes called the “horns error.”) In other words, if an employee is judged by their supervisor to be generally a “good” employee, and if the supervisor then evaluates each of the areas of the employee’s performance as good, then regardless of any behaviors or results to the contrary, the supervisor is guilty of halo error. So we can avoid halo error by remembering that employees are often strong in some areas and weaker in others, and we need to objectively evaluate each employee based on their actual performance for each and every item of assessment.

DISTRIBUTIONAL ERRORS. These errors occur in three forms: severity or strictness, central tendency, and leniency. They are based on a standard normal distribution, or the bell curve that we are all so familiar with. In severity or strictness error, the rater evaluates everyone or nearly everyone as below average. Central tendency error occurs when the rater evaluates everyone under their control as average—meaning nobody is rated as either really good or really bad. Finally, leniency error occurs when the rater evaluates everyone as above average—meaning it is basically a form of grade inflation. So we can avoid the distributional errors by giving a range of evaluations. The distribution is often based on the ranking method of evaluation and forced distribution.

SIMILARITY ERROR. This error occurs when the rater gives better evaluations to subordinates whom they consider more similar to themselves and poorer evaluations to subordinates whom they consider to be different from themselves. We all have a tendency to feel more comfortable with people who we feel are more similar to ourselves,65 and if we are not careful, we can allow this feeling of comfort with similar individuals to be reflected in the performance appraisal process. So we can avoid similarity error by embracing diversity and objectively evaluating each employee based on their actual performance, even if they are different from us and don’t do things the same way that we do.

PROXIMITY ERROR. This error states that similar marks may be given to items that are near (in other words, proximate to) each other on the performance appraisal form, regardless of differences in performance on those measures. So we can avoid the proximity error by objectively evaluating employees’ actual performance on each and every item on the assessment form.

EXHIBIT 8-3 PERFORMANCE APPRAISAL PROBLEMS AND AVOIDING THEM

<table>
<thead>
<tr>
<th>Common Problems</th>
<th>How to Avoid Problems</th>
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<tr>
<td>Bias</td>
<td>Develop accurate performance measures</td>
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<td>Stereotyping</td>
<td>Use multiple criteria</td>
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<tr>
<td>Halo error</td>
<td>Minimize the use of trait-based evaluations</td>
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<tr>
<td>Distributional errors</td>
<td>Use the OUCH and Blanchard tests</td>
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<td>Similarity</td>
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<tr>
<td>Proximity</td>
<td>Use multiple raters</td>
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<tr>
<td>Recency</td>
<td></td>
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<tr>
<td>Contrast</td>
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<tr>
<td>Attribution</td>
<td></td>
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</tbody>
</table>
**WORK APPLICATION 8-9**

Select your current job or a past job.
Identify common mistakes your supervisor made when assessing your performance, during either an informal coaching or a formal appraisal review.

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**RECENTY ERROR.** This occurs when the rater uses only the last few weeks of a rating period as evidence when putting together performance ratings. For instance, if a warehouse worker has been a strong performer for most of the appraisal period, but right before his annual evaluation, he knocked over a stack of high-cost electronic equipment while driving a forklift, he may be rated poorly due to recency error. So we can avoid recency error by evaluating the employee based on their performance during the entire assessment period, which is commonly 6 to 12 months. Using the critical incident evaluation method really helps our recall, and it helps us assess employee performance more objectively for the entire period.

**CONTRAST ERROR.** In contrast error, the rater compares and contrasts performance between two employees, rather than using absolute measures of performance to measure each employee. For example, the rater may contrast a good performer with an outstanding performer; then, as a result of the significant contrast, the good performer seems to be “below average.” This would be a contrast error. So we can avoid contrast error by objectively evaluating the individual based on their actual performance.

**ATTRIBUTION ERROR.** In simplified terms, attribution is a process in which an individual makes assumptions about the reasons or motivations (such as attitudes, values, or beliefs) for an observed behavior. So, attribution error in performance appraisal might occur when the rater observes an employee action—such as an argumentative answer to a question—and assumes that the individual has a negative attitude toward their job and is a poor performer. This may not be true, and if it isn’t, the rater is guilty of an attribution error. So we need to avoid attribution error because it is based on our subjective conclusions. When in doubt, we shouldn’t assume we know why the employee did or didn’t do something. We should investigate actions so that we can objectively evaluate employees based on their actual performance.

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**Avoiding Performance Appraisal Process Problems**

As you can see above, there are a significant number of ways that performance appraisals can fail to provide an accurate assessment of the capabilities and behaviors of individual employees. Thus far, we have only provided simple solutions to help us overcome these problems as individuals. But how can a firm avoid these problems on an organization-wide basis throughout the performance appraisal process? Luckily, we can take a number of basic steps to minimize the negative issues that occur in the performance appraisal process. All we have to do is look at the problems noted, and we can fairly quickly come up with some possible solutions to at least the majority of those problems using the same methods. Let’s discuss how the firm can limit the potential for the appraisal process to go astray by developing accurate performance measures, training evaluators, and using multiple raters.

**DEVELOP ACCURATE PERFORMANCE MEASURES.** As discussed earlier in this chapter, if the performance appraisal methods and forms are not accurate measures, then the entire performance appraisal process will have problems. Therefore, the organization should have its own HR specialist or hired consultants develop an objective assessment process and measures. Now, let’s discuss three things HR specialists commonly do to help ensure accurate measures.

