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CHAPTER ONE

Introduction: Why Managers and Employees Dread Performance Appraisals

The business climate has changed during the last ten years. It seems that no industry is immune to a shakeup as a direct or indirect consequence of de-regulation or competition from abroad. For many organizations, one result of this trend is a justifiable obsession with quality and productivity. It's therefore more important than ever to accurately measure job performance so rewards can be distributed fairly and performance problems can be solved quickly.

A few decades ago the performance appraisal was a procedure of very limited utility, largely confined to hourly wage earners and used to pinpoint coarse distinctions between good and bad performers. Today many more job types and levels are subject to performance appraisals, and the performance appraisal is used for decisions about salaries, promotions and placement, to pinpoint performance problems, improve employee performance, for career

counseling, and to help implement the strategies and instill the values of the organization. While some may question the wisdom of burdening the performance appraisal with *all* those objectives, almost no one seriously doubts the necessity for some system of evaluating employee performance. Yet, while conceding its importance, few employees or managers actually look forward to a performance appraisal.

You might say, "Well of course; few people look forward to a dental appointment, either. But it's a regrettable necessity, and most of us accept that fact." In the case of a dental appointment, however, at least the dentist is comfortable with his or her job, whereas a performance appraisal is often equally distasteful for manager and employee alike.

WHY EMPLOYEES DREAD PERFORMANCE APPRAISALS

For employees receiving performance appraisals, feelings of dread are easy to understand: they're being judged, after all. Employees know well in advance *when* judgment will be pronounced, but often have a much vaguer idea of what standards they're being judged by and how you, as a manager, think they measure up to them. Among those who know their performance has been shaky, the dread may be more acute, but even star performers have their misgivings: Suppose the appraisal doesn't take account of their perception of their true worth? They'd better be prepared to defend themselves, if they don't want to be done out of that raise.

From a practical standpoint, many things hang in the balance: salary, promotions, and perhaps the specific responsibilities that will be expected of them in the future.

The performance appraisal is also one of the most

emotionally charged procedures in management. People have very strong feelings about being evaluated. Employees can feel vulnerable at this point. If their work hasn't been satisfactory, now is when the boom will fall. If they're personally pleased with what they've accomplished during the appraisal period, they may know from experience that their idea of good performance may be completely at odds with their manager's and they may be due for a rude awakening. Who knows what insidious little checkmarks are being made on forms that will go into their permanent record, informing any future manager that they "lack initiative" and "have difficulty facing that fact" about themselves. Employees may try to dispute the assessment, but they know their word carries much less weight than their boss' supposedly expert opinion. The process may seem completely irrational to them but they don't have much to say about it.

No wonder employees who are comfortable in their jobs most of the year can feel like victims of authority, whether in the form of an arbitrary manager or due to the abstract expectations of the organization, as performance appraisal time approaches.

WHY MANAGERS DREAD THE PERFORMANCE APPRAISAL

Ironically, the manager, who is beginning to loom so large in the employee's consciousness as the day of reckoning nears, usually feels no better about the performance appraisal. Managers can list even more reasons for their lack of enthusiasm. Most of us don't like to sit in judgment of other people. It's that much worse if by doing so you risk offending someone whose continuing enthusiastic cooperation is a necessity for your own success. Your employees' per-

formance is partly their responsibility and partly yours; but in most performance appraisal programs the *appraisal*—its fairness, accuracy, and effect on future productivity and employee morale—are entirely the responsibility of the employee's immediate supervisor. What if what you believe is an accurate appraisal leads to an Equal Employment Opportunity complaint? Can you be sure of avoiding that, even if you believe you are doing everything right? How can you really be fair and objective anyway, when the tasks the employee performs are so hard to measure, when it's so hard to separate one employee's contribution from the overall team effort? So much seems to fall on the shoulders of the manager doing the performance appraisal; it's no wonder that many managers do not relish the task.

