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The impact of performance appraisal system design elements (e.g. type of appraisal form, timing of form completion and whether or not the subordinate compiles information for the review) on perceptions of work planning during the performance appraisal session, subordinate ownership of the session and performance improvement is examined in a sample of supervisor subordinate pairs. The results indicate that timing of form completion and whether or not the subordinate compiles information but not type of form used effect perception of work planning, ownership and performance improvement. Reasons and implications are discussed.

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THE DESIGN OF PERFORMANCE APPRAISAL SYSTEMS: SOME IMPLICATIONS FROM RESEARCH FINDINGS

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Performance appraisal means different things to different people. Because these varying interpretations affect behavior performance appraisal systems do not always achieve their goals.

For the past three years we have investigated performance appraisal system design. We seek to identify process and measurement issues which will help performance appraisal system administrators accomplish their objectives. In pursuit of our goal, we have studied the meanings attached to performance appraisal and the varieties of their designs. Our goal has been to understand how these factors interact to affect performance appraisal. In this article we shall share our findings and explore their implications for human resource professionals.

What is Performance Appraisal?

To some, performance appraisal is an interpersonal experience. Performance appraisal provides an opportunity for managers and subordinates to communicate their assessments and expectations. Performance appraisal thus functions to strengthen the communication and relationship between managers and subordinates.

To others, performance appraisal is a bureaucratic process by which an employee's "performance" is quantified, documented and fed into the paper mill of the organization. The appraisal then becomes the basis for administration decisions regarding salary and promotions.

To still other, performance appraisal serves as the interface between the person and the organization by allowing these people to know the organization's official evaluation of their work and perhaps receive recognition for a job well done.

It is clear then that performance appraisal is a process with multiple definitions. When corporate executives are asked why their organizations conduct performance appraisals, the list of reasons is often long. In general, executives respond that performance appraisal is used to (1) measure performance, (2) motivate employees, (3) improve performance, (4) plan future work, (5) teach employees what they should do, and (6) distribute pay raises. People often answer with conviction and react with amazement at other's notions. In fact, researchers have identified fourteen purposes for doing performance appraisal (Bittner, 1948). Implicitly or explicitly everyone believes performance appraisal has a purpose.

Unfortunately, these idiosyncratic purposes often conflict and people with varying expectations participate in the same event. When this occurs, no one's needs are met. Therefore, in order for a performance appraisal system to work, its goals must be made explicit and care must be taken to ensure they are accepted.

Thus, the first step in system design is to determine the organization's reason for doing performance appraisal. Too frequently, this step is neglected and measurement issues are addressed, an approach which rarely leads to effective system design. To effectively design a system the organization must identify its purpose for appraising performance, then by combining appropriate design elements, a strategy for accomplishing those purposes can be realized.

What Are Performance Appraisal System Design Elements?

By "design elements" we refer to choices the system designers make about the content and process of an appraisal system. For example, the system designer must decide:

1. Which scoring method to use (e.g., trait ratings, behavioral ratings, narratives, goals, ranking, critical incidents);

2. What is discussed during the performance appraisal session (e.g., career development, salary decisions, training opportunities);

3. Who contributes information for the evaluation (subordinate, other supervisors, supervisor's supervisor, subordinate's subordinate, etc.);

4. Who completes the performance appraisal form, and when;

5. Who decides the criteria for evaluation;

6. Whether there is an appeal process; and

7. What training, if any, must be conducted to support the system.

Of course, this list of elements is not exhaustive and none of the elements are totally under the control of the system designers. Nevertheless, by understanding the probable effect of design elements, system designers can more effectively achieve their objectives.

How Can These Design Elements Be Translated To System Results?

No "one best way" to design a performance appraisal system exists. System designers must weigh the strengths and weaknesses of each system element against the context and goals of the performance appraisal system. Although there is no best way to design a performance appraisal system, certain design elements accomplish certain purposes more efficiently than others. For example:

1. System designers interested in the distribution of limited funds may choose a ranking strategy which forces a distribution of performance scores (Cummings and Schwab, 1973).