**Use Multiple Criteria.** One method of overcoming some of the problems with the appraisal process is to ensure that we use more than one or two criteria to evaluate an individual’s performance. We should generally have at least one evaluation criterion for each major function within an individual job. As we noted earlier, behaviors and results that occur over the entire course of the evaluation period are typically
the best criteria to use in the process of evaluating an individual’s performance, but employees behave in many different ways in different circumstances throughout the course of a year, so we shouldn’t limit the appraisal process to one or two actions on the part of that individual employee. By evaluating multiple criteria, we have the ability to lower the incidence of halo, recency, contrast, and attribution errors, and we may even be able to affect bias and stereotyping because of the fact that many criteria, not just one or two, are being analyzed.

Minimize the Use of Trait-Based Evaluations. Our next method of overcoming problems within the appraisal process is to minimize the evaluation of individual traits. As we noted earlier, trait-based evaluations tend to be more subjective than behavior- or results-based evaluations, and as a result, they should generally not be used unless there is a specific reason why employees must exhibit a particular trait to be successful in a job. Only when we have a specific reason for trait-based evaluations should we measure those traits and evaluate them in the appraisal process.

In addition, because of their subjectivity, trait-based evaluations are much more difficult to defend in cases where the organization used the evaluation process for later disciplinary action against an individual employee. By minimizing the evaluation of traits, we lower the incidence of bias, stereotyping, similarity errors, and (potentially) attribution errors. So, minimizing trait evaluations lowers the ability of the rater to make some of the most significant mistakes that can occur in the appraisal process.

Give the Measures the OUCH and Blanchard Tests. We already stated this with each of the three types of assessment, but these two tests are so important to successful, accurate measures that they bear repeating here. With the OUCH test, is the measure objective, is it uniform in application, is it consistent in effect, and does it have job relatedness? With the Blanchard test, does everyone understand why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development)?

Train Evaluators. Once we have accurate measurement methods and forms, the next thing that we should do to help overcome some of the issues with the appraisal process is to train our evaluators to avoid the common errors and problems that occur in performance assessment and in how to use the various methods and forms.

Train Evaluators to Overcome the Common Problems of Assessment. Simply through the process of rater error training, we can mitigate or even eliminate many of the common problems. Once the evaluator becomes aware that the common errors occur with some regularity, the evaluator almost immediately begins to evaluate such errors and
guard against them. Even bias and stereotyping errors may be mitigated through the rater error–training process. As we’ve said several times throughout this book, most of our employees want to do a good job, and once they know that an error is being committed, they will make attempts to correct that error. So, rater error training provides them with knowledge of these errors and allows them the opportunity to correct them.

A robust form of rater training is frame-of-reference training, which defines job performance dimensions in more concrete terms, provides samples of behaviors at each performance level, emphasizes the fact that job performance has many dimensions, and allows practice and feedback sessions. While the details of frame-of-reference training are beyond the scope of this introductory text, this method of rater training has been shown to have a significant positive effect on rater accuracy in the appraisal process.68

Train Evaluators to Use the Measurement Methods and Forms. Evaluators should also be trained to use the various performance assessment methods and forms. Because the critical incident method is not commonly used as a formal assessment method, evaluators should be taught to use it to help overcome recency error. Evaluators also need training to effectively use MBO and to write a good narrative. When using a rating scale, the organization should provide some training for the raters so they better understand the differences between the word descriptors along the continuum (excellent, good, etc.). BARS forms and ranking are fairly straightforward, but training can help overcome any problems encountered with them.

USE MULTIPLE RATERS. The next tool we can use to minimize errors in the evaluation process, at least in some cases, is to have multiple raters evaluate an individual. As we noted earlier, this becomes expensive very quickly, so we must decide whether or not the value inherent in using multiple evaluators overcomes the cost of the process. However, if it does, using multiple evaluators can conquer some significant problems in the appraisal process. What will the process of using multiple evaluators do to improve the appraisal process? It limits the ability of one individual appraiser to provide a biased opinion concerning an employee’s performance, and it limits the potential for stereotyping in the appraisal process. In addition, halo, similarity, contrast, and attribution errors become less likely, and distributional errors tend to even out among multiple raters. It is for these reasons that 360-degree evaluations have gained favor in many organizations over the past 20 years.

DEBRIEFING THE APPRAISAL

The debriefing process is where we communicate to individuals the analysis of their performance. Earlier in the chapter, we noted that there are two major reasons for assessing performance: for evaluative decisions and for development. We also suggested breaking the formal performance appraisal debriefing into two separate interviews. In this section, we describe how to conduct both reviews.

The Evaluative Performance Appraisal Interview

Planning ahead is critical to the performance appraisal interview process. Therefore, this section is separated into preparing for and conducting the evaluative interview. Because the evaluative interview is the basis for the developmental interview, it should be conducted first.

