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Mastering Workforce Performance Appraisal

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This report describes how to implement performance appraisal best practices for maximum impact on workforce performance and human capital development. Three key sets of best practices are vital to building and maintaining a valuable performance appraisal system: carefully choosing performance criteria, training performance appraisers for better accuracy and creating employee acceptance of the performance appraisal system.

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According to initial research findings at Accenture, there are three key building blocks to high-performance business: ability to identify and utilize key industry value levers; mastery of core capabilities; and high-performance anatomy (or traits).

With regard to the second building block—mastery of core capabilities—evaluative tools (which we refer to as Mastery Scales) are being created to guide companies as they explore where to most effectively invest their resources. Mastery scales also make it possible to compare the maturity or sophistication of different companies by means of a common set of criteria: Basic, Progressive, and Pioneering Mastery (see Exhibit 1). While basic mastery lies at the threshold for competitiveness, and progressive mastery represents the norms of practice today, pioneering mastery is characterized by innovation and a striving to meet best practices that will be the industry norm three to five years from now.

This Research Report is the first in a series that defines the best practices underlying Workforce Performance, a critically important dimension of the Human Performance Mastery Scale. It is our contention that high-performance businesses get superior results from their employees, both as individuals and in teams, by understanding their core skills and development needs and by selectively investing in appropriate human capital tools. This Research Report focuses on the contributions of performance criteria and appraisal to Workforce Performance. Subsequent Research Reports address learning management, rewards and recognition, recruiting and selection, competency management and knowledge management.

The Impact of Performance Appraisal

Developing and maintaining an effective and efficient performance appraisal system is crucial to human capital development and achieving high performance. In organizations with finely tuned performance appraisal systems, the right people are retained, developed and promoted. Weaker performers are either identified for the training and development they need or counseled into more appropriate roles. Performance appraisal systems provide essential information used to distinguish between the performance levels of employees, provide feedback for employee development

and motivation, and present a legally-defensible basis for personnel decisions. The quality of an organization's performance appraisal system has a profound impact on human capital development because performance appraisal is the bedrock of many other human capital processes. Processes such as career development, succession planning and rewards and recognition are dependent upon performance appraisal information.

Because so many HR processes are linked to performance appraisal systems, these systems are often the focus of litigation involving issues of promotion, demotion, access to training and compensation. Researchers have pored over records of court decisions to identify the features of a performance appraisal system that can protect an organization from undesirable litigation and liability. The nine key recommendations of these researchers are described in Exhibit 2. These nine ways to protect against litigation closely mirror the Accenture pioneering best practices for performance appraisal.

According to Accenture's research and mastery scale, functional pioneers in performance appraisal tend to employ several "best practices" in their performance appraisal systems, including the use of detailed performance criteria, rating scales that maximize distinctions between employee performance levels, trained appraisers and constructive performance feedback (see Exhibit 1). For these organizations, performance appraisal is a continuous process for providing employees with meaningful feedback on a regular basis, not just once a year. While these actions seem simple, it's the execution that really matters. The following sections describe what it takes to execute performance appraisals effectively.

Carefully Choose Performance Criteria

Against what standards should you evaluate employee performance? This is a huge decision since performance criteria communicate to employees what is expected of them and also serve as an input for selection and career development systems.

Exhibit 1: Human Performance Mastery Scale

Performance Criteria and Measurement

Basic	Progressive	Pioneering
• A formal performance appraisal system allow managers to rate dimensions of their employees' overall work performance, communicate performance expectations, and provide feedback on a regular basis. • Managers are given full discretion in terms of subjective ratings.	• A formal performance appraisal system allows managers to rate their employees' performance based on the competencies associated with each employee's job, communicate performance expectations, and provide feedback on a regular basis. • Managers are discouraged from rating all employees using the upper range of rating scale (superior or exceptional performance). • The appraisal system is reviewed and modified as competencies are modified. • Poor performers are identified and eliminated as business needs dictate.	• A formal performance appraisal system allows managers to rate their employees' performance based on the detailed competencies associated with each employee's job, communicate performance expectations, and provide feedback on a regular basis. • Rating scales maximize meaningful distinctions between employee performance levels. • Managers are provided with training on how to make such distinctions between levels of employee performance and how to give constructive feedback. • The appraisal system us reviewed and modified as competencies are modified. • Poor performers are identified and eliminated on a regular basis.

