

Performance
and
Appraisal

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This document provides in depth information for NCN department managers and supervisors to evaluate their employees' performance. Please take your time to read the booklet and then download the form required to use for performance and appraisal of your employees.

NCN HR
Department

Performance and Appraisal

Our performance appraisal systems contain two basic systems operating in conjunction: an *evaluation system* and a *feedback system*.

The main aim of the evaluation system is to identify the *performance gap* (if any). This gap is the shortfall that occurs when performance does not meet the standard set by the organization as acceptable.

The main aim of the feedback system is to inform the employee about the quality of his or her performance. (However, the information flow is not exclusively one way. The appraisers also receive feedback from the employee about job problems, etc.)

One of the best ways to appreciate the purposes of performance appraisal is to look at it from the different viewpoints of the main stakeholders: the employee and the organization.

Employee Viewpoint

From the employee viewpoint, the purpose of performance appraisal is four-fold:

- (1) Tell me what you want me to do
- (2) Tell me how well I have done it
- (3) Help me improve my performance
- (4) Reward me for doing well.

Organizational Viewpoint

From the organization's viewpoint, one of the most important reasons for having a system of performance appraisal is to establish and uphold the *principle of accountability*.

For decades it has been known to researchers that one of the chief causes of organizational failure is "non-alignment of responsibility and accountability." Non-alignment occurs where employees are given responsibilities and duties, but are not held accountable for the way in which those responsibilities and duties are performed. What typically happens is that several individuals or work units appear to have overlapping roles.

The overlap allows - indeed actively encourages - each individual or business unit to "pass the buck" to the others. Ultimately, in the severely non-aligned system, no one is accountable for anything. In this event, the principle of accountability breaks down completely. Organizational failure is the only possible outcome.

In cases where the non-alignment is not so severe, the organization may continue to function, albeit inefficiently. Like a poorly made or badly tuned engine, the non-aligned organization may run, but it will be sluggish, costly and unreliable. One of the principal

aims of performance appraisal is to make people accountable. The objective is to align responsibility and accountability at every organizational level.

Benefits of Appraisal

Perhaps the most significant benefit of appraisal is that, in the rush and bustle of daily working life, it offers a rare chance for a supervisor and subordinate to have "time out" for a one-on-one discussion of important work issues that might not otherwise be addressed.

Almost universally, where performance appraisal is conducted properly, both supervisors and subordinates have reported the experience as beneficial and positive.

Appraisal offers a valuable opportunity to focus on work activities and goals, to identify and correct existing problems, and to encourage better future performance. Thus the performance of the whole organization is enhanced.

For many employees, an "official" appraisal interview may be the only time they get to have exclusive, uninterrupted access to their supervisor. Said one employee of a large organization after his first formal performance appraisal, "In twenty years of work, that's the first time anyone has ever bothered to sit down and tell me how I'm doing."

The value of this intense and purposeful interaction between a supervisors and subordinate should not be underestimated.

■ Motivation and Satisfaction

Performance appraisal can have a profound effect on levels of employee motivation and satisfaction - for better as well as for worse.

Performance appraisal provides employees with recognition for their work efforts. The power of social recognition as an incentive has been long noted. In fact, there is evidence that human beings will even prefer negative recognition in preference to no recognition at all.

If nothing else, the existence of an appraisal program indicates to an employee that the organization is genuinely interested in their individual performance and development. This alone can have a positive influence on the individual's sense of worth, commitment and belonging.

The strength and prevalence of this natural human desire for individual recognition should not be overlooked. Absenteeism and turnover rates in some organizations might be greatly reduced if more attention were paid to it. Regular performance appraisal, at least, is a good start.

■ **Training and Development**

Performance appraisal offers an excellent opportunity - perhaps the best that will ever occur - for a supervisor and subordinate to recognize and agree upon individual training and development needs.

During the discussion of an employee's work performance, the presence or absence of work skills can become very obvious - even to those who habitually reject the idea of training for *them!*

Performance appraisal can make the need for training more pressing and relevant by linking it clearly to performance outcomes and future career aspirations.

From the point of view of the organization as a whole, consolidated appraisal data can form a picture of the overall demand for training. This data may be analysed by variables such as sex, department, etc. In this respect, performance appraisal can provide a regular and efficient training needs audit for the entire organization.

■ **Recruitment and Induction**

Appraisal data can be used to monitor the success of the organization's recruitment and induction practices. For example, how well are the employees performing who were hired in the past two years?

Appraisal data can also be used to monitor the effectiveness of changes in recruitment strategies. By following the yearly data related to new hires (and given sufficient numbers on which to base the analysis) it is possible to assess whether the general quality of the workforce is improving, staying steady, or declining.

■ **Employee Evaluation**

Though often understated or even denied, evaluation is a legitimate and major objective of performance appraisal.

But the need to evaluate (i.e., to judge) is also an ongoing source of tension, since evaluative and developmental priorities appear to frequently clash. Yet at its most basic level, performance appraisal is the process of examining and evaluating the performance of an individual.