PREPARING FOR AN EVALUATIVE INTERVIEW. When preparing for an evaluative interview, follow the steps outlined in Model 8-2. Our evaluation should be fair (meaning ethically and legally not based on any of the problems discussed).69 If we have had
regular coaching conversations with our employees, they know where they stand, and our preparation is mostly done except for filling out the form. So our relationship with the employee will directly affect the outcome. Employees should also critique their own performance through a self-assessment using the form.

So step 1 of Model 8-2 is to simply set up the meeting. Step 2 has the employee use the form to conduct a self-assessment, and in step 3 we, too, assess the employee’s performance using the form. In keeping with the balanced evaluation, in step 4 we identify both strengths and areas for improvement that serve as the basis for the developmental interview. Finally, step 5 involves predicting employee reactions to our assessment and planning how to handle them. Using critical incidents will help support our assessment when employees disagree. And don’t forget that the Blanchard test states that both you and the employee should be able to explain and agree on the employee’s level of performance.

**CONDUCTING AN EVALUATIVE INTERVIEW.** During the interview, encourage the employee to talk and also listen to the critique of their performance. Model 8-2 lists the steps for conducting an evaluative performance appraisal interview. In step 1, we open the meeting with some small talk to put the person at ease. Then in step 2, we go over our
In step 3, we identify the employee’s strengths and weaknesses, discuss them, and agree on them. Finally, in step 4, we conclude the interview, which may involve making the appointment for the developmental interview.

During this process, employees should be open to negative feedback, even if they don’t agree with it. They shouldn’t make excuses or blame others. If they don’t agree with the assessment, they may say something like “Thanks for the feedback, but I don’t agree with it because...” Giving objective reasons for the disagreement is fine, as long as they do it without being argumentative and disrespectful. If there is such disagreement, we may want to schedule a follow-up meeting with the employee so that we and they may gather facts that support our or their stance on the assessment.  

The Developmental Performance Appraisal Interview

Again, planning ahead is critical when it comes to performance appraisal interviews. Therefore, this section is also separated into preparing for and conducting the interview.

PREPARING FOR A DEVELOPMENTAL INTERVIEW. After the employee’s performance evaluation is completed, you should prepare for the developmental interview based on targeting areas for improvement. Yes, as a manager you are busy, and you may question the need for coaching and the cost of separate formal developmental interviews, but the benefit of spending time developing employees will lead to increased performance and lower turnover in your organization.

To prepare for the interview, follow the steps in Model 8-3, which begins with simply setting up a time to conduct the review. As stated in step 2, have employees come up with their own objectives and strategies for improvement, and also develop your own for them (step 3).

CONDUCTING A DEVELOPMENTAL INTERVIEW. The steps to follow when conducting a developmental performance appraisal interview are listed in Model 8-3. Again, step 1 starts with small talk to open the interview. In step 2, it is important to agree on developmental objectives. As part of step 3, the employee needs to be made aware of exactly what they must do to improve and increase the rating on the next review, and you must also let the employee know that follow-up progress feedback is essential for changing behavior. So step 4 is to set up a follow-up meeting to review the employee’s progress. When conducting steps 3 and 4, we don’t want the employee working on too many things at once, so we should keep the number of objectives down to three or fewer. We can always add new objectives later. We end in step 5 by concluding the interview with some positive encouragement to reach the objectives.

TRENDS AND ISSUES IN HRM

It’s time to take a look at some of the trends and issues in performance appraisal over the past several years. The first item in this section asks whether we can and
should provide employees with constant evaluations of their performance. Secondly, we take a look at electronic performance monitoring, or EPM. Does it improve performance and add value to the organization’s performance appraisal process by providing results-based evidence of employee productivity? Finally, we deal with the relative merits of competency-based performance management and the more traditional task-based evaluation of performance.

**Is It Time to Do Continuous Appraisals?**

Samuel Culbert, a clinical psychologist at UCLA, has written a book called *Get Rid of the Performance Review!* His premise is that performance appraisals are one-sided analyses by the manager that only show what the subordinate is doing wrong. He notes that if the performance review process can become two-way communication between the manager and the subordinate, then a performance review becomes a “performance preview.” The boss and the subordinate “have conversations” that allow the manager to become a coach and tutor for the subordinate.

One of the more recent ideas that is gaining traction, at least in some companies, is some form of routine or continuous technology-based appraisal and feedback, rather than the traditional evaluation that Culbert and so many others are trying to toss out. For obvious reasons, this continuous appraisal seems to be more common in organizations that are less traditional and bureaucratic. Also, in organizations where results can be quantitatively measured, results-only-work-environments (ROWE) are beginning to be seen. About 10% of US employees are now being evaluated in a results-only manner. A results-only-work-environment is one in which employees are evaluated on outcomes only (not on behaviors or traits as in most traditional evaluation processes). Outcomes are continuously evaluated, and there is no waiting for an end-of-year performance appraisal. For a ROWE system to work, though, goals have to be quantifiable so that they can be specifically measured. The information technology company CDW uses a ROWE system and tracks individual employee performance electronically. If the employee doesn’t complete a project on time, it is automatically logged into the performance management system.

In other organizations where results are not as easy to quantify, feedback on member behavior and outcomes can be constantly provided through technologies available to all team members. Each member is expected to provide meaningful feedback to all other members as a routine part of their work. We spoke about Zappos’ holacracy earlier. Zappos is trying to use holistic feedback from all sides (a massive 360-degree evaluation) in order to evaluate its employees and encourage creativity and innovation.

