ORGANIZATIONAL PSYCHOLOGY
PERFORMANCE MANAGEMENT & APPRAISAL - MA 204-1

GENERAL OBJECTIVES OF THE SUBJECT

At the end of the course, Individuals will examine the principles of organizational psychology; apply them within companies; critically reflect emotional behavior within companies *and* their impact on the development of this.

8.   PERFORMANCE MANAGEMENT AND APPRAISAL

      8.1   Performance Management Systems vs. Performance Appraisal
      8.2   The Performance Appraisal Process
      8.3   Accurate Performance Measures
      8.4   Results/Outcomes Appraisals
      8.5   How Do We Use Appraisal Methods and Forms?

8.1   Performance Management Systems vs. Performance Appraisal

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

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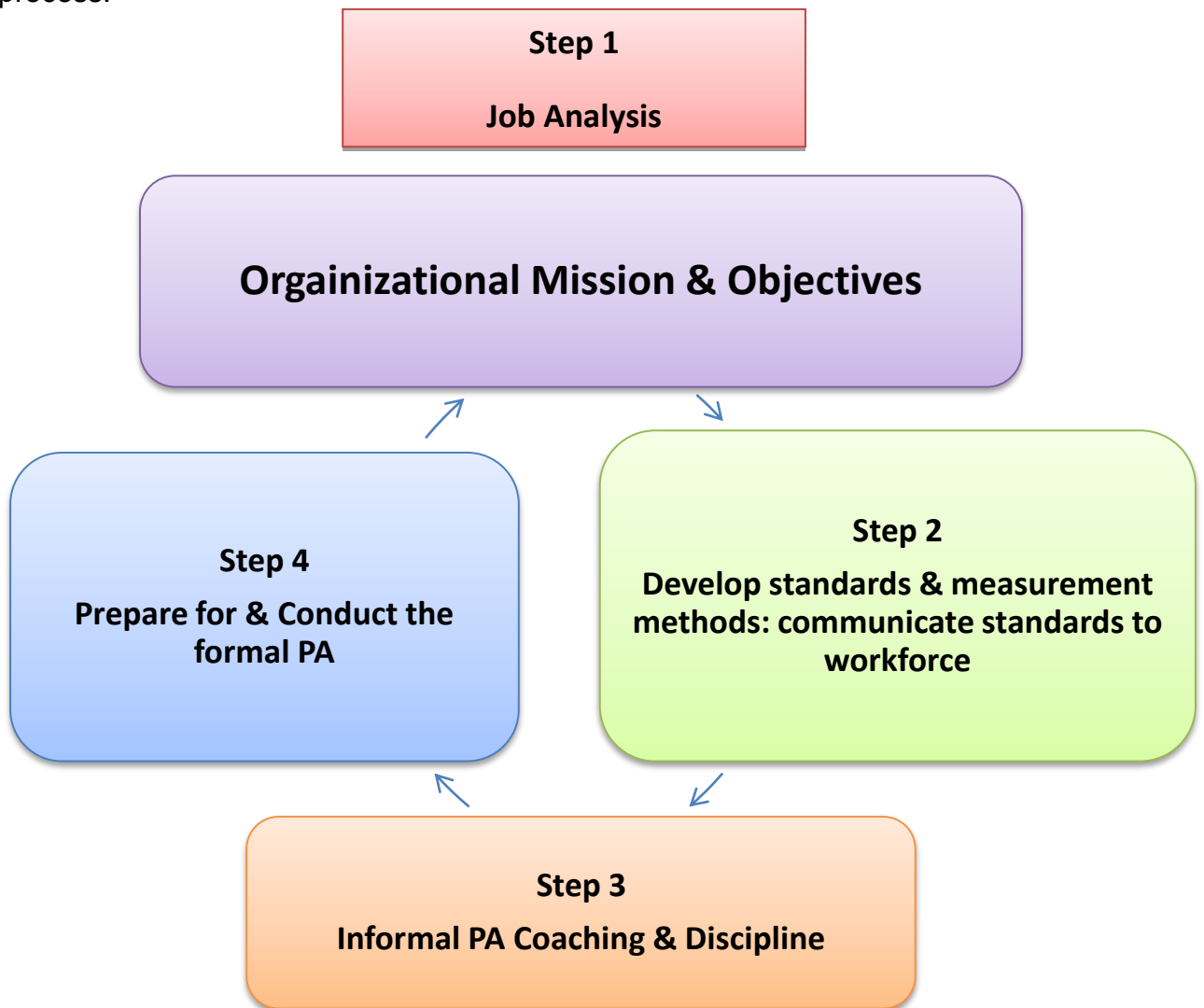
Performance management is *the process of identifying, measuring, managing, and developing the performance of the human resources in an organization.* Basically we are trying to figure out how well employees perform and then to ultimately improve that performance level. When used correctly, performance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