Though organizations have a clear right - some would say a duty - to conduct such evaluations of performance, many still recoil from the idea. To them, the explicit process of judgement can be dehumanizing and demoralizing and a source of anxiety and distress to employees.

It is been said by some that appraisal cannot serve the needs of evaluation and development at the same time; it must be one or the other.

But there may be an acceptable middle ground, where the need to evaluate employees objectively, and the need to encourage and develop them, can be balanced.

Conflict and Confrontation

Invariably the needs arises in performance appraisal to provide an employee with less than flattering feedback.

The skill and sensitivity used to handle these often difficult sessions is critical. If the appraisee accepts the negative feedback and resolves to improve, all is well. But if the result is an angry or hurt employee, then the process of correction has failed. The performance of an employee in such cases is unlikely to improve and may deteriorate even further.

■ Self-Auditing

According to [Krein \(1990\)](#), appraisers should not confront employees directly with criticism. Rather, they should aim to let the evidence of poor performance emerge "naturally" during the course of the appraisal interview. This is done by way of open-ended questioning techniques that encourage the employee to identify their own performance problems.

Instead of blunt statements or accusations, the appraisers should encourage an employee to talk freely about their own impressions of their performance. For example, consider the case of employee who has had too many absent days. The appraiser, in accusatory mode, might say:

"Your attendance record is unacceptable. You'll have to improve it."

A better way to handle this might be to say:

"Your attendance record shows that you had 7 days off work in 6 months. What can you tell me about this?"

The technique is to calmly present the evidence (resisting the temptation to label it as good or bad) and then invite the employee to comment. In many cases, with just a gentle nudge from the appraiser here and there, an employee with problems will admit that weaknesses do exist.

This is much more likely when an employee does not feel accused of anything, nor forced to make admissions that they do not wish to make.

If an appraiser can get an employee to the stage of voluntary admission, half the battle is won. The technique described by Krein is a type of self-auditing, since it encourages the employee to confront themselves with their own work and performance issues.

The technique is useful because it is more likely to promote discussion and agreement on the need for change. Confrontation techniques that rely on "charge and counter-charge" tend to promote adversarialism - and that leads to denial and resentment.

■ Ownership of Problems

Perhaps the most powerful aspect of the self-auditing process is that employees are more willing generally to accept personal "ownership" of problems that have been self-identified. This sense of ownership provides an effective basis for stimulating change and development. (Some would argue that it provides the *only* basis.)

Nevertheless there are individuals who will not admit to anything that appears to reflect poorly on them. With ego defences on full-alert, they will resist the process of self-auditing very strongly. In such cases, appraisers may have no choice but to confront the poor performer directly and firmly with the evidence they have.

Sometimes the shock of direct confrontation will result in the employee admitting that they do need to make improvements. But sometimes it will just make their denial of the problem worse.

In providing any feedback - especially negative feedback - appraisers should be willing and able to support their opinions with specific and clear examples. Vague generalizations should be avoided.

The focus should be on job-related behaviors and attitudes. If a specific observation cannot be supported by clear evidence, or touches on issues that are not job-related, it may be best to exclude all mention of it.

Appraisers must carefully scrutinize their own perceptions, motives and prejudices.

Common Mistakes

Where performance appraisal fails to work as well as it should, lack of support from the top levels of management is often cited as a major contributing reason.

Opposition may be based on political motives, or more simply, on ignorance or disbelief in the effectiveness of the appraisal process.

It is crucial that top management believe in the value of appraisal and express their visible commitment to it. Top managers are powerful role models for other managers and employees.

Those attempting to introduce performance appraisal, or even to reform an existing system, must be acutely aware of the importance of political issues and symbolism in the success of such projects.

■ Fear of Failure

There is a stubborn suspicion among many appraisers that a poor appraisal result tends

to reflect badly upon them also, since they are usually the employee's supervisor. Many appraisers have a vested interest in making their subordinates "look good" on paper.

When this problem exists (and it can be found in many organizations), it may point to a problem in the organization culture. The cause may be a culture that is intolerant of failure. In other words, appraisers may fear the possibility of repercussions - both for themselves and the appraisee.

[Longenecker \(1989\)](#) argues that accuracy in performance appraisal is impossible to achieve, since people play social and political games, and they protect their own interests. "No savvy manager...", says Longenecker, "... is going to use the appraisal process to shoot himself or herself in the foot."

No matter what safeguards are in place, "... when you turn managers loose in the real world, they consciously fudge the numbers." What Longenecker is saying is that appraisers will, for all sorts of reasons, deliberately distort the evaluations that they give to employees.

Indeed, surveys have shown that not only do many managers admit to a little fudging, they actually defend it as a tactic necessary for effective management.

The fudging motives of appraisers have, at times, a certain plausibility. For instance, a supervisor who has given an overly generous appraisal to a marginal performer might claim that their 'legitimate' motive was the hope of encouraging a better performance.