Certainly a large number of organizations are developing many new processes to improve their performance management and appraisal process. Technology is again driving many of these processes, as it has done with many other management processes. HR managers will need to follow these discussions closely as they mature to find out over time what works and what doesn’t.

Still, we have to struggle with a significant problem: Organizations legitimately use appraisals to make good decisions about their employees and employee development. If performance appraisals are not completed, the organization doesn’t have valid and reliable information about its human resources, and therefore, it has no ability to make good decisions about things such as training, promotions, and pay raises. Going back to the OUCH and Blanchard tests, in *any* personnel action within the organization, we need to attempt to be as objective as possible.

**Technology: Electronic Performance Monitoring**

Electronic performance monitoring (EPM) is the process of observing ongoing employee actions using computers or other nonhuman methods. The number of

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employees monitored through EPM has increased drastically in the past 20 years. In the early 1990s, about one third of employees were being monitored electronically. By 2001, approximately 78% were being monitored electronically, and that percentage has more than likely increased ever since. The reason for this steep increase is that using EPM apparently is an effective means of increasing productivity. EPM allows management to know if employees are actually working or doing personal things during paid work hours. The biggest upside to EPM seems to be that it provides information for concrete, results-based performance evaluations.

Certainly, this is a valuable outcome. However, some researchers and practitioners argue against EPM because of a number of factors, including ethical questions concerning such monitoring, legal concerns over employee privacy, and potential increases in stress due to constant monitoring of performance. Stress research provides an interesting dichotomy. If the monitoring is done for employee development and involves more communication between the employee and manager, stress is generally reduced. If, however, monitoring is done as a means of giving rewards and administering punishment, stress appears to generally increase. So, the questions are these: Should organizations use EPM systems? And if so, how should they use them?

There’s no simple answer. Again, EPM has been shown to increase productivity, and organizations need to maximize employee productivity. However, when stress levels become too great, increased stress is known to decrease productivity. So there’s an obvious tradeoff between more employee monitoring and controlling stress levels in our workforce. Management must understand this tradeoff to successfully improve productivity in the organization overall.

In addition, the ethical and legal questions noted in the previous paragraph may be significant enough in some cases to cause individual employees to leave the organization. If these individuals are our more productive workers, and especially if they are knowledge workers, then what does the loss of these knowledgeable individuals do to organizational productivity? There doesn’t appear to be any current research-based answer to these questions. Therefore, because these questions exist, organizations must be careful in how they implement EPM processes so that they can improve their chances of reaching the stated goal of EPM—improving organizational productivity.

Finally, as these programs are rolled out in the organization, managers must be acutely aware of the potential downside effects of increased stress levels and employees feeling that their privacy is being invaded. These could lead to decreases in productivity and higher rates of turnover. In other words, management must work to overcome the potential problems and costs associated with EPM to gain the benefits.

**Competency-Based Performance Management**

What is competency-based performance management? Historically, the performance appraisal process evaluates specific employee skills and the employee’s success in using those skills to produce products or services for the organization. Competency-based performance, on the other hand, evaluates large sets of capabilities and knowledge that, if put to good use, can improve organizational productivity to a much greater extent than just doing a job using an existing skill set. Or, using Chapter 7 terms, employee development is more effective than simply training.

Because jobs have been changing at a rapid pace over the past 20 years, competency-based performance management is becoming a more useful means of performance appraisal in some situations than the historical skill-based, transactional process. How are jobs changing? According to SHRM, the nature of work is changing: Society is moving from single-skilled to multi-skilled jobs, from repetitive tasks to problem-solving tasks, from individual work to teamwork, and from functional specialization to collaboration. Taking a look at the ways in which work is changing,
we can understand why it may be necessary for the organization to move from skill-based performance appraisal to evaluations based on larger-scale competencies.

Because competencies are becoming so significant in organizations, performance management systems need to be redesigned so that we can evaluate the skills and capabilities that are most important to the business. However, these types of performance management systems can present significant design challenges to the organization. To successfully use competency-based performance management, the organization has to move from an analysis and measurement of the individual activities within a process to a more holistic evaluation of the ability to combine and improve activities to create the most successful organizational outcomes.

SHRM notes that one of the problems with knowledge workers is that “performance analysts cannot directly observe much of what they do.” This being the case, we must design and use new competency-based evaluation methods that measure the ability to manipulate and manage information and to collaborate across many dimensions.

SHRM explains that because the most common type of historical job (the individual repetitive job) is going away, the organization has an increasing need for competency-based evaluations. SHRM also notes that doing competency-based evaluations is necessary to align performance with rewards if the organization is going to use a competency-based pay and incentives program. Competency-based pay programs have been shown to align individual goals more closely with the organization’s overall strategic goals. Because of all these factors, competency-based performance appraisals will likely continue to increase as a percentage of overall performance appraisal processes.

**APPLICATION 8-14**

Select an organization you work for or have worked for. Does it use competency-based performance management? Do you believe the organization should or should not use it?

**APPLICATION 8-15**

For a change, let’s look at your college professors’ grading habits. Are some professors hard graders (meaning they give few As), are others easy graders (meaning they give lots of As), or are they all consistent? Assuming there is inconsistency, should the college administration dictate a forced grade distribution?