Performance appraisal, on the other hand, is *the ongoing process of evaluating employee performance.* Performance appraisals are reviews of employee performance over time, so appraisal is just one piece of performance management. We will spend most of this lesson discussing performance appraisal, there are several other significant pieces of performance management that we already covered in past lessons

and will cover in future lessons. We discussed "strategic planning," which provides inputs into what we want to evaluate in our performance management system. Now that we understand the difference between performance management and performance appraisal, let's look at the performance appraisal process.

8.2   The Performance Appraisal Process

Exhibit 8-1 illustrates the performance appraisal (PA) process. Note the connection between the organization's mission and objectives and the performance appraisal process. Here we briefly discuss each step of the process.

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                    │       Step 1         │
                    │    Job Analysis      │
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            │   Orgainizational Mission & Objectives  │
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   │      Step 4          │          │          Step 2              │
   │  Prepare for &       │          │  Develop standards &         │
   │  Conduct the         │          │  measurement methods:        │
   │  formal PA           │          │  communicate standards to    │
   │                      │          │  workforce                   │
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            │              Step 3                     │
            │    Informal PA Coaching & Discipline    │
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Step 1. Job Analysis. This is logically our first step because if we don't know what a job consists of, how can we possibly evaluate an employee's performance? We should

realize that the job must be based on the organizational mission and objectives, the department, and the job itself.

Step 2. Develop Standards and Measurement Methods. If we don't have standards of acceptable behavior and methods to measure performance, how can we assess performance? We will discuss performance measurement methods in the next part of this section, and in the major section "How Do We Use Appraisal Methods and Forms?" we will discuss these topics in more detail.

Step 3. Informal Performance Appraisal—Coaching And Disciplining. Performance appraisal should not be simply a once- or twice-yearly formal interview. As its definition states, performance appraisal is an ongoing process. While a formal evaluation may only take place once or twice a year, people need regular feedback on their performance to know how they are doing. We will briefly discuss coaching in the "Critical Incidents Method" subsection of "How Do We Use Appraisal Methods and Forms?" and in more detail along with teaching how to discipline.

Step 4. Prepare For And Conduct The Formal Performance Appraisal. The common practice is to have a formal performance review with the boss once or sometimes twice a year using one or more of the measurement forms we will be learning about. Later in this chapter we will discuss the steps of preparing for and conducting the performance appraisal.

In the major sections to come, we discuss "why" we assess performance, "what" we assess, "how" we assess, and "who" conducts the performance appraisal. Then we discuss performance appraisal problems and how to avoid them, and we end the performance appraisal process with the actual formal review session. But before we leave this section, we need to understand a critically important part of each step in the performance appraisal process—accurate performance measurement.

8.3 Accurate Performance Measures
Performance should be accurately measured so employees will know where they can improve. Knowing where to improve should lead to training employees to develop new skills to improve. To be an accurate measure of performance, our measure must be valid and reliable, acceptable and feasible, specific, and based on the mission and objectives. Let's discuss each here.

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

If our method of measurement is not valid and reliable, then it makes no sense to use it. Recall that a valid measure is "true and correct." When a measure has validity, it is a

factual measure that measures the process that you wanted to measure. A reliable measure is consistent; it works in generally the same way each time we use it.

<u>Acceptable and Feasible</u>. In addition to validity and reliability, we need to look at a couple of other characteristics of our performance measures. We need to analyze acceptability and feasibility. Acceptability means that the use of the measure is satisfactory or appropriate to the people who must use it. However, in performance appraisal, this isn't enough. Acceptability must include whether or not the evaluation tool is feasible. Is it possible to reasonably apply the evaluation tool in a particular case? As an example, if the performance evaluation form is two or three pages long and covers the major aspects of the job that is being evaluated, and both managers and employees believe that the form truly evaluates performance measures that identify success in the job, then they are likely to feel that the tool is acceptable and feasible. If, however, the manager must fill out a 25-page etc. form/s that has very little to do with the job being evaluated, the manager may not feel that the form is acceptable or feasible, at least partially due to its length, even if the employee does.