On the other hand, fudging motives can be a lot less admirable and sometimes devious: the appraiser who fudges to avoid the possibility of an unpleasant confrontation, the appraiser who fudges to hide employee difficulties from senior managers, the appraiser who fudges in order to punish or reward employees.

■ **Judgement Aversion**

Many people have a natural reluctance to "play judge" and create a permanent record which may affect an employee's future career. This is the case especially where there may be a need to make negative appraisal remarks.

Training in the techniques of constructive evaluation (such as self-auditing) may help. Appraisers need to recognize that problems left unchecked could ultimately cause more harm to an employee's career than early detection and correction.

Organizations might consider the confidential archiving of appraisal records more than, say, three years old.

■ **Feedback-Seeking**

[Larson \(1989\)](#) has described a social game played by poor performers. Many supervisors will recognize the game at once and may have been its victims.

The game is called feedback-seeking. It occurs where a poor performing employee regularly seeks informal praise from his or her supervisor at inappropriate moments.

Often the feedback-seeker will get the praise they want, since they choose the time and place to ask for it. In effect, they "ambush" the supervisor by seeking feedback at moments when the supervisor is unable or unprepared to give them a full and proper answer, or in settings that are inappropriate for a frank assessment.

The supervisor may feel "put on the spot", but will often provide a few encouraging words of support. The game seems innocent enough until appraisal time comes around. Then the supervisor will find that the employee recalls, with perfect clarity, every casual word of praise ever spoken!

This places the supervisor in a difficult bind. Either the supervisor lied when giving the praise, or least, misled the employee into thinking that their performance was acceptable (in fact, this is the argument that feedback-seekers will often make).

The aim of the game is that the feedback-seeker wants to deflect responsibility for their own poor performance. They also seek to bolster their appraisal rating by bringing in all the "evidence" of casual praise. Very often the feedback seeker will succeed in making the supervisor feel at least partly responsible. As a result, their appraisal result may be upgraded.

Was the supervisor partly responsible? Not really. The truth of the matter is that they have been "blackmailed" by a subtle social game. But like most social games, the play depends on the unconscious participation of both sides. Making supervisors aware of the game is usually sufficient to stop it. They must learn to say, when asked for casual praise, "I can't talk about it now... but see me in my office later."

This puts the supervisor back in control of the appraisal process.

■ **Appraiser Preparation**

The bane of any performance appraisal system is the appraiser who wants to "play it by ear". Such attitudes should be actively discouraged by stressing the importance and technical challenge of good performance appraisal. Perhaps drawing their attention to the contents of this web site, for example, may help them to see the critical issues that must be considered.

■ **Employee Participation**

Employees should participate with their supervisors in the creation of their own performance goals and development plans. Mutual agreement is a key to success. A plan wherein the employee feels some degree of ownership is more likely to be accepted than one that is imposed. This does not mean that employees do not desire guidance from their supervisor; indeed they very much do.

■ **Performance Management**

One of the most common mistakes in the practice of performance appraisal is to perceive appraisal as an isolated event rather than an ongoing process.

Employees generally require more feedback, and more frequently, than can be provided in an annual appraisal. While it may not be necessary to conduct full appraisal sessions more than once or twice a year, performance management should be viewed as an ongoing process.

Frequent mini-appraisals and feedback sessions will help ensure that employees receive the ongoing guidance, support and encouragement they need.

Of course many supervisors complain they don't have the time to provide this sort of ongoing feedback. This is hardly likely. What supervisors really mean when they say this is that the supervision and development of subordinates is not as high a priority as certain other tasks.

In this case, the organization may need to review the priorities and values that it has instilled in its supervisory ranks. After all, supervisors who haven't got time to monitor and facilitate the performance of their subordinates are like chefs who haven't got time to cook, or dentists who are too busy to look at teeth. It just doesn't make sense.

If appraisal is viewed as an isolated event, it is only natural that supervisors will come to view their responsibilities in the same way. Just as worrying, employees may come to see their own effort and commitment levels as something that needs a bit of a polish up in the month or two preceding appraisals.

Appraisal Methods

In a landmark study, [Locher & Teel \(1977\)](#) found that the three most common appraisal methods in general use are rating scales (56%), essay methods (25%) and results-oriented or MBO methods (13%). For a description of each, Details are given on the following pages.

Certain techniques in performance appraisal have been thoroughly investigated, and some have been found to yield better results than others.

■ Encourage Discussion

Research studies show that employees are likely to feel more satisfied with their appraisal result if they have the chance to talk freely and discuss their performance. It is also more likely that such employees will be better able to meet future performance goals. (e.g., [Nemeroff & Wexley, 1979](#)).

Employees are also more likely to feel that the appraisal process is fair if they are given a chance to talk about their performance. This especially so when they are permitted to challenge and appeal against their evaluation. ([Greenberg, 1986](#)).

