6.4: Motivating Employees Through Performance Appraisals

Learning Objectives

1. Understand why companies use performance appraisals.
2. Describe basic characteristics of performance appraisals.
3. List the characteristics of an effective performance appraisal.
4. Compare the advantages and disadvantages of relative versus absolute appraisals.
5. Learn how to conduct a performance appraisal meeting.
6. Understand the biases inherent in performance appraisals.

What Is a Performance Appraisal?

When employees have goals, they tend to be more motivated if they also receive feedback about their progress. Feedback may occur throughout the workday, but many organizations also have a formal, companywide process of providing feedback to employees, called the performance appraisal. A performance appraisal is a process in which a rater or raters evaluate the performance of an employee. More specifically, during a performance appraisal period, rater(s) observe, interact with, and evaluate a person's performance. Then, when it is time for a performance appraisal, these observations are documented on a form. The rater usually conducts a meeting with the employee to communicate performance feedback. During the meeting, the employee is evaluated with respect to success in achieving last year's goals, and new goals are set for the next performance appraisal period.

Even though performance appraisals can be quite effective in motivating employees and resolving performance problems, in reality, only a small number of organizations use the performance appraisal process to its full potential. In many companies, a performance appraisal takes the form of a bureaucratic activity that is mutually despised by employees and managers. The problems a poor appraisal process can create may be so severe that many experts, including the founder of the total quality movement, Edward Deming, have recommended abolishing appraisals altogether (Carson & Carson, 1993). On the other hand, creating and executing an effective appraisal system actually leads to higher levels of trust in management (Mayer & Davis, 1999). Therefore, identifying ways of increasing appraisal effectiveness is important.

Giving employees feedback is not synonymous with conducting a performance appraisal, because employees may (and should) receive frequent feedback. The most effective feedback immediately follows high or low performance. Therefore, waiting for a formal process to give feedback would be misguided. A formal appraisal is often conducted once a year, even though there are some organizations that conduct them more frequently. For example, there are advantages to conducting quarterly appraisals, such as allowing managers to revise goals more quickly in the face of changing environmental demands (Odiorne, 1990). Conducting appraisals once a year has the advantage of being more convenient for managers and for effectively tying performance to annual pay raises or bonuses.

What Is the Purpose of a Performance Appraisal?

Performance appraisals can be important tools to give employees feedback and aid in their development. Yet feedback is only one reason why companies perform appraisals. In many companies, appraisals are used to distribute rewards such as bonuses, annual pay raises, and promotions. They may also be used to document termination of employees. Research shows that performance appraisals tend to be viewed as more effective when companies tie them to reward decisions and to terminate lower performers (Lawler, 2003). This is not surprising in light of motivation theories such as reinforcement theory, which indicates that behavior that is rewarded is repeated. Tying appraisal results to rewards may lead to the perception that performance is rewarded. However, if performance appraisal ratings are not accurate, it is possible for appraisals to be a major cause of reward unfairness.

Who Is the Rater?

Traditionally, the rater has been the supervisor. Supervisors have more at stake when an employee is not performing well and they have access to greater resources that can be used to improve performance. However, relying solely on supervisors may lead to a biased appraisal system. Many aspects of a person's performance may remain hidden from managers, particularly in team-based settings or organizations where supervisors do not work in the same physical setting as the employees. Therefore, organizations are introducing additional raters into the system, such as peers, customers, and subordinates. As organizations become more flat, introducing more perspectives may provide richer feedback to employees in question. Organizations using supervisors, peers, subordinates, and sometimes even customers are using 360-degree feedback. In this system, feedback is gathered from all these sources, and shared with the employee for developmental purposes. It is important to note that 360-degree appraisals are not often used in determining pay or promotion decisions and instead are treated as feedback tools. Using 360-degree feedback in reward decisions may be problematic, because individuals may avoid giving objective feedback if it means causing a peer to lose a bonus. Since not all feedback will necessarily be positive, if competition or jealousy exists among peers, some feedback may be retaliatory and too negative. Keeping these problems in mind, organizations may benefit from using only supervisor ratings in reward decisions and using feedback from other sources for developmental purposes (Toegel & Conger, 2003).

What Makes an Effective Appraisal System?

What are the characteristics of an effective appraisal system? Research identified at least three characteristics of appraisals that increase the perception that they are fair. These characteristics include adequate notice, fair hearing, and judgment based on evidence. Adequate notice involves letting employees know what criteria will be used during the appraisal. Unfortunately, in many companies the first time employees see the appraisal form may be when they are being evaluated. Therefore, they may be rated low on something they didn't understand was part of their performance. Fair hearing means ensuring that there is two-way communication during the appraisal process and the employee's side of the story is heard. Judgment based on evidence involves documenting performance problems and using factual evidence as opposed to personal opinions when rating performance (Taylor et al., 1995).