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**CHAPTER SUMMARY**

8-1 Discuss the difference between performance management and performance appraisals.

Performance management identifies, measures, manages, and develops the performance of people in the organization. It is designed to improve worker performance over time. Performance appraisal is the part of the performance management process that identifies, measures, and evaluates the employee’s performance and then discusses that performance with the individual.

8-2 Identify the necessary characteristics of accurate performance management tools.

The performance management tools and measures that we use need to be valid, reliable, acceptable/feasible, and specific. A valid tool measures the process that you want it to measure. A reliable tool works in a generally consistent way each time you use it. Acceptability and feasibility deal with the tool being satisfactory and reasonable to the people who use it and also capable of being successfully applied in a particular situation. Finally, a specific measure defines the performance well enough that we understand the current level of performance achieved and what, if anything, the employees need to do to improve their performance to comply with standards.

8-3 List and briefly discuss the purposes of performance appraisals.

Communication is the first purpose. Appraisals need to provide an opportunity for formal two-way communication between management and the employee concerning how the organization feels the employee is performing. The second purpose is to gain information for evaluative decisions. We need good information on how employees are performing so that we can take fair and equitable actions with our workforce, to improve organizational productivity. Providing motivation for development is the last major purpose. Used correctly, appraisals can motivate by providing opportunities for the employees to improve their performance over time.

8-4 Identify and briefly discuss the options for what to evaluate in a performance appraisal.

Our three primary options for what to evaluate are traits, behaviors, and results. There is some evidence that particular types of traits are valuable in jobs that...
require management and leadership skills, but many traits have been shown to have very little bearing on job performance, meaning they are not valid measures of performance. We can also use behaviors to evaluate our workers. Measuring behaviors is usually a much better appraisal option because physical actions or behaviors can be directly observed, and as a result, they are more likely to be a valid assessment of the individual’s performance. Finally, we can evaluate performance based on results. Results are a concrete measure of what has happened in the organization. However, results may be skewed based on factors that are outside the control of the individual who is being evaluated.

8-5 Briefly discuss the commonly used performance measurement methods and forms.

The critical incidents method utilizes records of major employee actions over the course of the appraisal period to complete the employee evaluation. MBO uses objectives jointly set by the manager and employee to gauge employee performance during the evaluation period. In the narrative method, the manager writes either a structured or unstructured paragraph about the employee’s performance. Graphic rating scales provide a numerical scale so that the manager can check off where an employee falls on the continuum. BARS forms provide a description of the behaviors that make up acceptable performance at each level on the scale. Finally, ranking creates a hierarchy of employees, from best to worst.

8-6 Identify and briefly discuss available options for the rater/evaluator.

It is logical to choose supervisors as evaluators when they have ongoing contact with the subordinate and know the subordinate’s job. When the supervisor may not spend lots of time with the individual employee, peers may make better evaluators because they may know the job of the individual employee better than the supervisor does and may be more directly affected by the employee’s actions. Subordinate evaluations can give us good insight into the managers who control employees in our organization. We may want to use customers as evaluators when the individual being evaluated has frequent contact with those customers, because we need to know how customers feel about their interactions with our employees. Self-evaluation is valuable in a number of management processes, from training and development to counseling and disciplinary measures, among others.

8-7 Briefly discuss the value and the drawbacks of a 360-degree evaluation.

The 360-degree evaluation gives us the best overall analysis of any employee in the firm, because it looks at an employee’s performance in the eyes of all others who are affected by that individual. The 360-degree evaluation format is more useful for individual development than it is for administrative purposes. The biggest downside is that the process takes a lot of time, which means that it also costs the company a lot of money.

8-8 Identify some of the common problems with the performance appraisal process.

Personal biases and stereotyping are two of the most significant appraisal problems. Other problems include halo error, distributional errors (either the grading is too harsh or too lenient, or everyone is judged to be average), similarity error, proximity error, recency error, contrast error, and attribution error.

8-9 Identify the major steps we can take to avoid problems with the appraisal process.

The first step would be to develop accurate performance measures. Accurate performance measures use multiple criteria, minimize trait-based evaluations, and can be analyzed using the OUCH test and the Blanchard test. Next, we should train the evaluators, because as soon as they know some of the common errors, those errors will become less pronounced. We can also use multiple raters to mitigate any potentially biased evaluations and minimize other errors such as similarity, contrast, and attribution errors. Finally, don’t evaluate what you don’t know. Find someone in the organization who does know the job, and have that person evaluate the individual performing the job.

8-10 Briefly discuss the differences between evaluative performance reviews and developmental performance reviews.

The evaluative interview is a review of the individual employee’s performance over a certain period. The evaluation needs to be fair and equitable, not based on bias. The employee must be given the opportunity to talk as well as listen to the critique of their performance. The developmental interview, on the other hand, focuses on areas for improvement over time. You should have employees come up with their own objectives and strategies for improvement, and you should develop your own objectives for them.

8-11 Define the key terms found in the chapter margins and listed following the Chapter Summary.