2. System designers interested in the development of the subordinate's skills may choose a behavioral observation approach, which allows the manager and subordinate to identify weaknesses in the subordinate's performance (Latham and Wexley, 1981).

3. Designers interested in motivating performance improvement may choose a work planning (goal setting) approach (Latham and Yuk, 1975).

4. Designers interested in employee involvement and satisfaction may choose a system which requires self-appraisal or some other form of employee input (Mohrman, 1981).

The design of a performance appraisal system is a difficult task. The system designer who tries to meet one set of objectives may tip the balance, thereby not achieving some others. Added to this dilemma are the effects of system users themselves on the performance appraisal system.

How Are These Design Elements Interpreted By The People Who Use Them?

[illegible] person is likely to emphasize that aspect of the performance appraisal system which serves the goal she/he has set for the system. For example, someone who thinks performance appraisal is primarily a way to document a subordinate's performance will spend less time planning future work or eliciting the subordinate's reactions than will one who believes that performance appraisal is a way to motivate subordinates and improve performance. The latter person, however, may spend less time discussing past performance.

Since individuals tend to use performance appraisal systems according to their individual notions of performance appraisal, system designers are hard-pressed to design a system that will meet the organization's purpose for doing performance appraisal. Nevertheless, we have found that certain design elements are more predictable than others. In the following sections we discuss a portion of our research which analyzes the impact of three design variables on performance improvement, an often stated purpose of performance appraisal.

Which Design Elements Are More Predictable Than Others?

Basic to our research is the assumption that the success of any performance appraisal system is as attributable to process issues as it is to the type of measurement recording form used. We therefore investigated the effects of both process and measurement issues on performance appraisal results.

In 1979, a large multinational company was interested in understanding more about its performance appraisal practices. The Center for Effective Organization at USC undertook a project that documented existing performance appraisal objectives, beliefs and assumptions, described and evaluated the company's performance appraisal system, and made recommendations regarding performance appraisal practices (Resnick and Mohrman, 1981). For the next year information was collected from personnel administrators, high level executives, and manager and subordinate pairs. The findings reported here are an analysis of the information called then.

The study afforded us an opportunity to test our assumption that process as well as measurement issues impact performance appraisal results. In particular we were interested in the effect three design variables, one measurement and two process, had on perceptions of performance improvement.

Most performances appraisal systems have as a goal the improvement of employee performance. Since work planning or goal setting is thought to lead to performance improvement (Latham and Yuk, 1975), system designers often develop performance appraisal forms that incorporate those elements Such forms frequently require a list of goals and objectives and assign points for goal attainment.

We hypothesized that if the use of workplanning forms affects perceptions of work planning, people using such forms would report more work planning during their appraisal session than people using other types of forms.

In turn, if people report work planning during their appraisal session, we expect they would also report learning from the appraisal session and ultimately report an improvement in their performance.

To test this hypothesis, we collected all of the performance appraisal forms used in the company (approximately 50 different forms) and scored them for inclusion of work planning. Of 571 possible manager/subordinate pairs, we have information on 421 pairs. Of those, 72% used work planning forms while 28% used another type of form. Through use of an analysis of variance (ANOVA), we then compared perceptions of work planning for two groups, those who used work planning forms and those who used other types of forms. The ANOVA

revealed no significant main effects for use of the form ($F(1,167) = 0.16$, $p < 0.69$) and no significant interactions ($F(1,167 = 1.18$, $p < 0.28$) between form use and organizational status. All groups reported an equivalent amount of work planning during their performance appraisal session. In other words, the fact that work planning was dictated by the forms had no effect on managers' or subordinates' perceptions of work planning.

Interestingly enough, however, two procedures (when the form was completed and whether or not the subordinate compiled information for review) did affect perceptions of work planning. To test the effect of timing of form completion on perceptions of work planning we again used an ANOVA. This time we compared perceptions of work planning for two groups of managers and subordinates--those who completed the form before the session and those who waited until during or after the review to complete the appraisal form. The analysis revealed a marginally significant main effect for form completion ($F(1,200) = 3.05$, $p < .08$). An examination of the means reveals that both managers and subordinates perceived more work planning when the manager waited until during or after the review session to complete the form.

