PERFORMANCE APPRAISAL AND REVIEW SYSTEMS:
The Identification, Measurement, and Development of Performance in Organizations

Stephen J. Carroll, Jr.
University of Maryland

Craig Eric Schneler
University of Maryland

Scott, Foresman and Company
Glenview, Illinois
Dallas, Tex.    Oakland, N.J.    Palo Alto, Cal.
PERFORMANCE APPRAISAL AND REVIEW (PAR) SYSTEMS
A Human Resource Management Activity in an Organizational Context

...You could always tell how you were doing by the way the [pitching] coach said good morning. If he said, "Well, now good morning Jimsie boy," that meant you’d won your last two or three games and were in the starting rotation. If he nodded his head to you and said, "Jimbo, how are you doin’, how are you doin’?", you were still in the starting rotation, but your record probably wasn’t much over .500. If he just said, "Mornin,", that meant you were on your way down, that you’d probably lost four out of five and it was doubtful if you would be getting any more starts. If he simply looked at you and gave a solemn nod, that meant you might get some mop-up relief work, or you might not, but you definitely weren’t starting anymore and would never get into a close game again. And if he looked past you over your shoulder as if you didn’t exist, it was all over and you might as well pack your bag because you could be traded or sent down at any moment.

Bouton, cited in McCall and DeVries, 1977

Unfortunately, most performance appraisal and review (PAR) systems are not nearly as effective as the one used to evaluate the performance of Jim Bouton, a noted former major-league baseball player.
pitcher. First, few jobs have such clearly defined and measurable results as a pitcher's won/lost record. How would we distill the performance of a teacher, manager, hospital administrator, or accountant down to a single index? Second, few PAR systems allow for such explicit and immediate feedback on performance as Jim Bouton received. In fact, many people receive neither copies of their evaluations nor verbal explanations for their ratings. Third, there is seldom such a direct link between performance levels measured by PAR systems and subsequent personnel actions. Demotions ("being sent down," in the case of major-league baseball players) for poor performance, unless sustained over long periods, are rare. Too often, few if any negative consequences occur as a result of poor performance. Rather, the withholding of something positive, such as a salary increase, may be the only direct, observable consequence of a rating, and even this is rare.

Despite these problems, PAR systems exist in the vast majority of organizations of all types. Some are formal, structured systems, complete with forms and policy manuals, while others, like the one described above, are informal systems. Furthermore, evaluating others, as well as ourselves, is an integral part of our lives both inside and outside of organizations. In light of our general tendency to evaluate people as we come in contact with them and organizations' needs to measure how well their members are doing, the question is not whether a PAR system is required but what type of system will be used, what will be measured, who will do the measuring, what will happen to those who are or are not successful, and other such issues. A major objective of this book is to provide some insights into these questions and to pose many others that organizations and managers may not have considered. In this chapter the basic definitions, objectives, problems, and activities crucial to understanding and implementing PAR systems in an organizational context are presented.

WHAT IS PERFORMANCE?

Performance can be viewed as worker activity, or behavior, which has been evaluated as to its appropriateness or desirability in an organizational setting (Campbell, Dunnette, Lawler, and Weick, 1970). Behavior refers to anything a person does on the job—writing reports, cutting trees, solving mathematical problems on a computer, plowing fields, repairing machines, giving instructions to subordinates (see Figure 1–1). Performance refers to how well the reports are written, the trees cut, or the problems solved. The level of performance indicated or implied by workers' behavior or activities is determined by comparing them either to the behavior of others or to a standard (a performance expectation established by authority)—one manager wrote a better report than
PERFORMANCE APPRAISAL AND REVIEW (PAR) SYSTEMS

FIGURE 1-1 Behavior, Performance, and Effectiveness

<table>
<thead>
<tr>
<th>BEHAVIOR</th>
<th>PERFORMANCE</th>
<th>RESULTS OR EFFECTIVENESS INDICATOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>A manager held a meeting with subordinates, explained each person's task, and provided periodic assistance as needed.</td>
<td>The manager was rated as an excellent supervisor, communicator, and task facilitator.</td>
<td>The work group finished the task before the target date and stayed within their budget.</td>
</tr>
</tbody>
</table>

another or a worker cut a tree to the exact specifications provided by the furniture manufacturer.

Typically, performance has some relation to outputs or results, often expressed as indices of effectiveness, such as profit, cost, sales volume, turnover rate, customers served, proposals accepted, funding received, or, for our baseball player, games won. The relationship between performance and results is not always direct—thus the wavy line in Figure 1-1. Profit, for example, depends not only on the performance of the people in a particular unit but also on the accounting practices adopted, economic conditions, or perhaps even the weather!

PERFORMANCE APPRAISAL AND REVIEW

Performance appraisal refers to identification of measurement factors or criteria against which to evaluate performance, measurement of performance against such criteria, review of performance levels attained by individuals, and development of subsequent performance (see Figure 1-2).

An effective PAR system is required at all levels in an organization, from file clerk to chief executive officer. Once each position's contribution to the overall goals of the organization is assessed and each person (and work unit) has performed at a certain level, PAR system results can be tied to reward and other personnel decisions. Appraisal of performance, if done accurately and effectively, can thus assist in making judgments about the differential contributions made by organizational members and groups.