■ **Constructive Intention**

It is very important that employees recognize that negative appraisal feedback is provided with a constructive intention, i.e., to help them overcome present difficulties and to improve their future performance. Employees will be less anxious about criticism, and more likely to find it useful, when they believe that the appraiser's intentions are helpful and constructive. ([Fedor et al., 1989](#))

In contrast, other studies (e.g., [Baron, 1988](#)) have reported that "destructive criticism" - which is vague, ill-informed, unfair or harshly presented - will lead to problems such as anger, resentment, tension and workplace conflict, as well as increased resistance to improvement, denial of problems, and poorer performance.

■ **Set Performance Goals**

It has been shown in numerous studies that goal-setting is an important element in employee motivation. Goals can stimulate employee effort, focus attention, increase persistence, and encourage employees to find new and better ways to work. (e.g., [Locke, et al., 1981](#))

The usefulness of goals as a stimulus to human motivation is one of the best supported theories in management. It is also quite clear that goals which are "...specific, difficult and accepted by employees will lead to higher levels of performance than easy, vague goals (such as do your best) or no goals at all." ([Harris & DiSimone, 1994](#))

■ **Appraiser Credibility**

It is important that the appraiser (usually the employee's supervisor) be well-informed and credible. Appraisers should feel comfortable with the techniques of appraisal, and should be knowledgeable about the employee's job and performance.

When these conditions exist, employees are more likely to view the appraisal process as accurate and fair. They also express more acceptance of the appraiser's feedback and a greater willingness to change. ([Bannister, 1986](#))

Appraisal Methods

Rating Scales

The rating scale method offers a high degree of structure for appraisals. Each employee trait or characteristic is rated on a bipolar scale that usually has several points ranging from "poor" to "excellent" (or some similar arrangement).

The traits assessed on these scales include employee attributes such as cooperation, communications ability, initiative, punctuality and technical (work skills) competence. The nature and scope of the traits selected for inclusion is limited only by the imagination of the scale's designer, or by the organization's need to know.

The one major provision in selecting traits is that they should be in some way relevant to the appraisee's job. The traits selected by some organizations have been unwise and have resulted in legal action on the grounds of discrimination.

■ Advantages

The greatest advantage of rating scales is that they are structured and standardised. This allows ratings to be easily compared and contrasted - even for entire workforces.

Each employee is subjected to the same basic appraisal process and rating criteria, with the same range of responses. This encourages equality in treatment for all appraisees and imposes standard measures of performance across all parts of the organization.

Rating scale methods are easy to use and understand. The concept of the rating scale makes obvious sense; both appraisers and appraisees have an intuitive appreciation for the simple and efficient logic of the bipolar scale. The result is widespread acceptance and popularity for this approach.

■ Disadvantages

Trait Relevance

Are the selected rating-scale traits clearly relevant to the jobs of all the appraisees? It is inevitable that with a standardised and fixed system of appraisal that certain traits will have a greater relevance in some jobs than in others.

For example, the trait "initiative" might not be very important in a job that is tightly defined and rigidly structured. In such cases, a low appraisal rating for initiative may not mean that an employee lacks initiative. Rather, it may reflect that fact that an employee has few opportunities to use and display that particular trait. The relevance of rating scales is therefore said to be context-sensitive. Job and workplace circumstances must be taken into account.

Systemic Disadvantage

Rating scales, and the traits they purport to measure, generally attempt to encapsulate all the relevant indicators of employee performance. There is an assumption that all the true and best indicators of performance are included, and all false and irrelevant indicators are excluded.

This is an assumption very difficult to prove in practice. It is possible that an employee's performance may depend on factors that have not been included in the selected traits. Such employees may end up with ratings that do not truly or fairly reflect their effort or value to the organization. Employees in this class are systemically disadvantaged by the rating scale method.

Perceptual Errors

This includes various well-known problems of selective perception (such as the horns and halos effect) as well as problems of perceived meaning.

Selective perception is the human tendency to make private and highly subjective assessments of what a person is "really like", and then seek evidence to support that view (while ignoring or downplaying evidence that might contradict it).

This is a common and normal psychological phenomenon. All human beings are affected by it. In other words, we see in others what we want to see in them.

An example is the supervisor who believes that an employee is inherently good (halo effect) and so ignores evidence that might suggest otherwise. Instead of correcting the slackening employee, the supervisor covers for them and may even offer excuses for their declining performance.

On the other hand, a supervisor may have formed the impression that an employee is bad (horns effect). The supervisor becomes unreasonably harsh in their assessment of the employee, and always ready to criticize and undermine them.

The horns and halo effect is rarely seen in its extreme and obvious forms. But in its more subtle manifestations, it can be a significant threat to the effectiveness and credibility of performance appraisal.

Perceived Meaning

Problems of perceived meaning occur when appraisers do not share the same opinion about the meaning of the selected traits and the language used on the rating scales.

For example, to one appraiser, an employee may demonstrate the trait of initiative by reporting work problems to a supervisor. To another appraiser, this might suggest an excessive dependence on supervisory assistance - and thus a lack of initiative.

As well, the language and terms used to construct a scale - such as "Performance exceeds expectations" or "Below average skill" - may mean different things to different appraisers.