Complete the Key Terms Review to test your understanding of this chapter’s key terms.
**KEY TERMS**

behaviorally anchored rating scale (BARS) form

behaveirs

bias

critical incidents method

electronic performance monitoring (EPM)

graphic rating scale form

management by objectives (MBO) method

motivation

narrative method or form

performance appraisal

performance management

ranking

results

stereotyping

360-degree evaluation

traits

**KEY TERMS REVIEW**

Complete each of the following statements using one of this chapter’s key terms.

1. _______ is the process of identifying, measuring, managing, and developing the performance of the human resources in an organization.

2. _______ is the ongoing process of evaluating employee performance.

3. _______ is the willingness to achieve organizational objectives.

4. _______ identify the physical or psychological characteristics of a person.

5. _______ are the actions taken by an individual.

6. _______ is a measure of the goals achieved through a work process.

7. _______ is a performance appraisal method in which a manager keeps a written record of positive and negative performance of employees throughout the performance period.

8. _______ is a process in which managers and employees jointly set objectives for the employees, periodically evaluate performance, and give rewards according to the results.

9. _______ requires a manager to write a statement about the employee’s performance.

10. _______ is a performance appraisal checklist on which a manager simply rates performance on a continuum such as excellent, good, average, fair, and poor.

11. _______ is a performance appraisal that provides a description of each assessment along a continuum.

12. _______ is a performance appraisal method that is used to evaluate employee performance from best to worst.

13. _______ analyzes individual performance from all sides—from the supervisor’s viewpoint, from the subordinates’ viewpoint, from customers’ viewpoints (if applicable), from peers, and using the employee’s own self-evaluation.

14. _______ is a personality-based tendency, either toward or against something.

15. _______ consists of mentally classifying a person into an affinity group and then identifying the person as having the same assumed characteristics as that group.

16. _______ is the process of observing ongoing employee actions using computers or other nonhuman methods.

**COMMUNICATION SKILLS**

The following critical-thinking questions can be used for class discussion and/or for written assignments to develop communication skills. Be sure to give complete explanations for all answers.

1. Other than giving an annual evaluation, what would you do to manage the performance of your employees? Explain why.

2. What would you do as the manager in order to make sure that your employees knew the standards that they would be evaluated against? Explain your answer.

3. Do you really think that it is possible for a performance appraisal to be motivational? Why or why not?

4. Can you think of a situation in which a trait-based evaluation would be necessary? Explain your answer.

5. You are in charge and you want to evaluate a group of assembly workers. Who would you choose as the evaluator(s)? What about evaluating the Director of Operations—who would you choose to do that? Explain your answer.

6. How would you minimize the chances that stereotyping could affect the evaluation process in your company?
7. Which of the solutions to performance appraisal problems would you implement first if you were in charge? Why?

8. What would you do to make the performance appraisal debriefing more comfortable and less confrontational for your employees? How do you think this would help?

9. Do you agree that performance appraisals should be discontinued in companies? Defend your answer.

10. Is electronic performance monitoring ethical? Would you use it? Why or why not?

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**CASE 8-1 BEAUTY AND THE BEASTLY SITUATION AT AEROSPACE DESIGNS’ MARKETING DEPARTMENT**

“Oh no! What now?” said Tom Moore, Director of Human Resources at Aerospace Designs. “Just when I thought this mess was over on how the Marketing Department does performance appraisal, we’re smacked with a sexual harassment lawsuit. Well, we’ve got to do something about this predicament, and fast.”

**Aerospace Designs Background**

Aerospace Designs (AD) was founded in the early 1960s. A privately held company started by two engineers, it was deliberately designed to feed off the blossoming U.S. military budget as the United States fought the Cold War. It became part of the supplier system to the massive Grumman contractor on Long Island, New York, and took on a military-like culture and structure.

**Aerospace’s Marketing Department**

Aerospace Designs was predominantly a population of White males, and the hiring of minorities and women would assist in meeting its government-imposed affirmative action goals. The Marketing Department had never employed women. It was a very flat structure, consisting of three internal salesmen, a sales coordinator on-site, and one road salesman, who all reported directly to Frank Fasting, the Vice President of Sales and Marketing. (See the end of this case for an abbreviated organizational chart of the Sales and Marketing Department.) Aerospace Designs had hired Frank in the hope that he would be able to bring it out of its recent trend of flat growth. He was expected to grow the existing stable aerospace electronics business, and to firmly establish both a lights product line and a land-based vehicle business for military and commercial operations. The addition of new staff positions to the Marketing Department, of which the Marketing Assistant was one, was designed to help establish a web presence and improve the capabilities for print media and trade show coordination.

**Enter Lola**

Lola Meyer was above average in height, single, blonde, and 32 years old with lingering aspirations to be a model. Having a four-year degree, and opting out of the education field, she came over to Marketing in an attempt to find a steady job where she might be taken seriously. Although Frank had reservations regarding hiring Lola for the job given her qualifications, Sue Jones, the Human Resources Manager, eventually persuaded him to give Lola a chance. After a few months on the job, Frank approved arrangements for Lola to take courses related to the work that needed to be done, as it became apparent that she lacked some technical marketing skills necessary to be effective in her position.

**Lola’s Performance Evaluation**

The ensuing year went by without fanfare. Lola, Frank, and the rest of the Marketing Department seemed to coexist amicably. Frank proved to be an outgoing, friendly sort, as you might expect of someone who is in Sales. His greatest weakness as a manager seemed to be his lack of administrative follow-through.