Conversely, if managers fill out a two-page evaluation that they feel is a true measure of performance in employees' jobs but the employees feel that the evaluation leaves out large segments of what they do in their work routine, they may not feel that the form is acceptable and feasible. If either management or employees feel that the form is unacceptable, it most likely will not be used correctly. So, we always have to evaluate acceptability and feasibility of a measure.

Specific. Next, we want any evaluation measure to be specific enough to identify what is going well and what is not. **The word *specific* means that something is explicitly identified or defined well** enough that all involved understand the issue completely. In performance appraisal, *specific* means that the form provides enough information for everyone to understand what level of performance has been achieved by a particular employee within a well-identified job.

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

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

specific objectives of exactly what each person in each job should achieve or his or her performance outcomes leads to accurate assessment that can increase performance.. **Without accurate measures of performance, the performance appraisal can't be reliable or valid.**

Why Do We Conduct Performance Appraisals?
As you can begin to see already, the appraisal process gets extremely complicated very quickly. And remember, anytime a process in an organization is complicated, it costs a lot of money. So why do we even do performance appraisals? What value provided to the organization and to the individual makes the process of evaluating the performance of our workers so critical?

If performance appraisals are done in the correct manner, they can provide us with a series of valuable results. However, done incorrectly, the process of evaluating employee performance can actually lead to lower levels of job satisfaction and productivity. In this section, let's discuss three major reasons why organizations complete performance evaluations—communicating, decision making, and motivating. Communicating

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

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

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

Decision Making (Evaluating)

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

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

Motivating (Developing)

The third major purpose for performance appraisal is to provide motivation to our employees to improve the way they work individually for developmental purposes, which in turn will improve organizational productivity overall. What is motivation, and are performance appraisals normally motivational? Well, from a business perspective, motivation can be defined as *the willingness to achieve organizational objectives*. We want to create this willingness to achieve the organization's objectives, which in turn will increase organizational productivity.

Evaluative decisions should lead to development of employees. Returning to the machine operators having trouble keeping their equipment in working order, making the decision to train the employees leads to their development through improving their performance, as well as better utilizing the resources to improve organizational performance.

Evaluating and Motivating (Development)

An effective performance appraisal process has two parts (evaluating and motivating), and it does both parts well. Evaluating is about assessing *past* performance, and motivating is about developing employees to improve their *future* performance. But, are both parts done well? Have you ever been in a position of being evaluated and debriefed as an employee? Was the process motivational? Probably not. Think about the appraisal process and how it was carried out. Here we discuss problems with

evaluation and how to overcome them, explain how to motivate, and suggest separating evaluation and motivation.

Problems with Evaluation. A common problem in appraisals is overpowering employees during an evaluation debrief with large amounts of negative information that they have not heard during coaching. This tends to cause the employees to "turn off," or stop listening to their managers as they explain what is wrong. Employees will just **"raise their shields"** to ward off all of the negative information. This is a natural human characteristic. We are naturally suspicious of negative information for a variety of psychological reasons (defense mechanisms), so when employees are presented with a large amount of negative information, they tend to discount or even disbelieve it. They may consider the process unfair or one-sided and not an accurate measure of their performance, and as a result the evaluation may be useless as a motivator.

Avoiding Problems with Evaluation. To help overcome such problems with evaluation, an effective manager who is a good coach will generally never identify a weakness that the employee has not previously been made aware of during the formal appraisal interview— there are no surprises. The evaluative part of the appraisal should only be a review of what the employee already knows and should be willing to hear. However, avoiding surprises is not enough.

The appraisal debrief must be a well-rounded look at individual employees; it should identify both positive and negative factors in the employees' behaviors and results within their job (and remember that the communication needs to be two-way). As managers, we want to tell employees what they are doing right, but also where they have room for improvement. This more balanced approach to the debriefing process will minimize the potential that the employees will raise those shields and avoid listening.

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

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

Separating Evaluation and Development. To improve both parts of the performance appraisal, we suggest splitting the debriefing into two separate interviews. The first meeting is to evaluate the employees' *past* performance, pointing out strengths and areas for improvement; the employees are asked to think about how they can improve

their performance. At the second meeting, manager and employee *jointly* come up with a developmental plan that should lead to increased performance that will result in a higher *future* evaluative rating during the next formal appraisal.

What Do We Assess?

