LEARNING OUTCOMES

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

8-1 Summarize the necessary characteristics of accurate performance management tools. PAGE 190

8-2 Identify and briefly discuss the purposes of performance appraisals. PAGE 193

8-3 Discuss the options for what to evaluate in a performance appraisal. PAGE 194

8-4 List the commonly used performance measurement methods and forms. PAGE 196

8-5 Describe the available options for the rater/evaluator. PAGE 200

8-6 Name some of the common problems with the performance appraisal process. PAGE 203

8-7 Contrast evaluative performance reviews and developmental performance reviews. PAGE 206

8-8 Define the key terms found in the chapter margins and listed following the Chapter Summary. PAGE 210

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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 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.
It is critical to evaluate how well our newly trained employees perform their job. Therefore, performance evaluation is an important part of the jobs of managers and HRM staff. In this section we discuss the difference between performance management and performance appraisal, and we present the performance appraisal process.

**Performance Management Versus Performance Appraisal**

The most common part of the performance management process, and the one with which we are most familiar, is 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 part of performance management. **Performance management** is the process of identifying, measuring, managing, and developing the performance of the human resources in an organization. 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.

Netflix is one company that has stopped doing formal performance appraisals.
Performance appraisal (PA), 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. It should be an ongoing process. Employees need regular feedback on their performance, so give routine and candid assessments. 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 discussed “strategic planning,” which provides inputs into what we want to evaluate in our performance management system, in Chapter 2, and 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.” 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.

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 (PA) process. Here we briefly discuss each step of the process.

Step 1: Job analysis. If we don’t know what a job consists of, how can we possibly evaluate an employee’s performance in that job? We learned how to do a job analysis in Chapter 4.

Step 2: Develop standards and measurement methods. We can’t assess performance without standards and measuring to see if standards are met. We will discuss PA 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 disciplining. As its definition states, PA 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.6

Step 4: Prepare for and conduct the formal performance appraisal. The formal PA review with the boss usually occurs once or sometimes twice a year, using measurement forms. We will discuss them later in this chapter along with the steps of preparing for and conducting the PA.

Accurate Performance Measures
We need accurate standards and measures of employee performance both to effectively assess performance and to let employees know where they can improve.7 This in turn should lead to training employees to develop the skills they need to improve their performance.8

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. We have to create valid and reliable measurement to be accurate. Recall that we discussed reliability and validity in Chapter 4 and Chapter 6. Valid means that a measure accurately measures what you wanted to measure. Reliable means the measure is consistent each time we use it.9

Acceptable and Feasible. Acceptability means that the use of the measure is satisfactory or appropriate to the people who must use it. To be acceptable, an evaluation tool must also be feasible.10 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 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 and feels it 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 successfully.

**Specific.** The evaluation measure must be specific enough so that everyone involved completely understands what is going well and what needs to be improved.

**Based on the Mission and Objectives.** Finally, 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. 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?

Let’s discuss three major reasons (communicating, decision making, and motivating) why performance evaluations are completed, and why they are so critical to continually improving organizations’ performance.¹¹

**Communication (Informing)**

The first major reason for PA is to provide an opportunity for formal communication between management and the employees concerning how the supervisor believes each employee is performing. “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.”¹² Within this two-way interaction, the process requires that we provide the opportunity for the employee to speak to us concerning factors that inhibit their ability to successfully perform to expectations.

### APPLYING THE CONCEPT

**Measurement Accuracy**

Before each of the situation descriptions below, write the letter corresponding to the accuracy criterion for a measure that is NOT met in the situation.