Aerospace Designs policies dictated an annual performance evaluation for every employee. This review unfortunately hadn’t been done by Frank in a timely manner for Lola. By the time January rolled around, Lola’s review was two months late. Frank discussed with Sue that he was not pleased with Lola’s performance to date and would indicate such on her review. Sometime in April Frank became ill and needed to take time off to care for his personal health. Lola’s review was written by Frank but not formally presented to Lola. Since it was now delayed nearly five months and it was apparent that Frank would be out for several more months, the decision was made to have Mark Gurello (Senior Sales Manager overseeing Marketing in Frank’s absence) present Lola with the poor performance evaluation. This took place at the end of April. Lola was rated overall as “less than competent” and was not given a salary increase.

**Lola’s Reaction**

Lola was both shocked and dismayed. In the beginning of May, she met with Sue to discuss her performance review. She handed Sue an 18-page, handwritten rebuttal of her evaluation. Her reply admitted her inability to reach designated goals, but stated that her performance was hindered due to items beyond her control. During this discussion with Sue, Lola alleged that sexual conversations
and behavior had occurred in her work environment. Specifically, she cited that Frank had used highly inappropriate language, including nicknames for the President of Aerospace Designs. When she walked in on one of these conversations and was asked to comment, she abruptly left, and immediately filed her rebuttal report with HR.

Sue’s Response and Lola’s Bombshell

Upon reading about these incidents, Sue conducted a prompt, thorough internal investigation and determined that Lola’s performance was marginal and upheld the performance review as written. She also determined that inappropriate conversations had taken place, and Frank received a written reprimand and was required to attend sexual harassment awareness training when he returned to the job. Lola’s supervisor was permanently changed to Mark, and her workstation was moved to the other side of the Marketing area, away from Frank’s office door. Lola was agreeable to these actions taken by the company. However, three months later Lola filed a sexual harassment lawsuit against the firm, stating that she could not get a fair evaluation given the harassing environment she was working in.

Questions

1. What evidence does this case provide for formulating and implementing a systematic approach to performance appraisal?

2. Do you believe that Lola’s performance evaluation was valid and reliable? Do you feel that Frank had a bias or stereotypical mind when filling out the evaluation? Explain your answer.

3. What in the case indicates a problem with this supervisor’s evaluation? Please connect examples from this case to what the chapter discusses.

4. How did Lola, her supervisor, and human resources communicate with one another? Do you feel that a performance appraisal interview should have been more formally established and conducted? Why or why not?

5. How can Lola’s accusation of sexual harassment affect her personal work performance and her performance evaluation?

Case created by Herbert Sherman, PhD, and Theodore Vallas, Department of Management Sciences, School of Business Brooklyn Campus, Long Island University

Abbreviated Organizational Chart, Sales and Marketing Department, Aerospace Designs, Inc., 2001

Amazon.com, which started as the biggest online bookstore, has become a household name by expanding rapidly in the retail market. It offers millions of movies, games, music, electronics, and other general merchandise products in several categories, including apparel and accessories, auto parts, home furnishings, health and beauty aids, toys, and groceries. Shoppers can also download e-books, games, MP3s, and films to their computers or handheld devices, including Amazon’s own portable e-reader, the Kindle. Amazon also offers products and services, such as self-publishing, online advertising, an e-commerce platform, hosting, and a cobranded credit card.87

To keep this megastore running at a fast pace, Amazon hired 115,000 employees who generated $74 billion in 2013. Target and Home Depot made a combined income of close to $74 billion in the same year, yet they employed more than 340,000 people between them in their retail stores.89 Why does Amazon only need one third of its competitors’ labor force to produce the same revenue?
Like the other mega retailer, Wal-Mart, Amazon has delivered creative business solutions to their own processes to continuously increase their operating effectiveness. However, their strategy focuses on enhancing the customer shopping experience and providing excellent customer service rather than providing the lowest-priced products. To meet their customers’ needs, Amazon must deliver more speed and efficiency in its giant warehouse. They use more automated work processes that reduce the company’s operational costs and also increase labor efficiency and employee safety.

The quality of Amazon’s warehouse labor has become the critical issue in the firm’s success, and hence, hiring and retaining the best, most suitable candidates for the company’s manual labor positions is a key success factor. That being said, Amazon’s turnover rate at these lowest-ranked positions in the organization is high since Amazon lets go of its lowest-performing employees to make room for new, more appropriate candidates while promoting the very best. To detect the lowest- and highest-performing employees, Amazon initiated a performance evaluation system called the Organization and Leadership Review (OLR).89

OLR actually has two main goals: (1) finding future leaders and preparing them to be able to face the most challenging tasks presented in a fast-paced work environment; and (2) determining the 10% of employees who are the least effective and taking necessary corrective action with them. OLRs take place twice a year to grant promotions and find the least effective employees.90 Only the top-level managers attend these meetings, where there could be two reasons why an employee’s name may be mentioned. Either the employee is being considered for a promotion, or the employee’s job might be at stake.