Absolute Rating versus Relative Ranking Appraisals

As a student, would you rather be evaluated with respect to some objective criteria? For example, you could get an A if you correctly answer 90% of the questions in the exam, but would get a B if you answered only 80%. We are calling this type of appraisal an absolute rating because the grade you get depends only on your performance with respect to the objective criteria. The alternative to this approach is relative ranking. In this system, you would get an A if you are one of the top 10% of the students in class, but you would get a B if you are between 10% and 20%. In a relative ranking system, your rating depends on how your objective performance (test grade) compares with the rest of the students' grades in your class.

If you say you would prefer an absolute rating, you are not alone. Research shows that ranking systems are often viewed more negatively by employees. However, many major corporations such as General Electric Company (GE), Intel, and Yahoo! Inc. are using relative rankings and truly believe in its advantages. For example, Jack Welch, the former CEO of General Electric, instituted a forced ranking system at GE in which 20% of employees would be in the top category, 70% would be in the middle, and 10% would be at the bottom rank. Employees who are repeatedly ranked at the lowest rank would be terminated. Relative rankings may create a culture of performance by making it clear that low performance is not tolerated; however, there are several downsides to rankings. First, these systems carry the danger of a potential lawsuit. Organizations such as Ford Motor Company and Microsoft faced lawsuits involving relative rankings, because employees who were older, female, or minority members were systematically being ranked in the lowest category with little justification. Second, relative rankings are also not consistent with creating a team spirit and may create a competitive, cutthroat environment. Enron Corporation was an organization that used relative rankings to its detriment. Third, relative systems have limited value in giving employees concrete feedback about what to do next year to get a better ranking. Despite their limitations, using them for a few years may help the organization become more performance-oriented and eliminate stagnation by weeding out some employees with persistent performance problems. As long as these systems fit with the company culture, are not used in a rigid manner, and are used for a short period of time, they may be beneficial to the organization (Boyle, 2001; Lawler, 2003; McGregor, 2006).

Conducting the Appraisal Meeting

Figure 6.4.8: A performance appraisal meeting serves as a medium through which the rater gives positive and negative feedback to the ratee, helps the ratee solve performance problems, and recognizes effective performance. Reynermedia – Businessmen shaking hands – CC BY 2.0.

A performance appraisal meeting is the most important component of a performance appraisal. After the rater uses the company's appraisal form to evaluate the performance of the ratee, both sides meet to discuss positive and negative instances of performance. Thus, the meeting serves as the key medium through which the rater gives feedback to the ratee. The goal of providing performance feedback is to help the ratee solve performance problems and to motivate the employee to change behavior. Conducting this meeting is often stressful for both parties, and training managers in providing performance feedback may be useful to deal with the stress of the managers as well as creating a more positive experience for both parties (Davis & Mount, 1984).

In the most effective meetings, feedback is presented in a constructive manner. Instead of criticizing the person, the focus should be on discussing the performance problems and aiding the employee in resolving these problems. By moving the focus of the conversation from the person to the behaviors, employee defensiveness may be reduced. When the supervisor is constructive, employees develop a more positive view of the appraisal system. Another approach to increasing the effectiveness of appraisal meetings is to increase employee participation. When employees have the opportunity to present their side of the story, they react more positively to the appraisal process and feel that the system is fair. Finally, supervisors should be knowledgeable about the employee's performance. When it becomes clear that the person doing the evaluation has little understanding of the job being performed by the employee, reactions tend to be more negative (Cawley, Keeping, & Levy, 1998; Cederblom 1982; Burke, Weitzel, & Weir, 1978).

OB Toolbox: Conducting an Effective Performance Appraisal Meeting

Before the meeting

- *Ask the person to complete a self-appraisal*. This is a great way of making sure that employees become active participants in the process and get their voice heard.
- *Complete the performance appraisal form*. Document your rating using many examples. Have more examples handy.
- *Avoid recency bias*. Be sure that your review covers the entire year's performance, not just recent events.
- *Handle the logistics*. Be sure that you devote sufficient time to each meeting. If you schedule appraisals back to back, you may lose your energy in later meetings. Be sure that the physical location is conducive to a private conversation.

During the meeting

- *Be sure to recognize effective performance*. Give specific praise.
- *Do not start the meeting with a criticism*. Starting with positive instances of performance helps establish a better mood and shows that you recognize what the employee is doing right.
- *Give employees lots of opportunities to talk*. Ask them about their greatest accomplishments, as well as opportunities for improvement. If they touch on an area you wanted to cover, provide your thoughts.

- *Show empathy and support*. Remember: your job as a manager is to help the person solve performance problems. Identify areas where you can help.
- *Set goals and create an action plan*. The outcome of the meeting should be a written agreement about what the employee will do in the near future and how the manager will help.