- a. valid  
- b. reliable  
- c. accepted  
- d. feasible  
- e. specific  
- f. based on the mission and objectives

1. My boss is on my case because I’m not producing as much as I used to. But it’s not my fault that the machine jams more often and then I have to stop working to fix it.  
   **□**
2. My boss said I have to evaluate all 25 of my employees four times a year instead of only once. I told her I don’t have the time to do it that many times. It’s just not possible to do a good review that often without cutting back on other things that are more important.  
   **□**
3. My boss said I have a bad attitude and gave me a lower overall performance rating. I questioned what my attitude had to do with my performance because I get all my work done well, and by the deadline.  
   **□**
4. My boss asked me to complete a self-evaluation form rating my performance. But I didn’t do it because it is her job—I let her do it.  
   **□**
5. My boss told me that I was not doing a very good job. But when I asked him why, he never gave me any details to support his assessment. Good answer.  
   **□**

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**WORK APPLICATION 8-2**

Assess the accuracy of the measurements of your performance on your last performance appraisal. Be sure to describe the measures’ validity, reliability, acceptability, and feasibility plus whether the measures were specific and based on the organization’s mission and objectives.
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. We can only resolve problems when we know about them. So you need two-way communication with your employees to find out when issues within the work environment are causing a loss of productivity so they can be fixed.

**Decision Making (Evaluating)**

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 PAs to make evaluative decisions concerning our workforce, including such things as pay raises, promotions, training, and termination. When we have valid and reliable information concerning each individual we supervise, we have the ability to make administrative and performance decisions that can enhance productivity for the firm.

**Motivation (Engaging)**

We need to motivate our employees to improve the way they work, which in turn will improve organizational productivity overall. But what is motivation, and are PAs normally motivational? We define *motivation* here as *the willingness to achieve organizational objectives*. We need to increase this willingness to achieve the organization’s objectives, which will in turn increase organizational productivity.

**WHAT DO WE ASSESS?**

Our next step is to figure out what needs to be evaluated in our PA. In HR terms, the PA should be based on our job analysis. However, we can’t evaluate everything, so we have to choose what we will focus on because what gets measured and evaluated gets done. Our three primary options for what to evaluate are traits, behaviors, and results, so let’s discuss them in this section.

**Trait Appraisals**

Traits identify the physical or psychological characteristics of a person. Traits of an individual can be part of the PA process. There is evidence that traits, including inquisitiveness, conscientiousness, and general cognitive ability, are valuable in jobs that require management and leadership skills. However, we must ensure that we focus on traits that have a direct relationship to the essential functions of the job, that they are within the control of the individual, and that they are accurate measures.

Give Traits the OUCH Test. When measuring traits, it’s difficult to meet the objective requirement of the OUCH test because it is difficult to create a quantifiable and factual link between characteristics like height or job enthusiasm and job performance. If we utilized these 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 be extremely difficult to meet due to the fact that different racial, ethnic, social, and gender groups tend to have different physical and personality characteristics. Remember, reliability is a measure of consistency. 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, it would be very difficult to get different supervisors to evaluate subjective traits the same because of their own personality traits.

**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 measureable 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. Behavioral appraisals measure what individuals do at work, not their personal traits and characteristics. Behaviors can be directly observed, and as a result, are more likely to be a valid assessment of the individual’s performance than traits.

**Give Behavior the OUCH Test.** Let’s take a look at a behavioral evaluation using the OUCH test. 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. To meet the test of has job relatedness, we would need to make sure that we chose behaviors that were necessarily a part of successfully accomplishing a task; the behaviors need to be directly related to the essential functions of the job. So the behavioral evaluation process is generally more valid and reliable.

**Should We Measure Behavior?** 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 if the behaviors chosen are not directly applicable to being successful in the job, and Blanchard says it happens more often than you may think. 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).

**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?** Results are certainly concrete measures of performance. However, the results of a job could have been skewed based on factors that were outside the control of the individual. For example, standards could be set too low or high, and equipment and machines don’t always work correctly, and as a result, employees can’t do as much, or any work. But done correctly, results provide the company with its return on investment—its investment in the people in the organization. So, organizations measure results.
Give Results the OUCH Test. Results are a very objective measure of performance. 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 traits and behavior options.