Rating Errors

The problem here is not so much errors in perception as errors in appraiser judgement and motive. Unlike perceptual errors, these errors may be (at times) deliberate.

The most common rating error is central tendency. Busy appraisers, or those wary of confrontations and repercussions, may be tempted to dole out too many passive, middle-of-the-road ratings (e.g., "satisfactory" or "adequate"), regardless of the actual performance of a subordinate. Thus the spread of ratings tends to clump excessively around the middle of the scale.

This problem is worsened in organizations where the appraisal process does not enjoy strong management support, or where the appraisers do not feel confident with the task of appraisal.

Essay Method

In the essay method approach, the appraiser prepares a written statement about the employee being appraised.

The statement usually concentrates on describing specific strengths and weaknesses in job performance. It also suggests courses of action to remedy the identified problem areas.

The statement may be written and edited by the appraiser alone, or it be composed in collaboration with the appraisee.

■ Advantages

The essay method is far less structured and confining than the rating scale method. It permits the appraiser to examine almost any relevant issue or attribute of performance. This contrasts sharply with methods where the appraisal criteria are rigidly defined.

Appraisers may place whatever degree of emphasis on issues or attributes that they feel appropriate. Thus the process is open-ended and very flexible. The appraiser is not locked into an appraisal system the limits expression or assumes that employee traits can be neatly dissected and scaled.

■ Disadvantages

Essay methods are time-consuming and difficult to administer. Appraisers often find the essay technique more demanding than methods such as rating scales.

The techniques greatest advantage - freedom of expression - is also its greatest handicap. The varying writing skills of appraisers can upset and distort the whole process. The process is subjective and, in consequence, it is difficult to compare and contrast the results of individuals or to draw any broad conclusions about organizational needs.

Results Method

Management By Objectives (MBO)

The use of management objectives was first widely advocated in the 1950s by the noted management theorist Peter Drucker.

MBO (management by objectives) methods of performance appraisal are results-oriented. That is, they seek to measure employee performance by examining the extent to which predetermined work objectives have been met.

Usually the objectives are established jointly by the supervisor and subordinate. An example of an objective for a sales manager might be: Increase the gross monthly sales volume to \$250,000 by 30 June.

Once an objective is agreed, the employee is usually expected to self-audit; that is, to identify the skills needed to achieve the objective. Typically they do not rely on others to locate and specify their strengths and weaknesses. They are expected to monitor their own development and progress.

■ Advantages

The MBO approach overcomes some of the problems that arise as a result of assuming that the employee traits needed for job success can be reliably identified and measured.

Instead of assuming traits, the MBO method concentrates on actual outcomes.

If the employee meets or exceeds the set objectives, then he or she has demonstrated an acceptable level of job performance. Employees are judged according to real outcomes, and not on their potential for success, or on someone's subjective opinion of their abilities.

The guiding principle of the MBO approach is that direct results can be observed, whereas the traits and attributes of employees (which may or may not contribute to performance) must be guessed at or inferred.

The MBO method recognizes the fact that it is difficult to neatly dissect all the complex and varied elements that go to make up employee performance.

MBO advocates claim that the performance of employees cannot be broken up into so many constituent parts - as one might take apart an engine to study it. But put all the parts together and the performance may be directly observed and measured.

■ Disadvantages

MBO methods of performance appraisal can give employees a satisfying sense of autonomy and achievement. But on the downside, they can lead to unrealistic expectations about what can and cannot be reasonably accomplished.

Supervisors and subordinates must have very good "reality checking" skills to use MBO appraisal methods. They will need these skills during the initial stage of objective setting, and for the purposes of self-auditing and self-monitoring.

Unfortunately, research studies have shown repeatedly that human beings tend to lack the skills needed to do their own "reality checking". Nor are these skills easily conveyed

by training. Reality itself is an intensely personal experience, prone to all forms of perceptual bias.

One of the strengths of the MBO method is the clarity of purpose that flows from a set of well-articulated objectives. But this can be a source of weakness also. It has become very apparent that the modern organization must be flexible to survive. Objectives, by their very nature, tend to impose a certain rigidity.

Of course, the obvious answer is to make the objectives more fluid and yielding. But the penalty for fluidity is loss of clarity. Variable objectives may cause employee confusion. It is also possible that fluid objectives may be distorted to disguise or justify failures in performance.

Reward Issues

Some interesting insights into what can go seriously wrong in a system of reward-linked performance appraisal is found in the work of [Deets & Tyler \(1986\)](#).

■ The Xerox Experience

The Reprographic Business Group of the Xerox Corporation operated a very traditional system of performance appraisal based on rating scale methods. The rating outcomes were linked to pay outcomes. In fact, the results had direct effects on merit pay rises - everyone at Xerox knew that and expected it.

The Xerox system included all the common features of rating scale systems. The appraisal interviews were held annually and conducted by the employee's immediate supervisor.

Accomplishments of the preceding year were recorded and performance levels were judged according to various predefined criteria. The system included some elements of essay appraisal, since appraisers were required to write brief supporting statements for each rated criterion.