In addition to all these reasons for lack of managerial enthusiasm there is another factor that the employee is probably unaware of, but of which the manager is very conscious: in most cases managers are not in a position to choose the system that's going to be used in the performance appraisal. In most cases managers have had little or no input into the development of either the form or the procedures. In large organizations this is understandable, and probably inevitable. After all, one of the purposes of the performance appraisal is to provide comparable data across all employees in a given role; in the interests of fairness the standards used to measure each employee should be the same—and chances are they would not be the same if each manager had the option of using his own appraisal system. But for whatever reasons, the performance appraisal, which is almost always the manager's sole responsibility, is generally handed down from on high like the Ten Commandments. The performance appraisal form and system may come down quietly, accom-

panied by a simple memo, or it may arrive with a great deal of pomp and formality. The form and procedures may be the product of a day's work, or they may be the final result of years of planning by human resource professionals. Perhaps it's no mere form or collection of forms; perhaps it's a carefully engineered *system*—some of the things it does are very basic; others are subtle. In some organizations the performance appraisal is the linchpin for an organization's human resource programs, including salary administration, human resource planning, and career pathing. Of all human resource programs, the performance appraisal may even be the only formal mechanism for communicating to employees what their job is. And, increasingly, the performance appraisal is used as legal documentation for validating promotion decisions.

It may seem as if, at a certain stage of development, someone has said, "as long as we're doing it—why not add *this*?" and tacked it on. As we'll see, the purposes for which performance appraisals are used have expanded gradually for many reasons, none of them whimsical, but whatever the motive, the result is the same: an increased burden on the manager who has to conduct the appraisal.

It's easy for managers to be cynical about performance appraisal. Often there's a poor match between the performance appraisal system and reality. Performance appraisal systems may ask managers to evaluate employees with whom they have little direct contact during the year—where is the manager supposed to get the data? Then again, the qualities the form measures may not seem to have much to do with the job the employee is asked to do. In some cases, managers may be aware that the system of measurement the performance appraisal uses is outmoded or invalidated by the research on the performance appraisal.

Finally, some managers ask, if the performance appraisal is so important, why aren't we given more support in conducting them? According to surveys conducted by Swan Consultants, Inc., only 25% of managers who do performance appraisals receive training for it. When there is training it often goes little further than to explain how to use the form, administrative procedures, and deadlines for submitting and getting the forms approved.

There's an inevitable temptation to give up making the performance appraisal work in reality, since the organization seems satisfied with what works only on paper. Why not glide through it, fill the forms out with a minimal effort, and talk about it with the employee in the easiest way. Surveys show that in some companies employees are not even aware of the existence of formal performance appraisal programs—they are surprised to learn that that once-a-year informal chat with the boss had anything to do with a formal review of their performance. The managers administering those programs are just going through the motions. But managers who do this are selling themselves short, because the performance appraisal can be a powerful *management* tool, and of all the parties involved, the managers are the ones it can benefit the most.

The most intractable problems of performance appraisals are those that affect the human resources function. To make the best and fairest placement and salary administration decisions, human resource programs require accurate, comparable data concerning every employee in the organization. That's a difficult goal to achieve. It can probably be accomplished only by instituting the most effective available performance appraisal methods and by giving thorough training and support to all managers conducting performance appraisals.

On the other hand, surveys show that managers are more interested in the other possible benefits of effective performance appraisals—benefits such as improving individual performance, making decisions about who needs training, and giving employee feedback. And fortunately, achievement of these objectives is well within your power as an individual, whatever performance appraisal system your organization uses.

Performance management, when considered as an ongoing *year-long* process of setting goals and objectives and giving ongoing coaching and feedback, can be an important vehicle for the individual manager's success. The performance appraisal is the annual codification of this ongoing process. It can be the means by which managers hold the reins of their department in their hands, monitor progress so that when something goes wrong you *know* it is, and can make mid-course changes while they're relatively easy to make, build and sustain good relationships with employees, and encourages team development among their employees. Managers who know how to make the best use out of whatever performance appraisal system their organization requires of them are more effective managers.

Perhaps your performance appraisal system seems to have arrived on your desk like a sophisticated software package without an instruction manual or user's guide, and with no hope of obtaining one. What can you do in a situation like that? Eventually, by trial and error, you'll learn how to run the software, because you have to. But you're probably not going to get it to do most of the really sophisticated things it can do—chances are, you won't even *know* about most of the things it can do. You'll probably realize only a small percentage of its potential. And when something goes wrong, you'll really be at a loss. You

won't know what went wrong or how to fix it. That's the need this book was written to fill. If your performance appraisal system seems like software without a manual, you can look on this book as that missing manual: you may be pleasantly surprised to find that your performance appraisal system has features that can work for you. If your organization's performance appraisal system seems like the wrong tool for the job, and you have some say in the matter, this book can supply you with the logical arguments for changing it. If you're dissatisfied with your organization's performance appraisal program, but changing it isn't within your power, we'll suggest ways of reinterpreting it that can make it effective without straying from the strict letter of your organization's policies and procedures.