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

Trait Appraisals

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

Can we accurately measure traits that affect job performance? Certainly, there's *some* evidence that particular types of traits are valuable in jobs that require management and leadership skills. Characteristics such as inquisitiveness, conscientiousness, and general cognitive ability have been shown to have a reasonable "link" to job performance. But just how accurate is the link?

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

If we decide to use trait-based evaluations, is that a good method for judging work performance? How many of us would want to have judgments made about our work based on our appearance or personality? Would you consider this to be a **valid and reliable** measure of your work performance? In most cases, it's very difficult to show that personal traits are valid and reliable measures of work performance.

Can trait measures pass the OUCH test? Let's take a look at trait-based measurements using the OUCH test. Is a physical characteristic, such as height, or a psychological characteristic, such as attitude, cheerfulness, work ethic, or enthusiasm, an objective measure of an individual's work performance? We would have great

difficulty creating a quantifiable and factual link between height or enthusiasm and job performance.

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

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

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

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

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

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

Should we measure traits? ***"Author Ken Blanchard says that there are too many evaluation items that can't be objectively measured because they attempt to measure things that no one knows how to accurately measure, such as attitude, initiative, and promo-ability."***

An important question is whether both managers and employees will agree that the measured rating is accurate. The bottom-line test (we will call it the Blanchard test) is whether everyone understands why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development). So we should only assess traits if we meet the bottom-line test of having a direct and obvious objective relationship between the trait and success in the job.

Behavioral Appraisals

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

Can we accurately measure behaviors that affect job performance? As a general rule, behaviors are a much better option to use in an appraisal than traits. While an individual supervisor or manager may make a mistake in judgment of the traits of an employee, physical actions or behaviors can be directly observed, and as a result they are more likely to be a valid assessment of the individual's performance.

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

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

Would behavioral evaluations be defensible in the situation of our fired employee above? Would it be possible for us to show that our evaluation process was *valid and reliable*? If we choose job-related behaviors, it becomes much easier for the organization to defend the validity and reliability of the appraisal process. Observation of actions that are directly related to a job provides at least some presumption of validity as well as reliability purely because the behaviors are directly job-related. Again, if we

chose behaviors that were not able to be directly associated with the job, the validity and reliability would be suspect.

Should we measure behavior? Are behaviors that measure performance more *acceptable* to the individual employee and the managers than personal traits? In fact, evidence shows that most individuals are very comfortable with the evaluation of their performance being based on their behaviors. In general, the most useful and therefore acceptable feedback to employees is considered to be in the form of specific job-related behaviors. As managers, though, we still need to be cognizant of the fact that a behavioral evaluation can be a poor measure of work performance unless the behaviors chosen are directly applicable to being successful in the job. So, like with traits, the Blanchard test is whether everyone understands why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development).

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

Can we accurately measure results that affect job performance? Is measuring the outcomes of a particular individual's job a valid and reliable measure of that person's performance? Well, certainly results are a concrete measure of what has happened in the organization. However, could results of a job have been skewed based on factors that were outside the control of the individual who is performing that job? The answer is obviously that the results could be affected by many other factors besides the individual. For example, the goals could be set too low and be easy to achieve, or too high and be impossible to achieve.

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

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

Should we measure results? Results-based evaluations, like behavior, are also typically very acceptable to both the employee and the manager. Employees readily accept results-based appraisals because they feel that such measures are one of the fairest methods of analyzing their performance. After all, results are the most concrete form of evaluation that can be performed. Either the result was achieved, or it wasn't. We can also defend this type of appraisal much easier than the other two options in court, if necessary. It tends to be very easy for the organization to go into a courtroom and show that an individual's results were absolutely lower than the results achieved by other people in the same or similar jobs, if such an action becomes necessary.

But would a performance evaluation measured on results be valid and reliable? The results-based evaluation would most likely be highly valid and would usually be reliable, assuming that we were able to take into account factors outside of individuals' control that nonetheless affect the performance of their job. So, like with traits and behaviors, the Blanchard test is whether everyone understands why they are assessed at a specific level (evaluation) and what it takes to get a higher rating (development).
Which Option Is Best?

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

For example, *if we need to evaluate employees who work on the assembly line, we may need to evaluate behaviors such as punctuality—do they show up to work on time?* If we have employees who, when they are there, produce at 150% of the standard, but only show up two or three days a week, that creates a problem for the whole assembly line. In that case, we may need to evaluate attendance and punctuality (behaviors) because everyone on the assembly line depends on everyone else.