OLRs start with the attendees reading the meeting agenda. Then supervisors suggest the most deserving subordinates to be considered for promotion. All executives in the room evaluate these suggestions and then debate the alternatives. Promotions are given at the end. During the process, instead of using hard data, executives tend to evaluate employees’ performance on the basis of personal, anecdotal experiences. Anyone in the meeting may deny a promotion; therefore, ambitious employees seeking a promotion should also be very friendly with their boss’s peers. If an employee’s supervisor cannot present that worker well enough, another’s favorite subordinate will get the promotion.91

In terms of promotion, Amazon CEO Jeff Bezos expects the managers to set the performance bar quite high to allow only the most exceptional talent to progress.92 Promotions are protected by well-written guidelines, which focus on delivery and impact but not on internal politics. People spend less time campaigning for their own promotions, and top performers are highly compensated based upon the quality of their work. Therefore, only a few promotions are available each year, and receiving positive feedback from a supervisor is quite rare. The approval that employees get from their supervisor is not enough to earn a promotion; employees still have to “fight” for a promotion, which may not occur immediately.

Questions

1. Do you think OLRs increase employee motivation? If not, why would Amazon conduct such performance appraisals?
2. How might rater bias, stereotyping, and traits appraisal impact the accuracy of OLR? Could this be corrected? If so, how?
3. Given the differing appraisal systems described in this chapter, which appraisal systems most closely resemble OLR?
4. Given your answer to the above question, what appraisal system do you think would best meet Amazon’s objectives of retaining the best employees while taking corrective action with the bottom 10%?
5. Amazon is a high-technology firm. How might it use electronic performance monitoring to supplement the OLR process?
6. What are the advantages and disadvantages of having performance reviews like OLR that only involve one-way communication, rather than MBO?

Case created by Herbert Sherman, PhD, and Theodore Vallas, Department of Management Sciences, School of Business Brooklyn Campus, Long Island University
Chapter 8: Performance Management and Appraisal

SELF-ASSESSMENT AND SKILL BUILDER 8-1 PEER AND SELF-ASSESSMENTS

This exercise includes the usual self-assessment for each chapter, plus an evaluation of peers and developing measures of performance.

Objective
To develop your skill at assessing your performance and that of your peers
To develop your skill at developing measures of performance

Skills
The primary skills developed through this exercise are as follows:

Evaluator (you) ______________________________ (Self-Evaluation)

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<td>Did a “good” analysis of project</td>
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<td>Developed “good” questions to ask</td>
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<td>Actively participated (truly interested/involved)</td>
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<td>Made “quality” effort and contributions</td>
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<td>Got along well with group members</td>
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<td>List at least three of your own measures of performance here</td>
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<td>Class attendance—number of absences</td>
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<td>Attendance at group meetings to prepare group project—number of absences</td>
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<td>Managed the group’s time well</td>
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This exercise can stop with just a self-assessment, or it can continue to also include peer evaluations.

Assignment Part 2—Peer Review

1. Part 2 begins by conducting a peer evaluation using the above form for each of the other members in your group, but using this heading for the form:

   Group Member ______________________________ (Peer Evaluation)

   Either copy the above form for each group member, do your assessment on any sheet without using the form, or have your instructor provide you with multiple forms that you can complete for each group member.

2. Below, rank each group member (including yourself) based on their performance. The first person you list should be the best performer, and the last person you list should be the least effective performer, based on the performance appraisal above. If members are close or equal in performance, you may assign them the same rank number, but you must list the better one first.
3. To the right of each group member (including yourself), place the overall letter grade (A–F) you would assign to that member based on the performance appraisal. You may give more than one member the same grade if those individuals deserve the same grade. You may also use plus and minus grades.

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**SKILL BUILDER 8-2 DEBRIEFING THE APPRAISAL**

*Note:* This exercise is designed for groups that have been working together for some time as part of the course requirements. It is a continuation of Skill Builder 8-1. Based on your peer evaluations, you will conduct performance appraisals for your group members.

**Objective**

To develop a plan to improve your team performance, and to develop your skills in conducting performance appraisals

**Skills**

The primary skills developed through this exercise are as follows:

1. HR management skill—Conceptual and design skills
2. SHRM 2013 Curriculum Guidebook—Hr Performance management

**Assignment**

You will be both the evaluator and evaluatee. Get together with group members and have each member select a letter, beginning with the letter A. Pair off as follows: A and B, C and D, E and F, etc. If the group consists of an odd number of people, each member will sit out one round. A should conduct the evaluation interview for B, C should conduct the evaluation interview for D, etc., using the form in Skill Builder 8-1. The evaluators should follow up the evaluation interview with the developmental interview to give suggestions on improving B, D, and F’s performance (be sure to follow the evaluative and developmental interview steps in Models 8-1 and 8-2). Make sure you are evaluators and evaluatees; do not be peers having a discussion. When you finish, or when the instructor tells you time is up, reverse roles of evaluators and evaluatees. B, D, and F will become the new evaluators for A, C, and E.

When the instructor tells you to, or when time is up, form new groups of two and decide who will be the evaluators first. Continue changing groups of two until every group member has appraised and been appraised by every other group member.

**Apply It**

What did I learn from this experience? How will I improve my group performance in the course? How will I use this knowledge in the future?

__________________________________________________
__________________________________________________