We can't guarantee that once you've absorbed the lessons herein some problems won't remain. You'll still be sitting in judgment of your employees, and you'll still be responsible for some tough decisions. The task of telling an employee when he or she is not performing up to standard is still a difficult one, even when you use the techniques for defusing defensiveness described later in this book. In short, this book can't promise to make the performance appraisal guaranteed fun, but it can put you on the road to making the performance appraisal work for you. It can help you stop looking on the performance appraisal as an unpleasant chore, and begin to regard it as a practical and versatile management tool. It can help you take whatever performance appraisal system your organization asks you to administer, and use it to fulfill your goals, the goals of the organization, and the goals of your employees.

PERFORMANCE MANAGEMENT VS. PERFORMANCE APPRAISAL

If there's one point I'd like you take from the pages ahead, it's the superior value of continuous *perfor-*

mance management in comparison with a once-a-year *performance appraisal*; or, to put it another way, the value of integrating the performance appraisal into a larger performance management process.

Performance management means more than assessing an employee's performance at regular intervals. It unites a number of related tasks: monitoring, coaching, giving feedback, gathering information, and yes, assessing an employee's work. It accomplishes those tasks in the context of objectives—the immediate objectives of the department and the overall goals of the organization. And it carries them out systematically, throughout the year.

For different organizations the actual means may differ, but regardless of the procedures used to implement it, the basic strategy is the same and the benefits are the same. A performance management approach makes better *use* of the performance appraisal, because it uses the information and the performance appraisal interaction to support definite goals; it also makes for a fairer and more accurate performance appraisal, because defining the aims of the organization and the department clearly helps form better, more job-related criteria for the appraisal.

PERFORMANCE MANAGEMENT AND THE BUSINESS STRATEGIES OF THE ORGANIZATION

Many organizations have enunciated mission statements, business strategies, core values, or driving forces that top management would like to communicate to its employees. Management would also like to have line managers, supervisors, and employees bring their principles to life by incorporating them into their everyday activities on the job.

It's a good idea, but all too often these bold statements of principle and purpose remain on wall plaques or paper at corporate headquarters. Well-executed performance management systems can cascade those strategies, values, and intentions down through the organizational hierarchy, so that each employee knows what they are and knows how his or her tasks, objectives, or responsibilities fit into the big picture.

A good performance management system will also help clarify the organization's core values or intentions. This may include ideals such as quality, customer service, positive interpersonal communication among staff, contribution to profitability, or ethical behavior. These ideals, if clearly stated and effectively communicated through a powerful performance management system, can be very helpful in guiding an individual employee in the course of his or her daily work. This process also makes clear that each employee is accountable for *how* things are done as well as *what* is done.

PERFORMANCE MANAGEMENT AND CAREER DEVELOPMENT

Whether you wish to improve an employee's skills and competencies in a current job, or facilitate succession planning or career planning, an effective performance management process can be quite helpful. In fact, most sophisticated performance appraisal forms have a separate section in which the implications of other sections are extracted and used to create a formal development plan. This can be used to develop employees in their current jobs, prepare them for other responsibilities or promotion, or at least provide a plan to enrich their experience in their current role.

By setting clear objectives, the performance man-

agement process lets employees know what is expected of them, what they need to do to meet those objectives, and the consequences of meeting, exceeding, or failing to meet them. For employees, being clear about what is expected of them and how they will be evaluated is often a positive experience.

A performance management system also helps the employee plan for future performance, since it sets clear targets and goals, and explains why those targets and goals may not have been achieved in the past. In addition, the performance management process can also provide a clear mechanism by which employees can be given developmental opportunities in their current job that will prepare them for promotion or advancement when such opportunity arises. The inclusion of a development plan in the performance appraisal process, rather than just focusing on a report card of last year's performance, gives employees a sense of *their* influence on *their* future.

How you'll make that all happen is the burden of this book.