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

8.5   How Do We Use Appraisal Methods and Forms?

The formal performance appraisal usually involves the use of a standard form developed by the HR department to measure employee performance. Again, **"If**

you can't measure it, you can't manage it." But you must be careful how you measure success, as the assessment should be as objective as possible, not subjective. Employees need to know the standards and understand what good performance looks like, and they need to be able to measure their own performance. If you are stuck with a form that has subjective sections, work with your employees to develop clear accurate standards.

Exhibit 8-2 lists the commonly used performance appraisal measurement methods and forms and displays them on a continuum based on their use in administrative evaluative and developmental decisions. In the following section, we discuss each of them, starting with the developmental methods and working toward the evaluative.

Evaluative ↻1-------2-------3-------4-------5-------6↻ Development					
Decisions					**Decisions**
Ranking Method	**Graphic Rating Scale Form**	**Bar Form**	**Narrative Method or Form**	**MBO Method**	**Critical Incidents Method**

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

Why and when do we use the critical incidents method? Most formal reviews take place only once or twice a year. Do you want to wait for formal reviews to talk to employees about what they are doing well and when they are not performing up to expectations? Of course you want to let them know how they are doing on an ongoing basis. Also, let's say we are a manager with 12 employees. Can we remember everything each of them did well, and when they messed up, and on what dates, so we can evaluate their total performance for the past 6–12 months? Very few, if any, of us can say yes. However, many managers don't keep a record of critical incidents, which leads to problems of accurate measures during the formal review meeting.

We use critical incidents to do a good assessment of the entire review period, and we coach when needed during the entire review period for developmental decisions. We need to continually conduct informal coaching and disciplining when needed as we make notes of critical incidents to use during the formal review. With clear standards and coaching, you can minimize disagreements over performance during the formal performance appraisal because there are no surprises, because employees know what is coming. Although critical incidents are commonly used for developmental decisions, they are also used for evaluative decisions. For legal purposes, a list of documented

critical incidents is especially important to have leading up the evaluative decision of firing employees

How do we use critical incidents? Managers commonly simply have a file folder for each employee, which can be hard copy or electronic. Critical incidents are important employee actions, not minor ones, which help or hurt performance. Every time employees do something very well, such as beat a tough deadline or save angry customers from terminating their business relationship with the firm, a note goes in the employees' file. Notes also go into the file every time the employees' behavior hurts performance, such as coming to work late or the quality of work not meeting standards.

The note is usually written by the manager and/or is in the form of documentation, such as a warning that is given, performance reports, or a letter from a happy customer thanking the employee for doing a great job. Coaching is part of this ongoing process, and it involves helping employees succeed by monitoring performance through giving feedback to praise progress and to redirect inappropriate behavior as often as needed. One error managers tend to make is to focus on the negative actions of employees. Remember that a good balanced evaluation includes both positive and negative, so look for good performance, not just poor, and praise it when you see it.

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

Why and when do we use the MBO method? The MBO method is one of the best methods of _developing employees_. Like critical incidents, employees get ongoing feed-back on how they are doing, usually at scheduled interval meetings. We can use the MBO method successfully with our employees if we commit to the process and truly involve employees rather than trying to make them believe that our objectives are theirs—accurate measures.

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

How do we use the MBO method? MBO is a three-step process:

> **Step 1**. *Set individual objectives and plans.* The manager sets objectives jointly with each individual employee. The objectives are the heart of the MBO process and should be accurate measures of performance results. To be accurate, objectives should be SMART. They need to be *Specific, Measurable, Attainable, Relevant,* and *Time-based*. Being specific, measurable, and time-based is fairly easy to determine in a written goal, but being attainable and relevant is more

difficult. So we developed a model based on the work of Max E. Douglas with two examples in Model 8-1 that we can use when setting objectives for ourselves or with others.

Step 2. *Give feedback and evaluate performance.* Communication is the key factor in determining MBO's success or failure, and employees should continually critique their own performance. Thus, the manager and employee must communicate often to review progress. The frequency of evaluations depends on the individual and the job performed. However, most managers do not conduct enough review sessions.

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

Narrative Method or Form
The narrative method or form *requires a manager to write a statement about the employee's performance*. There often is no actual standard form used, but there can be a form, so narrative can be a method or a form. Why and when do we use the narrative method or form? A narrative gives managers the opportunity to give their evaluative assessment in a written form that can go beyond a simple "check of a box" to describe an assessment item. Managers can also write up a developmental plan of how the employee will improve performance in the future. Narratives can be used alone, but are often combined with another method or form. Although the narrative is ongoing, it is commonly used during the formal review.