Should We Measure Results? Results-based evaluations, like behavior-based evaluations, are typically very acceptable to both the employee and the manager. We can better defend results appraisals 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 others in the same or similar jobs, if necessary. The results-based evaluation would most likely be 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 again, 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)?

HOW DO WE USE APPRAISAL METHODS AND FORMS?

The formal performance appraisal usually involves the use of a standard form, selected or developed by the HR department, to measure employee performance. 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 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.

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.
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. 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. Most of us can’t remember events that happened more than a few weeks ago, so we record significant critical incidents over the entire period in order to do a good assessment.

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.

One error managers tend to make in critical incidents evaluation 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.23

Robert Graham

CEO

Michael Buckly does it the old fashioned way with a file folder for each of his direct reports,24 but there are software programs to track performance that should be used during the formal review.

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. MBO is a three-step process, discussed below.

Step 1: Set individual objectives and plans. The manager sets objectives jointly with each individual employee.25 The objectives are the heart of the MBO process and should be accurate measures of performance results. To be accurate, objectives should be SMART: Specific, Measurable, Attainable, Relevant, and Time based.26 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 continually evaluate performance. Communication is the key factor in determining MBO’s success or failure, and employees should continually critique their own performance.27 Thus, the manager and employee must communicate often to review progress.28

Critical Incidents Method

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

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.
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 may not be an actual standard form used, especially for high-level professional and executive positions, but there can be a form, so it can be a method or a form. 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. Narratives can be used alone, but they often follow an objective part of the form. Although the narrative is ongoing, it is commonly used during the formal review. A letter of recommendation is often a narrative method.

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 use a graphic rating scale form.

The graphic rating scale form is probably the most commonly used form during the formal performance appraisal because it can be used for many different types of jobs, making this a kind of one-size-fits-all (or none) form that requires minimal time, effort, cost, and training. 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.

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 graphic rating scales, the continuum often includes a numerical scale that runs from low to high. However, BARS forms overcome the problem of subjectivity by providing

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**Model 8-1**

**Setting Objectives Model**

1. To + (2) Action Verb + (3) Specific and Measurable Result + (4) Target Date

   To + produce + 20 units + per day

To increase widget productivity 5% by December 31, 2017
an actual description of the performance (behavior) 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.

Why are BARS forms probably less commonly used than graphic rating scales? It’s partly economics and partly expertise. 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 depends on the types of jobs being evaluated and the resources available to complete the evaluation process.

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

In education, the trend is to require teachers to develop BARS, called grading rubrics, so that subjective grading of essays and case studies are more objective. Students use the rubric to do the work by meeting the written descriptive of how each part will be graded. When getting it back with a grade, students better understand why they got the grade they did and how to improve in the future. Have you seen and used one?

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. Dell tried forced-ranking and it turned good employees into politicians, bad employees into backstabbers, colleagues into enemies, and destroyed collaboration—so Dell dropped it.

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?

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. Alternately, you can’t decide who gets the promotion or merit raise without an evaluative method. So for administrative decisions, a ranking method based on the evaluative methods, and especially graphic rating scales or BARS forms, works well.
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.

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.33

WHO SHOULD ASSESS PERFORMANCE?

Now that we’ve learned the why, what, and how of the performance appraisal process, we 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 six options for deciding who should evaluate an employee.

Supervisor
The most commonly used evaluator is the immediate supervisor because supervisors are supposed to know the level of performance of their employees. However, this is not always the case due to problems with supervisor performance assessments.

Problems With Supervisor Evaluations. Many times today, supervisors have little or no direct contact with their employees because they may be in a different building, city, state, or even country. Virtual teams, Internet-linked offices, telecommuting, and other factors cause supervisors to not be in constant touch with their employees. What if the supervisor doesn’t even know what you’re supposed to be doing in your job? What if there’s a personality conflict?