Ideally, performance criteria should be:
- "Reliable and valid measures that adequately sample the domain of a person's job performance."[1]
- Based on work behaviors and not on personal attributes or outcomes of performance.[2]
- Not contaminated by conditions beyond the employee's control (e.g., bad sales territory or natural disasters).[3]
- Very clear about what good and bad job performance looks like behaviorally.[4]

Creating behavioral-based performance criteria may seem like a tall order. However, given the great value of these standards to performance appraisal, personnel selection and rewards and recognition, this effort is well spent. The recommended method of deriving behavioral performance criteria is through a process called job analysis. In fact, the use of job analysis in creating performance criteria is considered an important way to protect organizations from litigation over biased performance appraisal systems (see Exhibit 2, Item 1).[5] Job analysis involves breaking a job down into the behaviors and competencies necessary for successful performance. These behaviors and competencies can be evaluated in terms of importance or frequency of use when developing performance criteria. There are several methods of job analysis, but they all entail interviewing job incumbents and

supervisors to identify representative examples of good and bad performance. Using information collected from a job analysis and framing the performance criteria in behavioral terms creates clear delineations between high and low performance and enables organizations to clearly communicate performance expectations and standards to employees.

Because performance appraisal is so intricately linked to employee development and rewards and recognition, performance criteria must also be public and flexible. Employees must understand clearly how their performance is being evaluated. Performance criteria for each job should be documented and communicated to employees in writing. This ensures that employees understand what is expected of them and also protects the organization from undue litigation (see Exhibit 2). In addition to evaluating employee performance for HR administrative purposes, performance appraisal systems also provide motivational and developmental feedback to employees and should be flexible enough to include the personal goals of individual employees.

Developing accurate behavioral performance criteria can raise an organization to new performance heights, as increasing the quality of performance criteria can boost the impact of several HR processes. For example, a large Asian conglomerate recently

Exhibit 2: Nine Ways to Protect Your Organization from Litigation

1. Base performance standards for each position on documented job analyses.

2. Provide employees with written copy of performance standards for their job.

3. Evaluate employees on dimensions of work performance, not just overall performance.

4. Make sure ratings are based on work-related behaviors and not on the attributes or global characteristics of the individual employee.

5. Provide managers and evaluators with written, detailed instructions about how to use the appraisal system.

6. Require managers and evaluators to complete training on how to use the performance appraisal system.

7. Use multiple evaluators for each employee.

8. Establish formal employee review and appeals processes.

9. Document all information relevant to personnel decisions.

Note: Derived from Austin, Villanova & Hindman, 1995; Muchinsky, 2000; Werner & Bolino, 1997.[6]

transformed itself from a seller-driven organization into a customer-driven organization. A key barrier to this transformation was the lack of a structured performance management system with clearly defined employee performance criteria. By working with Accenture to create new competency-based performance criteria, this organization was able to not only enhance the objectivity and utility of its performance appraisal process, but also build a strong foundation for other HR processes, fitting the right people with the right jobs and clearly communicating the new customer-centered focus of the organization to employees. Since the introduction of this new performance management system, this organization's business performance has improved significantly. We believe this is due in part to the new performance appraisal system.

Train managers and performance appraisers for better accuracy

Managers are the key to an effective performance appraisal system. They must effectively set clear expectations, provide feedback and coaching, and evaluate performance. Due to a wide range of individual differences in ability to perform this role effectively, performance appraisal is one of the most problematic management areas. While rating employee performance might appear to be simple and straight-forward, it is, at its heart, a matter of perception and therefore, vulnerable to human error. The leading organizations in performance appraisal are aware of potential errors and take steps, such as evaluator training, to increase the accuracy of their performance ratings.

There are several predictable, and therefore preventable, errors that performance evaluators typically make: errors of memory and errors of distribution. If performance appraisal is a once-a-year process, managers may have difficulty remembering a year's worth of detailed performance information for each of their subordinates. They will often fall prey to memory issues such as selective recall or forgetfulness, remembering isolated performance examples instead of a consistent pattern of effective or ineffective behaviors and results. Another common memory problem is the halo effect. This occurs when managers use an overall impression (good or bad) of the employee's performance when rating specific dimensions of work performance. Halo errors can be positive or negative. For example, when a positive error occurs, a manager will rate an employee who is generally a good performer as a high performer on all dimensions of performance, regardless of their weaknesses.

Another type of evaluator error—errors of distribution—occurs when managers use the rating scales in quirky ways, such as rating everyone the same way (central tendency), only using the upper end of the rating scale (leniency), or only using the lower end of the rating scale (severity). Since a meaningful performance appraisal requires managers to assess employee performance accurately, identifying employee strengths and weaknesses and distinguishing between employees' performance levels, these rating errors can severely compromise the quality of a performance appraisal system. For example, if most employees in a department are rated "exceeds expectations" on most dimensions of performance (due to halo and/or leniency errors), there is no way to make distinctions between employees for promotion, compensation or development decisions. Further, it is unfair to compare the appraisal ratings of a lenient manager to those of a more severe manager.