How do we use the narrative method or form? The system can vary. Managers may be allowed to write whatever they want (method), or they may be required to answer questions with a written narrative about the employee's performance (form). Let's discuss both here.

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

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

The graphic rating scale form *is a performance appraisal checklist on which a manager simply rates performance on a continuum such as* excellent, good, average, fair, *and* poor. The continuum often includes a numerical scale, for example from 1 (*lowest performance level*) to 5 (*highest performance level*). Self-Assessment and Skill Builder 8-1 uses a graphic rating scale form.

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

How do we use the graphic rating scale form? It is very simple, and we have most likely all used one. For example, many colleges have student assessments of professors at the end of the course. All we do is check off, or usually fill in a circle for, our rating. One problem is that some of us don't bother to actually read the questions. Based on our biases, some of us just go down the list checking the same rating regardless of actual performance on the item. To be fair, this problem is not common with managers formally evaluating their employees. However, it does tend to occur when customers evaluate products and services, including student assessments of professors.

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

Behaviorally Anchored Rating Scale (BARS) Form
The Behaviorally Anchored Rating Scale (BARS) form is *a performance appraisal that provides a description of each assessment along a continuum.* Like with rating scales, the continuum often includes a numerical scale from low to high. Why and when do we use the BARS form? The answer to why and when is the same as for graphic rating scales. So let's focus on the differences between graphic rating scale and BARS forms. BARS forms overcome the problem of subjectivity by providing an actual description of the performance for each rating along the continuum, rather than one simple word (*excellent, good,* etc.) like graphic rating scales. A description of each level of performance makes the assessment a more objective accurate measure. So if BARS forms are more accurate, why aren't they more commonly used than graphic rating scale forms?

It's partly economics and partly expertise. Again, the graphic rating scale can be used for many different jobs, but BARS forms have to be customized to every different type of job. And developing potentially hundreds of different BARS forms takes a lot of time (which costs money) and expertise. Even when a firm has an HR staff, the question becomes whether developing BARS forms is the most effective use of staff members' time. Obviously, it depends on the types of jobs being evaluated and the resources available to complete the evaluation process.

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

Attendance—excellent, good, average, fair, poor
Attendance—number of days missed 1, 2, 3–4, 5, 6 or more

Ranking Method
The ranking method is *a performance appraisal method that is used to evaluate employee performance from best to worst*. There often is no actual standard form used, and we don't always have to rank all employees.

Why and when do we use the ranking method? Managers have to make evaluative decisions, such as who is the employee of the month, who gets a raise or promotion, and who gets laid off. So when we have to make evaluative decisions, we generally have to use ranking. However, our ranking can, and when possible should, be based on other methods and forms.

Ranking can also be used for developmental purposes by letting employees know where they stand in comparison to their peers—they can be motivated to improve performance. For example, when one of the authors passes back exams, he places the grade distribution on the board. It does not in any way affect the current grades—but it lets students know where they stand, and he does it to motivate improvement.

How do we use the ranking method? Under the ranking method, the manager compares an employee to other similar employees, rather than to a standard measurement. An offshoot of ranking is the forced distribution method, which is similar to grading on a curve. Predetermined percentages of employees are placed in various performance categories, for example, *excellent,* 5%; *above average,* 15%; *average,* 60%; *below average,* 15%; and *poor,* 5%. The employees ranked in the top group usually get the rewards (raise, bonus, promotion), those not at the top tend to have the reward

withheld, and those at the bottom sometimes get punished. In Self-Assessment and you are asked to rank the performance of your peers.

Which Option Is Best?
While this section does not contain an exhaustive list, it provides examples of each major method of performance appraisal. Determining the best appraisal method or form to use depends on the objectives of the organization. A combination of the methods and forms is usually superior to any one used by itself. For developmental objectives, the critical incidents, MBO, and narrative methods work well. For administrative decisions, a ranking method based on the evaluative methods and especially graphic rating scale or BARS forms works well.

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

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

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

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

There are other problems as well. What if there's a personality conflict? Supervisors are human, just like their employees, and may just not relate well to some of their employees. This may cause a personal bias for, or against, certain employees that may invalidate the appraisal process if it's significant enough.
What if the supervisor doesn't know what employees are supposed to be doing in their jobs? Aren't supervisors always supposed to know every job for which they are

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