The Xerox system also called for a summary rating; an ultimate digit, from a low of 1 (for unsatisfactory) to a high of 5 (exceptional). The summary rating attempted to encapsulate the whole year's performance in a single number.

The significance of that final number was immense. It literally determined the size of the employee's annual pay rise. The higher the rating, the bigger the rise. For Xerox employees, the thing that really mattered about appraisal was getting the biggest possible final number.

Analysis of ratings over time showed that more than 95 percent of employees were either 3s, 4s or 5s; that is, the spread of ratings heavily favored the higher end of the

scale. Almost every employee, according to the appraisal system, was performing at or above the average.

The lower end of the scale, the ratings of "below average" and "unsatisfactory" were very rarely used. The effect of this distortion was that any employee who scored less than a 4 ("exceeds expected performance level") began to feel like a failure!

The appraisal process became a sort of ratings lottery; the aim of the game was to get the highest possible score and win the jackpot. The process became fixated on that all-important final digit.

This situation placed tremendous pressure on appraisees and appraisers alike. The appraisers had the unenviable task of deciding the winners from the losers. No wonder most of them preferred to hand out an abundance of overly-generous ratings!

Xerox eventually replaced this system with an MBO/essay form of appraisal. They abandoned rating scale methods completely.

That may have been an over-reaction, since the fault did not lie with the method itself so much as with its intimate - and ultimately inflexible linkage - to the annual pay rise. When reward outcomes are so closely linked to the size of a rating on a five point scale, the difference of one point either way can become very important and provocative.

The Xerox rating system might have worked if the direct causal relationship between the summary rating and merit pay outcomes had been eliminated or at least softened.

■ **The Case for Linkage**

The question of whether appraisal results should be allowed to directly influence decisions about pay increases (and other reward outcomes such as promotion) has been hotly contested. It is still one of the most contentious issues in human resources management.

One of the main reasons for separating appraisal results from reward decisions is the belief that a too-close link would create an overly-threatening and potentially punitive system.

Employees, apprehensive at the prospect of being judged, would have the added anxiety of knowing that the result will directly impact their pay packet and career outcomes.

■ **Appraisal Pressure**

This kind of appraisal pressure results in a win/lose mentality of the sort that developed at Xerox. Rather than the appraisee being willing to openly discuss their performance, they become anxious and defensive. Naturally, the typical appraisee is not eager to admit to anything that might impair their chances of a pay rise or other reward.

There is a deep irony in the fact that many organizations, while having excellent systems of appraisal, allow their merit pay and promotion decisions to be made by inferior means. Often the matter is left to the discretion of one or two supervisors or managers, with a cursory review being made by the HR department.

There is also the work of [Bannister & Balkin \(1990\)](#), which has reported that "discussions of pay at the time of performance appraisal" increases employee acceptance of appraisal and their satisfaction with the process. This undermines the arguments for separation.

As well, there is evidence that incongruity between appraisal results and later pay and promotion outcomes is a source of employee discontent and de-motivation.

Pay increases and promotions send powerful messages to employees. If these messages don't match up with the appraisal results, employees are quick to dismiss the whole process as a farce. Efforts have been made to convince employees otherwise, but the "bottom line" for many is who got the extra money or who got the new job.

■ A Management "Trick"?

The separation of appraisal results and reward outcomes is, at best, a contrived situation. At worst, it may convey the impression that appraisal is some sort of deception, a trick by management, designed to give an appearance of openness and fairness while "real issues" like pay and promotions are decided in secret.

Nor is the practice of putting a six-month buffer between appraisals and pay reviews an effective method of avoiding the issue. Far better to define and clarify the relationship between appraisal, performance and reward outcomes.

The view of the separatists, which insists that appraisal results and reward outcomes should be insulated from each other, may be an over- reaction to the potential abuses.

There is evidence that appraisees appreciate the existence of a link between appraisal and reward results. To many, the existence of such a link is intuitively sensible.

From the perspective of the organization, the inclusion of carefully collected appraisal data in pay and promotion matters may contribute to better quality decisions. It should also help ensure a greater degree of congruity between appraisal results and subsequent reward outcomes.

Even so, many advocates of separation will be reluctant to concede the possibility of any form of constructive linkage between appraisal and rewards.

This is a shame, because the potential of performance appraisal encompasses more than employee development. Admittedly there are risks in linking reward outcomes; but there are also risks, and a potential for harm, in contriving to deny that any linkage exists.

At the very least, an organization wishing to form the mildest of reward links might consider a frank discussion of reward criteria during the appraisal interview.

Those organizations that are determined to keep their appraisal and reward issues separated might ask themselves whether performance appraisal is really the tool they need. Perhaps what they actually desire is some form of developmental appraisal.

Performance-Related Bonus Scheme

It is possible to use ANPAS (or any other performance appraisal system) solely for employee development and feedback purposes. But many organizations will wish to link the appraisal process to specific reward and incentive outcomes.