After the meeting

- *Continue to give the employee periodic and frequent feedback*. Effective feedback immediately follows key incidents of performance. Do not wait until the next appraisal to discuss important issues.
- *Follow through on the goals that were set*. Provide continuous support to the employee to help him or her achieve the goals.

Sources: Make employee appraisals more productive. (2007, September). *HR Focus*, *84*(9), 1, 11–15; Ryan, L. (2007, January 17). Coping with performance-review anxiety. *Business Week Online*, *6*; Stone, D. L. (1984). The effects of feedback sequence and expertise of the rater on perceived feedback accuracy. *Personnel Psychology*, *37*, 487–506; Sulkowicz, K. (2007, September 10). Straight talk at review time. *Business Week*, *16*.

Managing Potential Bias in Performance Appraisals

Performance appraisal is by nature a subjective event. Unless the performance appraisal is purely relying on objective criteria such as sales, it requires one or more human beings to observe and evaluate another and arrive at a consensus. Raters, intentionally or unintentionally, make mistakes or exhibit biases. These biases trickle down into the appraisal system and can affect other decisions that are based on appraisals, such as pay and promotion. Therefore, being aware of these tendencies is the first step to managing their influence over the appraisal system.

Liking

A performance appraisal does not occur between strangers. The rater and ratee have an existing relationship. If they like or dislike each other, these feelings may bias the ratings. For example, research shows that regardless of their objective performance levels, managers give employees they have a good relationship with higher ratings (Duarte, Goodson, & Klich, 1994). It is possible that sometimes liking is not a bias and a manager likes an employee *because* of high performance levels (Varma, DeNisi, & Peters, 1996). Still, for some managers, liking someone may mean ignoring the faults of the person and selectively remembering the positive things that person has done. One way of dealing with this problem may be journaling. By recording positive and negative performance incidents throughout the year for each employee, managers may recall each employee’s performance more accurately (DeNisi, Robbins, & Cafferty, 1989).

Leniency

One of the common problems in appraisals is that managers give employees ratings higher than warranted. There may be many reasons for this, such as the desire to avoid confrontation with the employee, having a very agreeable personality, the desire to avoid hurting the chances of the employee to get a bonus, the desire to motivate employees by giving them high ratings, or liking the employee as a person. Regardless of the reason, leniency is a problem because it makes ratings relatively useless for determining raises, bonuses, or promotions. At the same time, leniency makes it harder for employees to change their behaviors. One way of dealing with this problem could be using relative rankings or at least giving managers a suggested distribution. If managers are asked to grade on a curve, they may end up being less lenient. Moreover, making managers accountable for the ratings they give may be a good idea. For example, if managers are evaluated based on how well they recognize different levels of performance, they may be less tempted to be lenient in appraisals (Bernardin, Cooke, & Villanova, 2000; Jawahar & Williams, 1997; Longenecker, 1989).

Stereotypes

One of the factors that create bias in appraisals is the stereotypes that raters may have regarding the gender, race, age or another characteristic of the person being rated. Beliefs about different groups may be generalized to the person in question even though they may have little basis in reality. For example, research shows that women in stereotypically male jobs were rated lower than women in stereotypically female jobs. Similarly, attractive women were rated higher if they held nonmanagement jobs, but they were rated lower if they held management jobs. When factors that have no bearing on one’s job performance are used to evaluate the person, employees, overall, will be demoralized, the appraisals will lose their effectiveness, and the company may face costly lawsuits (Heilman & Stopeck 1985; Lyness & Heilman, 2006). Understanding the importance of eliminating stereotypes from performance appraisals and training managers to accurately observe and evaluate performance may be beneficial in limiting exposure to this type of bias.

Key Takeaways

Performance appraisals involve observing and measuring an employee's performance during an appraisal period, recording these observations, communicating results to the employee, and recognizing high performance while devising ways of improving deficiencies. Most appraisals are conducted by the supervisor, but there are many advantages to using 360-degree appraisals. Appraisals that are more effective give employees adequate notice, fair hearing, and judgment based on evidence. Some companies use relative rankings in which employees are compared to each other, but this system is not suitable to all companies. A performance appraisal meeting should be planned and executed carefully, with the supervisor demonstrating empathy and supportiveness. There are intentional and unintentional biases inherent in appraisals and being aware of them, increasing rater accountability, and training managers may be useful in dealing with some of them.

Exercises

1. What are the disadvantages of using only supervisors as the rater? What are the disadvantages of using peers, subordinates, and customers as raters?
2. Do you believe that self-appraisals are valid? Why would it be helpful to add self-appraisals to the appraisal process? Can you think of any downsides to using them?
3. Why do some managers intentionally give an employee a higher rating than deserved? What are the disadvantages of biased ratings? How could this tendency be prevented?
4. Some recommend that performance appraisals be abolished altogether. What do you think about this approach? What are the downsides of eliminating appraisals altogether?
5. If your objective is to minimize the effects of rater biases, what type of appraisal system would you design?

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