Avoiding Supervisor Review Problems. A simple way to overcome these problems is to have others in addition to (or in place of) the supervisor assess performance. Also, multiple measures can make a performance assessment more accurate—valid and reliable. Using other evaluators and multiple measures can help overcome personal bias and provide information that supervisors don’t always know about.
Peers

In addition to, or in place of, supervisors, the trend is to using more teams, and teams commonly evaluate each member’s performance. Why? Peers 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. Peer evaluations can cause problems because the process can become less objective. Also, the validity of peer evaluations is really unclear. Personality conflicts and personal biases can affect how individual employees rate their peers. A major problem is with perception, because most of us see ourselves as being better at our job than our boss and peers.

Avoiding Peer Review Problems. Because we know that problems can occur within a peer evaluation, the manager can take the issues into account and adjust rating values as necessary. For example, if a personality conflict has occurred between two group members that caused them to lower each other’s grades, those grades can be adjusted based on feedback from other group members. Some 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.

Subordinates

We can also have the employees evaluate their boss. Subordinate evaluations can give us good insight into the managerial practices and potential missteps of people who oversee others. As a result, subordinate evaluations may give us valuable information that we would be unable to find out using any other means. Have you filled out a form that assesses professors?

Problems With Subordinate Reviews. There is potential for bias here, especially from subordinates who have been disciplined by their supervisor. 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—recall perception problems.

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 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 anonymous or it is unlikely that the subordinates will provide an honest evaluation of their supervisor. Despite potential problems, subordinate evaluations can provide us with valuable information about the supervisor’s capabilities.
WORK
APPLICATION 8-5
Select your current job or a past job. Identify who has or had input into your performance appraisal.

Self
Ever done a self-assessment at work? Virtually all of us have informally evaluated how we perceive we are doing on the job, and it can be part of the formal PA process. As you know, every chapter of this book has one or more self-assessments, and in 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 skill-builder now.

Problems With Self-Assessments. Let’s face it, we tend to be biased in our self-perception because we all want to view our self positively. A significant portion of the research evidence seems to show that individuals with lower overall levels of knowledge and skills tend to inflate the 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. Here again, 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. As stated in the Blanchard test, both the manager and employee need to agree on the level of performance and what it takes to get to the next level—it’s called perception congruence.

Customers
We may want to use customers as evaluators when the individual being evaluated has frequent contact with internal or external customers. It does not matter what else we do successfully if our customers are uncomfortable with their interactions with our employees because they can usually take their business elsewhere. And even internal customers can create significant problems within the firm due to conflict between departments or divisions. So we may want to ask internal and external customers to evaluate the individuals with whom they come into contact.

Problems With Customer Assessments. One problem with customer evaluations is that they commonly use simple graphic 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 negatively skewed. However, research shows that in some situations, customer evaluations actually exceed internal evaluations.

Avoiding Customer Assessment Problems. Regardless of problems, customer evaluations provide us with valuable information concerning our employees who have direct customer contact. And we can always adjust the evaluation process knowing that customer evaluations may be biased. Haven’t we all been on the phone and heard something like “this conversation will be recorded and used for training purposes”? This is true, but it’s also usually an evaluation and employees are rewarded or punished based on how they deal with customers.

360-Degree Evaluations
In some cases, the evaluation is expanded to everyone that an employee comes 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.
subordinates’ viewpoint, from their customers (if applicable), from their peers, and from their own self-evaluation. The 360-degree evaluation would generally give us the most accurate analysis of performance.

Problems With 360-Degree Evaluations. Although considered the best, 360-degree evaluations are not the most popular method because of the time, effort and money needed to use them. Also, some employees have little contact with others, making them unnecessary anyway.

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.

PERFORMANCE APPRAISAL PROBLEMS

During the PA process, we face some common problems. However, we can take measures to avoid them if we know about 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.