This is a perfectly legitimate objective. There are studies showing that employees find the process of appraisal more satisfying and credible when it is directly linked to reward outcomes.

Brief Description

Before we look at the step-by-step process for calculating the bonus, a quick overview will be helpful.

The Bonus Plan first calculates a Bonus Fund. This is the actual amount of money that the organization is prepared to allocate for bonus use. Next, an average performance appraisal rating is determined for each employee.

If an employee scores higher than a pre-determined level, he or she is bonus-eligible. The size of the bonus paid depends on the total number of Bonus Points to which an employee is entitled.

The number of Bonus Points is determined by both the employee's performance (as reflected in their average rating) and the employee's current salary range.

Finally, a simple formula is used to exactly allocate the money in the Bonus Fund to all eligible employees.

Full Description

There are five separate steps in the Bonus Plan -

[Calculate the Bonus Fund](#)

[Determine Bonus Eligibility](#)

[Select Bonus Band](#)

[Select Salary Band](#)

[Calculate Individual Bonuses](#)

Calculate the Bonus Fund

The first step is to determine the amount of money that is available to pay the bonuses. It is suggested this amount be (usually) about 2.5% of the annual wage and salary bill. This amount is known as the Bonus Fund.

The figure of 2.5% may be varied to reflect the policies, needs and circumstances of each organization. For example, a percentage of profit may be preferred, or even a percentage of profit increase. Obviously in such cases there will be no bonus due unless there is a profit or an increase in profit.

Whatever method is selected, it is suggested the size of the final bonus payments (when calculated) should lie in the range 2% to 10% of the bonus recipient's base wage or salary.

Determine Bonus Eligibility

To be eligible for the bonus, the employee must achieve an Average Factor Rating (AFR) of 3.40 or better. The AFR is calculated by summing the ratings and dividing the result by seven.

For example -
 $(4 + 4 + 3 + 3 + 5 + 3 + 4) / 7$
 $= (26) / 7$
 $= 3.71$

This employee's AFR of 3.71 would make them eligible for the bonus.

Select Bonus Band

There are three Bonus Bands, B1, B2 and B3. The employee's Bonus Band depends on their AFR. The table below shows the AFR ranges for each Bonus Band, together with the Bonus Points that apply to each:

Bonus Band	Average Factor Rating	Bonus Points
B1 (lower)	3.40 to 3.99	1
B2 (middle)	4.00 to 4.49	2
B3 (upper)	4.50 to 5.00	3

Select Salary Band

There are three Salary Bands S1, S2, S3. Those in the higher bands will receive proportionately larger bonuses. This is necessary to maintain compensation relativity and provide attractive incentives to employees on higher incomes.

It is up to each organization to decide how it will define the lower, middle and upper bands. As a guide, the proportion of employees in each Salary Band should be about

S1 60%, S2 30%, and S3 10%. The most common approach is to define bands according to wage and salary cut-off points; for example:

S1... \$0 p.a. to \$30000 p.a.

S2... \$30001 p.a. to \$50000 p.a.

S3... \$50001 p.a. and above

Another approach is to use job evaluation cut-off points to achieve the same result, or to group employees loosely into categories, for example:

S1... Junior and non-supervisory staff

S2... Supervisors, specialists, middle managers

S3... Senior and top managers

The method chosen to classify employees into Salary Bands is not important, so long as it is systematic and reflects the general seniority structure of the organization.

Once the Salary Band is known for each employee, the number of Bonus Points can be determined -

Salary Band	Bonus Points
S1 (lower)	1
S2 (middle)	2
S3 (upper)	3

Calculate Individual Bonuses

For each individual, add up their total Bonus Points. Then each individual bonus is calculated by this formula -

$$\text{Bonus} = \frac{(\text{Bonus Points} \times \text{Bonus Fund})}{\text{Total Sum of Bonus Points}}$$

This formula will exactly allocate to the recipients the total amount of money available in the Bonus Fund.

Example

There are 36 employees in the Purchasing Department of a medium-sized organization. The total (gross) annual wage and salary bill for the employees of this Department is \$1,062,000. The Bonus Fund is set at \$26,550 (2.5% of the total).

Among the employees, 12 have received Average Factor Ratings of 3.40 or better (therefore they are "eligible for performance bonus").

Employee	Bonus Band	Salary Band	Total Bonus Points	Bonus Amount \$
John	B1	S1	2	1609
Tony	B1	S1	2	1609
Judith	B1	S2	3	2414
Caitlin	B1	S1	2	1609
Robert	B1	S1	2	1609
Mitchell	B1	S1	2	1609
Sue	B1	S1	2	1609
Barbara	B1	S2	3	2414
Matt	B2	S3	5	4023
Peter	B2	S1	3	2414
Helena	B2	S2	4	3218
Sarah	B3	S1	3	2414
Totals	-	-	33	26551

Example

In John's case -
 $\text{bonus} = (2 \times 26551) / 33$
 $= \$1609$

Example

In Helena's case -

$$\begin{aligned} \text{bonus} &= (4 \times 26551) / 33 \\ &= \$3218 \end{aligned}$$

Payment of Bonus

While the bonus could be paid in a single lump sum, it is suggested that multiple smaller payments - **bonus instalments** - be paid throughout the next performance period (quarterly instalments may be ideal). A number of payments at intervals can do more to strengthen the link between performance and rewards than a single payment which is all but forgotten in a short time.