To find out what happens when subordinates compile information for their performance review, we again compared perceptions of work planning for two groups of managers and subordinates: those pairs in which subordinates compiled information for the review and those pairs in which this was not the case. The ANOVA revealed a significant interaction ($F(1,209) = 9.02$, $P < .003$). An examination of the means indicates that subordinates, but not managers, perceived more work

planning during the session when the subordinate was asked to contribute information for the review.

As well as impacting perceptions of work planning, these two procedural variables effect the subordinates' perceptions of ownership for the appraisal session. An ANOVA of the timing of the form completion reveals a marginally significant main effect, ($F(1,127) = 3.42$, $P < .07$). An examination of the means reveals that both managers and subordinates perceive the subordinate has more ownership of the appraisal session when the form is completed during or after the appraisal.

When the subordinate contributes information for the review an examination of the means reveals both the manager and the subordinate believe the subordinate had more ownership of the event. The effect is more pronounced for subordinates. The results of the ANOVA indicate a significant main effect ($F(1,233) = 21.03$, $P < .001$) and interaction ($F(1,233) = 4.81$, $P < .03$).

A significant aspect of these findings is that both managers and subordinates report performance improvement. This conflicts with one of the most pervasive findings in our research: that disagreement between the perceptions of managers and subordinates is the rule, not the exception. Their perceptions often conflict, not only in the level of the subordinate's performance, but also as to the purpose, content and process of the appraisal interview. The above represents some of the few instances we have found in which subordinates and managers tend to agree about what is happening during and as a consequence of performance appraisal.

Why Do Those Design Elements Work?

We believe these procedures lead to perceptions of planning because they facilitate a sense of ownership for the performance appraisal event on the part of the subordinate. To be effective, work planning must be "owned" by the person doing the work. A significant part of any successful Management by Objectives (MBO) system has always been its participative nature. Most authorities agree that effective goal setting must include employee involvement (McConkie, 1979). Though the intent of the work planning form may have been for the subordinate to feel some ownership of the session, in this case the intent was not realized.

On the other hand, concrete action helped the subordinate feel involvement in and ownership of the appraisal session. Concrete action took place when the subordinate contributed information and when the manager waited for the subordinate's input before completing the form. Just as actions speak louder than words, procedures speak louder than forms. They carry a message to the organization members about the desired flow of behavior between managers and subordinates. They are concrete proof that the organization desires the subordinate's participation.

What Messages Are We Delivering To System Designers?

Performance appraisal system design is complicated. Because the system involves people and changing environments, designers must be prepared to redesign. Performance appraisal design is an interactive process: what seemed the best solution in one situation may not work well two or three years later.

If we can offer any guidance to system designers, it is to be clear about what the organization wants the performance appraisal system to do. Look long and hard at your system's "behavior." Is it in line with your system's words? Finally, understand that each manager and each subordinate have their own notion of performance appraisal. They know what they expect from it. They know what they want from it. These multiple expectations and purposes must be addressed in any system design. A knowledge of performance appraisal options and their probable outcome is essential to successfully meet the performance appraisal objectives of the organization.

Where Do We Go From Here?

Obviously, appraisal system design requires more than just the elements mentioned here. The possible configuration of design elements is almost limitless. Understanding complex issues like the design of performance appraisal systems demands research and experience in a large number of organizations with a variety of performance appraisal systems. We are currently broadening our own research experience and hope that the understanding we gain will help designers in many organizations. In these days of diminishing monetary resources, it is important that human resources be used as effectively as possible. Performance appraisal is a tool that can make that happen. [If your organization is involved in performance appraisal and would like to participate in our study please contact us, Susan Resnick or Monty Mohrman at the Center for Effective Organizations, Graduate School of Business Administration, University of Southern California, Los Angeles, California.]

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