As mentioned earlier, this book addresses itself to the reality of the performance appraisal as it is presently practiced. In other words, we're not just going to present an ideal performance management system for an ideal world; we're going to help you work with what you've got. What you've got may not lend itself to performance management as I've just described it. But even if the particular performance appraisal program you're working with makes it hard for you to act formally on our advice, there are ways you can do it in an informal way, and in later chapters I'll supply detailed suggestions as to how.

CHAPTER TWO

Performance Appraisal Systems

The seven most commonly used performance appraisal methods are described and analyzed in this chapter. Chances are that in one, or some combination, of these methods you'll recognize the approach you are required to use in appraising your employees. I will explain the logic and intention behind each approach, how it is supposed to work, what it's supposed to accomplish, and how its effectiveness is rated by researchers.

If you feel you understand the logic already, you can skip this chapter or just read the part about your performance appraisal system. However, you may find it worthwhile to read the whole chapter to see where your performance appraisal system fits into the overall picture; comparing your system to the others may even help you to understand why it was picked over the alternatives.

Before we take the performance appraisal approaches one by one, I'd like to set the stage with

a brief discussion of the evolution of the performance appraisal. By showing the progression, I hope to give you a clearer idea of the issues and controversies addressed by the methods described in this chapter.

HISTORICAL BACKGROUND AND RECENT TRENDS

"The Imperial Rater of Nine Grades seldom rates men according to their merits, but always according to his likes and dislikes," the Chinese philosopher Sin Yu remarked around 1,700 years ago. We can draw a number of inferences from this quotation. For one thing, it's clear that not only has the performance appraisal been around a long time, but so have complaints about its fairness and accuracy. Secondly we can deduce—and more recent history confirms this judgment—that while new techniques of performance appraisal have been developed over the years, they have never displaced more traditional techniques. Too often we are still ranking and rating like the Imperial Rater of the Wei dynasty.

As we'll see, the introduction of modern performance systems such as management by objectives (MBO) and evaluation approaches such as behaviorally anchored rating scales (BARS), has not prevented many organizations from continuing to rely on old methods such as essay forms, peer ranking, and "trait" rating scales. In fact, sometimes a technique that goes back to the third century and the latest brainstorm of management theorists can be found side by side on the same form.

Widespread systematic use of performance appraisals in the United States began early in this century with the government and the military, where pressures for merit systems of promotion have tra-

ditionally created a demand for an objective measurement of performance. The modern versions of techniques such as peer ranking, forced-choice measures, and trait-rating scales were developed in the armed services. In civilian life, performance appraisals were used, but limited to hourly industrial employees after World War I; appraisal of managerial employees did not become popular until after World War II.

By the early 1950s most large organizations in this country had performance appraisal programs. For the most part, however, these programs were not very sophisticated. Managers simply rated employees "excellent," "good," "fair," or "unsatisfactory" on a series of traits such as "motivation" or "initiative." Top management was exempt from performance appraisal; at the most, the lower levels of management were included. Too often personnel decisions had very little to do with the appraisal. With some regularity, highly rated employees were fired and low-rated employees retained.

All this was changed dramatically by the 1964 Civil Rights Act and the 1966 and 1970 Equal Employment Opportunity Commission (EEOC) Guidelines for the regulation of employment selection procedures. By defining the performance appraisal as a "selection procedure," the guidelines made it a legal necessity for corporations to find more objective, more systematic, and above all, more defensible techniques for evaluating their employees.

Even before the civil rights legislation of the 1960s, management theorists like Peter Drucker (who developed the concept behind management by objectives, later applied to the performance appraisal) and large corporations such as RCA, General Motors, and Black and Decker had attempted to devise more objective and accurate performance appraisal

techniques. Their discoveries began to be applied much more widely with the advent of civil rights legislation.

In essence, Equal Employment Opportunity Commission guidelines require that any test or selection device showing adverse impact be validated or proven relevant to job performance. These rules are applied to performance appraisals because appraisals are often used as an internal selection or promotion device. Some experts argue that the EEOC guidelines merely speeded up an already existing trend toward more accurate and sophisticated performance appraisals.

CRITERIA FOR RATING PERFORMANCE APPRAISAL METHODS

What constitutes a "good" performance appraisal technique? Researchers who looked into the performance appraisal process ask a series of questions about each method.