Pioneering organizations in performance management are aware of these common rating errors and train and motivate managers to provide accurate performance ratings for their subordinates. Organizations with detailed behavioral performance criteria are already ahead of the game, as these examples of good and poor performance can be used to create rating-scale labels and to train evaluators to use the scales more accurately. In terms of training, a good example is Frame of Reference (FOR) training, which involves "calibrating" raters by training all managers to

use the performance criteria and the rating scale in the same way.[7] This way, an "exceeds expectations" from one manager means the same as an "exceeds expectations" from another. Research has indicated that FOR training does improve rating accuracy and organizations such as JP Morgan Chase, Lucent Technologies and AT&T have implemented this type of training to boost the accuracy of their performance appraisal systems.[8]

Sometimes, performance appraisal accuracy is more of an issue of managerial motivation than managerial skill. For example, managers might inflate the ratings of their subordinates in order to make themselves look better as managers, avoid awkward performance feedback discussions with employees or guarantee rewards like promotions, raises or bonuses for their employees.[9] Holding managers accountable for the distribution of their performance ratings, with external reviews by a third party, such as their direct supervisor or a human resources manager, can increase the accuracy of performance ratings. Research also suggests that managers are motivated to rate accurately when they trust the system, accept that the goal of appraisal is to distinguish between employees, are provided with descriptions of good and poor performance and are rewarded for accuracy.[10]

Create Employee Buy-in and Solicit Feedback

Organizations with successful performance appraisal systems understand that employee acceptance of a system is as important as how the system technically works. Trust in the performance appraisal system and acceptance of its goal of distinguishing between workers in terms of performance levels are crucial. One way to garner employee trust and acceptance is to create a transparent system by explaining clearly, and documenting, how the system works. Performance appraisal procedures and criteria should be posted and easily accessible to all employees. Another way to increase performance appraisal buy-in is to encourage employee participation, such as including personal goal-setting in the system and creating a formal process for voicing grievances and appeals. This communication and participation not only enhances the effectiveness of the performance appraisal system, but also may serve as protection from litigation (See Exhibit 2).

Providing employees with constructive and actionable performance feedback is an important goal of performance appraisal and vital to the workforce development necessary for high performance. While effective performance appraisal is a continuous process for providing feedback on a regular basis, the quality of that feedback is as important as the frequency.

Research suggests that almost one-third of the time feedback actually *decreases* employee performance instead of increasing it![11] Given this, how can organizations maximize the positive impact of performance feedback? Researchers have identified eight specific ways to increase employee acceptance and use of performance feedback (see Exhibit 3). Many of these recommendations focus on management behaviors that provide balanced, actionable feedback and encourage employee participation. Thus, managerial training on how to lead constructive and inclusive feedback discussions, as well as performance rating accuracy, improves the effectiveness of an organization's performance appraisal system.

Several of the recommendations in Exhibit 3 relate to employee involvement before, during and after formal appraisals. From a motivational standpoint, individual employees should be encouraged to collaboratively set short- and long-term performance goals with their managers. This allows managers to give more specific performance-goal-related feedback and increases the perceived relevance of that feedback for the employee. Linking individual performance and improvement goals to rewards that the employee values also aids in maximizing the adoption of performance feedback. For example, Woodside Energy, a leading Australian energy company, encourages employees to set personal and professional growth goals that are linked to a flexible reward and recognition program.

Exhibit 3: Eight Ways to Boost Employee Acceptance and Use of Performance Feedback

1. Base appraisals on performance standards that are clearly documented and communicated to the employee.

2. Solicit and use employee input before appraisal.

3. Ensure feedback is delivered from someone with high familiarity with the employee's work and a good day-to-day working relationship with the employee.

4. Provide balanced feedback that touches on both strengths and opportunities for growth.

5. Highlight specific and actionable opportunities for growth.

6. Focus on no more than two opportunities for growth per discussion.

7. Encourage feedback "discussion" where employee is a full participant and contributor of views.

8. Give employees an opportunity to challenge or refute the appraisal.

Note: Derived from Kluger & DeNisi, 1996 and Greenberg, 1986.[12]

Conclusions and Implications

By carefully developing, documenting and communicating performance appraisal procedures and criteria, pioneering organizations build a solid foundation for human capital development, especially in areas such as recruiting and selection, rewards and recognition and succession planning. Organizations with pioneering performance appraisal systems also protect themselves from litigation around discrimination. Recent Accenture research has even linked the maturity of organizations' performance appraisal systems with enhanced employee engagement.[13] As we shift to a competitive global marketplace where intellectual capital and workforce proficiency are important drivers of shareholder value, human capital development grows even more crucial to achieving high performance. Because of its links to many other human capital processes and business outcomes, an effective performance appraisal process is a wise investment that will help organizations attain high performance.

Notes

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