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. PA bias is toward or against an individual employee. We all have biases, but supervisors especially cannot afford to allow their biases to enter into their evaluation of subordinates. This is easier said than done. Biases make the PA process subjective rather than objective, and they certainly provide the opportunity for a lack of consistency in effect on different groups of employees. So 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. Making any 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 need to get to know each employee as an individual and objectively evaluate actual performance.
Halo Error. This occurs when the evaluator forms a generally positive impression of an individual and then artificially extends that general impression to an overall evaluation of the individual. 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.” So we need to remember that employees are often strong in some areas and weaker in others, and we need to objectively evaluate 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 just about everyone as below average. Central tendency error occurs when just about everyone is rated average. Finally, leniency error occurs when just about everyone is rated as above average—like grade inflation. So we need to give a range of evaluations because we really aren’t all equal in our level of performance, and everyone can’t be the worst or the best.

Similarity Error. This error, also called “like me,” 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, 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 need to evaluate all employees 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. For instance, if we mark the first three items as “meets expectations,” we tend to continue marking the same way on down the form. So we need to be objective in evaluating employees’ actual performance on each and every item on the assessment form, and having reverse item scales really helps.

Recency 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 accidentally set a fire, he may be rated poorly.
due to recency error. So we need to evaluate the employee based on their performance during the entire assessment period. Using the critical incident evaluation method really helps avoid recency error.

**Contrast Error.** Here the rater compares and contrasts performance between two employees, rather than using absolute measures of performance to assess 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.” So we need to evaluate the individual based on their actual performance against an objective standard.

### Avoiding Performance Appraisal Process Problems

As discussed, PA 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? 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, if the PA methods and forms are not accurate measures, then the entire process will have problems. Therefore, the organization should have its own HR specialist or hired consultants develop an objective assessment process and measures. Let’s discuss three things HR specialists commonly do to help ensure accurate measures.

**Use Multiple Criteria.** HR must ensure that we focus on 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 so that we have the ability to lower the incidence of halo, recency, and contrast 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.** As noted, trait-based evaluations tend to be more subjective than behavior and results-based evaluations, and as a result, they should generally not be used unless there is a specific reason why employees must

### APPLICATION 8-6

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.

_____ 16. I got a lower rating than I deserve because I’m not afraid to speak my mind to the boss, and she doesn’t like it.

_____ 17. I’m sick and tired of hearing how many units Sally produces and that I should be more like her.

_____ 18. I told my boss that I thought I deserve an excellent rating, but she said that she gives everyone a good rating.

_____ 19. I tend to take it easy during the year, but I make sure to really push and do a good job for the month of December, and that’s why I got a good performance review.

_____ 20. I attended all the classes and participated in the class discussions, so the professor gave me an A even though my final average on my test scores was a B.
exhibit a particular trait to be successful in a job. By eliminating traits, we lower the incidence of bias, stereotyping, and similarity errors.

Give the Measures the OUCH and Blanchard Tests. We already stated this, but these two tests are so important that they bear repeating here. With the OUCH test, the measure has to be objective, uniform in application, consistent in effect, and have job relatedness. With the Blanchard test, everyone must understand why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development). ⁴⁸

Train Evaluators. Next, we should 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. Through training, the evaluator becomes aware that the common errors occur with some regularity, so they can guard against them. Most employees want to do a good job, and once they know that these errors are routinely made, they will make attempts to correct them.

Train Evaluators to Use the Measurement Methods and Forms. Evaluators should also be trained to use the various PA 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 graphic 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 supervisors need to realize that they too are subject to common problems when selecting each rating.

Use Multiple Raters. At least in some cases, we can 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, including bias and stereotyping. In addition, halo, similarity, and contrast 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.

DEBRIEFING THE APPRAISAL

The debriefing process is where we communicate to individuals our analysis of their performance. Facebook managers are being told that performance reviews should be 80% focused on strengths.⁴⁹ Recall 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 will briefly describe how to conduct both reviews.

The Evaluative Performance Appraisal 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).⁵⁰ If we have had regular coaching conversations with our employees, they know where they stand,⁵¹ and our preparation is mostly done except for filling out the form. So our relationship with the employee will directly affect the outcome.⁵² Employees should also critique their own performance through a self-assessment using the same form as the evaluator prior to the meeting.⁵³
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 evaluation of the items on the assessment form. 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.