It is also important that the bonus be paid by way of a separate check, pay packet or deposit. The payment will lose much of its impact if it is simply consolidated with normal pay. Every separate payment is a reminder to the employee of the value of his or her personal effort, and serves to encourage the type of behavior that leads to superior job performance.

Recent News

Rank and Yank?

A growing number of organizations, including the likes of Ford, Microsoft and Conoco, have adopted performance appraisal models in which best-to-worst ranking methods are used to identify poor performers, who are then given a period of time to improve. If they fail, they must leave. The departure is often sweetened with a severance package, but if the poor performer refuses to exit gracefully, they face the possibility of termination without compensation.

The strategy is known as "rank and yank". According to Time magazine, forced ranking appraisal systems have spread to around 20 per cent of U.S. companies in recent years. For example, California-based Sun Microsystems ranks its 43,000 employees into three groups. The top 20 per cent are rated as "superior", the next 70 per cent as "standard". At the bottom is a 10 per cent band of "underperformers". The underperformers are told frankly that they must improve and are provided with one-on-one coaches. CEO Scott McNealy is famous for telling his executives that the bottom 10 per cent must be "loved to death". Underperformers who fail to improve are offered a 'prompt exit' package. If they decline it, they face a bleak future in which further incidents of poor performance could lead to dismissal. Love has its limits, after all.

Advocates believe that forced rankings make managers and supervisors take the tough decisions that otherwise they would avoid as being too difficult or unpleasant. Some organizations view the forced ranking approach as a way to create a continuously improving workforce.

Despite its appeal, there are problems with the forced ranking approach. Someone must always fall into the lower or underperforming category, even if everyone has performed at a satisfactory or better level. It is also possible that those rated as "poor performers" in highly productive departments may contribute more to the overall progress of the

organization than those rated as "good performers" in other departments. As well, forced ranking can weaken teamwork. It can encourage unhealthy levels of internal competition, leading to a decline in team values as individuals seek to protect their own position at the expense of their co-workers. As one employee said about the impact of forced ranking in his organization, "... all the relationships instantly become strained."

One of the leading practitioners of forced ranking was Enron Corporation, the Texas energy and trading giant that collapsed in late 2001 under a tidal wave of debt and scandal. It is sobering to reflect that commentators had, in the months preceding its demise, held up the once highly profitable company as proof that rank and yank was the way of the future for all performance appraisals. It was said that rank and yank had produced in Enron "a hotbed of overachievers" - bold rhetoric which now seems a little embarrassing, to say the least. [Based in part on an article in TIME, June 11, 2001]

Survey Findings

According to a recent study, 52 per cent of workers want their supervisors to state performance goals more clearly. Nearly 40 per cent want the issue of their performance on the job more closely tied to both their development plans and their compensation outcomes.

The survey also found that 42 per cent of workers were at least moderately dissatisfied with their employer's system of performance evaluation.

There are many reasons for this widespread feeling of dissatisfaction. Says one source, "A lot of employers still use it [appraisal] to punish workers instead of helping them develop."

Another common complaint is that managers "...fail to explain to employees what they expect from them or clearly define the standards and criteria they use to evaluate performance." According to Shelley Riebel, this "...just sets up employees - and the process - for failure." [Detroit News, April 11, 1998]

Termination: Legal Minefield?

AHI's Employment Law Center suggests that a series of careful steps should precede any decision to terminate an employee based on alleged "poor performance". The edited highlights are given below:

1. Do you have sufficient evidence? Does the evidence support claims that an employee's performance is genuinely sub-standard?
2. Is the evidence properly documented? Have alleged former incidents of poor work performance and/or disciplinary actions been properly documented?
3. Consider the timing. "Discharge decisions which immediately follow a complaint or participation in a protected activity may be perceived as retaliatory and discriminatory by

the court." Perceptions matter, even if the timing was co-incidental and perfectly innocent.

4. Is it fair? Have other employees been discharged in similar circumstances?

5. Ask an objective third party for their views on whether your proposal to terminate seems fair and reasonable. Be prepared to modify your position if the feedback is not supportive.

This list of precautions should be carefully followed by employers seeking to terminate a poor performer. If there is any doubt concerning the fairness or legitimacy of a proposed termination, it would be sensible to consult a lawyer before any action is taken. Employers should also be aware of any local laws that might restrict their rights to terminate.

Growing numbers of dismissed employees are suing for what they claim is wrongful or illegal termination. If an organization wants to avoid costly litigation, it must ensure that all its termination decisions are legal, fair and reasonable. Proper and complete documentation - such as that created in performance appraisals - is critical.