1. Is the information measured by the performance appraisal job relevant? If so, how accurate is the technique at measuring them?
2. Does the technique provide a fair and accurate basis for comparing different individuals with the same job in different parts of the organization?
3. Is the technique reliable—that is, will two different rating managers reach the same conclusion, all else being equal?
4. Is the performance information gathered useful and for what is it useful?

I'll be paying especially close attention in this chapter to that last question.

For practical purposes, what constitutes a good performance appraisal technique depends on what you want it to do. No performance appraisal method

is perfect; each one represents a compromise between strengths and limitations. When researchers rate the rating systems, some score highest on legal defensibility, others are particularly well-adapted to giving feedback and improving employees' job performance, and others are best for purposes of internal transfer and salary administration. Even though there are some techniques that most researchers consider virtually useless, there are no techniques they consider effective for every purpose.

METHOD 1: GLOBAL ESSAYS AND RATINGS

This technique consists of just what its name suggests. At the end of the year (or whatever the chosen performance period is) the rating manager is handed a form consisting of the question: "What is your overall evaluation of this individual's performance for the past year?" On a series of blank lines provided for comment the manager then proceeds to exercise his or her talents for literary composition. Depending on that individual's inclination skills in that area, he or she may or may not welcome the opportunity.

The manager is allowed to write anything and to justify the evaluation by using examples, perhaps, or just gut feelings. Nothing on the form forces the manager to back up the judgment or suggests what criteria to use for making a decision. The manager and only the manager decides what data, if any, are relevant to the appraisal.

In a variation of this approach, there is no essay, just the rating: "outstanding," "excellent," "good," "fair," or alternately "superior," "more than satisfactory," "satisfactory," "less than satisfactory," and "poor."

It's hard to find anything to say in defense of global

rating methods of performance appraisal, whether in essay or simple grade-giving form, except that they harken back to an earlier and simpler time in the history of management. With respect to the EEOC guidelines, global essay performance appraisals are legally indefensible because they are not easily shown to be job related. Their accuracy as well as their fairness is questionable, because the same standard cannot be applied throughout the organization; each manager has his or her own criteria, and even the individual manager is likely to apply different criteria to individuals with the same job.

Not only the employee, but the organization, too, suffers from the inaccuracy of this method. The failure to break down the essay, at least in a regular standardized way, into dimensions or components of performance, severely limits its usefulness for placement purposes. The Human Resources Department may have the manager's word that a given individual is "an outstanding performer." But not knowing how or why this is the case, it's impossible to know whether that means the employee is qualified for any other job than the one he or she is already doing. Even if the essayist has volunteered that the employee's exceptional worth is based on "motivation" and "willingness to work hard," there's no basis for assuming that this employee is better motivated or more hard-working than another employee whose supervisor also called "outstanding" but happened not to adduce "motivation" and "willingness to work hard" as components of the assessment.

Finally, the essay form offers a poor foundation for the manager's goals of giving feedback, coaching, counseling and motivating employees, because it is unconvincing and arbitrary. If the employee objects to the appraisal you, as manager, can't say, "Well this is the standard, and other employees in your

position are meeting it," because it's not true: There is no standard—just your opinion, and the employee realizes it.

METHOD 2: TRAIT RATING

Trait rating, in the form that follows, remains one of the most commonly used performance appraisal methods today. The centerpiece of the appraisal is a list of personality traits or qualities such as problem solving ability, cooperation, motivation, adaptability, innovativeness, among others. The rating manager assigns a number to each trait, indicating the degree to which the employee possesses that quality. A variation of this technique requires the manager to evaluate an employee on each of several trait labels, with brief definitions, along a line containing a variety of adjectives.

Typically, the organization that plans to use trait-rating scales first conducts a certain amount of informal analysis to determine what personality traits belong on the form. The problem is that, in most of the trait-rating scales currently in use, the traits are very broadly defined, and so are the criteria for determining the levels associated with each trait—that is, the basis for deciding whether someone is very motivated, slightly motivated, or not at all motivated are not clearly defined.

Trait-rating scales have much more to recommend them than the global essay approach, and the performance appraisal method I described in Chapters Five through Seven includes a variation of this technique. However, my suggested version of trait rating differs in crucial respects in the way the traits (which I call "performance factors") are generated and how they are used in the appraisal.

As currently practiced, trait rating is a flawed