**The Developmental Performance Appraisal Interview**

After the employee’s performance evaluation is completed, you should prepare for the developmental interview based on targeting areas for improvement you already discussed in the evaluative interview. 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.

**Conducting a Developmental Interview.** The steps 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

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**WORK APPLICATION 8-8**

Assess how well your present or past boss helped develop your knowledge, skills, and competencies through informal coaching and/or the formal performance appraisal interviews. Describe how the boss could improve.
developmental objectives. As part of step 3, the employee needs to be made aware of exactly what he or she 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 related issues. 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

The first item in this trends and issues section asks whether we can and should provide employees with continuous evaluations of their performance. Then we discuss the relative merits of competency-based performance management and the more traditional task-based evaluation of performance.

Is It Time to Do Continuous Appraisals?

One of the more recent performance measurement ideas gaining traction is to use continuous technology-based appraisal and feedback rather than the traditional evaluation process. In organizations where results can be quantitatively measured, results-only-work-environments (ROWE) are beginning to be seen. In a results-only-work-environment, 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.

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.

One problem with the above methods is that organizations legitimately use appraisals to make good decisions about their employees and employee development. If performance appraisals are not completed, or not captured at the organizational level, the organization doesn’t have valid and reliable information with which to make good decisions about things such as training, promotions, and pay raises.

Competency-Based Performance Management

Historically, the performance appraisal process evaluates specific employee skills and the employee’s success in using those skills. 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.

Because of the nature of work in today’s companies, and the fact that competencies are becoming a significant issue, performance management systems need
to be redesigned so that we can evaluate the skills and capabilities that are most important to the business. However, to successfully use competency-based performance management, the organization has to move from an analysis and measurement of the individual tasks 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 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 these factors, competency-based performance appraisals will likely continue to increase as a percentage of overall performance appraisal processes.

**CHAPTER SUMMARY**

8-1 Summarize 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.

8-2 Identify 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.

8-3 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.

8-4 List 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.

8-5 Describe the 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.

8-6 Name 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, and contrast error.

8-7 Contrast 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.

8-8 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, 198
- behaviors, 195
- bias, 203
- critical incidents method, 197
- graphic rating scale form, 198
- management by objectives (MBO) method, 197
- motivation, 194
- narrative method or form, 198
- performance appraisal, 191
- performance management, 190
- ranking, 199
- results, 195
- stereotyping, 203
- 360-degree evaluation, 202
- traits, 194

**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.

**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? Second? 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 annual performance appraisals should be discontinued in companies? Defend your answer.

**CASE 8-1 AMAZON.COM: SELLING EMPLOYEE PERFORMANCE WITH ORGANIZATION AND LEADERSHIP REVIEW**

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. 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. 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).60

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.61 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.62

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.63 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.64 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

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**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:

1. **HR management skill**—conceptual and design skills
2. **SHRM 2013 Curriculum Guidebook**—H: Performance management

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Assignment Part 1—Self-Assessment

During your college courses, you most likely had to do some form of group assignments, and you’ve also done group assignments in this course. Select one group you worked with, and based on your performance in that group, do a self-evaluation using the rating scale form below.

Evaluator (you) ____________________________
(Self-Evaluation)

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<th>A A– Always</th>
<th>B+ B– Usually</th>
<th>C + C– Frequently</th>
<th>D+ D– Sometimes</th>
<th>F Rarely</th>
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- Did a “good” analysis of project
- Developed “good” questions to ask
- Actively participated (truly interested/involved)
- Made “quality” effort and contributions
- Got along well with group members
- Displayed leadership
- List at least three of your own measures of performance here
- Class attendance—number of absences: 0–1, 2, 3, 4, 5+
- Attendance at group meetings to prepare group project—number of absences: 0, 1, 2, 3, 4+
- Managed the group’s time well

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.

   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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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—H: 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?

____________________________________________________
____________________________________________________
____________________________________________________