Performance appraisal, however, cannot rely solely on contributions or outputs. It must also assess behaviors, or the processes required (or desired) to produce outputs. A PAR system must therefore address what results are attained, as well as the methods used to attain them. If only
profit (an outcome or result) is measured, methods that produce profit but cause long-run morale, ethical, and/or legal problems may be used. In addition, some outcomes may be either outside the control of those being rated (sales-volume drops due to economic conditions) or not measurable directly or quickly (e.g., what are the outputs of a basic research chemist?).

Performance appraisal must not be limited to measurement. As discussed below, an effective PAR process must identify what should be measured and must also help improve performance. Accurate measurements of irrelevant aspects of performance are as worthless as identification of weaknesses without reviewing them with subordinates and designing strategies for alleviating them.

APPRAISAL OF INDIVIDUAL, UNIT, AND ORGANIZATIONAL PERFORMANCE

The appraisal activities described above refer essentially to individual performance, the primary focus of this book. There is an obvious relationship, however, among individual, unit, and organizational performance. Not only does the performance of each person and unit contribute to an organization's overall performance, but there must be direct links from organizational-level objectives to unit, department, or work-group objectives and to the criteria against which individuals are to be evaluated. If a department has decided, for example, that its emphasis in the coming period will be on developing a new product and exploring more favorable relationships with suppliers, the people within the department who have responsibility in these areas should be evaluated against their performance relative to "product development" and "supplier relationships." These must, of course, be defined specifically at the
individual level if they are to be meaningful performance criteria, but individual efforts directed at attaining departmental (and organizational) objectives must be recognized.

Research on organizational effectiveness indicates that higher organizational performance is more likely when organizational units and key members know and accept organizational objectives (Child, 1976). This requires some type of "cascaded goals" approach; that is, goals for the organization as a whole cascade downward to departments, to smaller work units and, eventually, to individuals. While the focus in this book is on individual performance, the techniques and issues discussed also apply to groups, units, and organizations—there is linkage, through performance among the various levels in an organization. For example, identification and definition of measurement factors (see Chapter 2) is a vital appraisal task even at the unit and organization levels.

In any society, all constituent parts of that society are appraised, at least by informal means. All organizations and even whole political or economic systems are constantly being evaluated against societal criteria, and recommendations are continually made as to how their performance, their contributions to the society, may be improved. Performance appraisal is ubiquitous.

**WHY PAR IS IMPORTANT**

PAR in organizations is a vital activity because its results form the basis for several crucial human-resource decisions—decisions which can directly determine the success or failure of an organization.

If a breakthrough in research and development gives an organization the opportunity to manufacture a new product with characteristics superior to those of its competitors, the decision to go ahead may be made on the basis of PAR system data. Does the right mix of talent currently exist? Is the current managerial staff seasoned enough to do the job quickly? Is there enough depth in the staff to allow people to step into new key positions in the project without detriment to current projects? Can the newer people sustain a long-term effort? The answers to these questions may spell the difference between a successful or unsuccessful new venture, perhaps sustaining the organization in the marketplace. An accurate PAR system supplies the data.

Data on performance levels are required for wage, salary, and benefit administration; for promotion, demotion, transfer, and termination decisions; and for training, staffing, and placement decisions. In short, each human-resource management program, as discussed below, is affected by PAR system results.

At the individual level, a PAR system has enormous consequences. Based upon appraisal results, people may be granted or denied promotions, new assignments, or monetary rewards. If superiors are adept at
staff development, performance feedback, coaching, counseling, and monitoring, they can improve performance and facilitate successful careers. Lack of attention to performance problems can lead to dissatisfaction or apathy and, eventually, to job failure and/or withdrawal.

Recent trends which have heightened the importance of PAR systems include workers' increasing interest in career movement and development, Equal Employment Opportunity (EEO) legislation and programs that aim at early identification of performers with potential, and such legislation as the Civil Service Reform Act (CSRA) of 1978 (Public Law 95-454), which mandated certain PAR systems as the basis for rewards in the federal government. As an organization's human resources become more and more costly, specialized, and interested in their own performance, PAR systems become more important and visible.

**IMPACT OF ORGANIZATIONAL CHARACTERISTICS**

The functioning of a PAR system, like any organizational activity, is inseparable from its context—the characteristics of the organization in which it operates. Because such characteristics exist in great numbers and variety, even in small organizations, their influence is at once significant and complex. In order to begin to unravel these influences and thereby design and implement a PAR system appropriate to a given organizational context, a simple framework for distinguishing organization types is useful.

**Open and Closed Systems Perspectives**

Organizations, as well as units within them, can be placed along a continuum representing, at the extremes, either an open or a closed systems perspective (e.g., Katz and Kahn, 1978). The open systems perspective views the organization as having an active relationship with its environment. The organization near this end of the continuum anticipates and influences its environment, which in turn influences the organization. Flexibility and mutual adaptation are key concepts in this view. As the environment changes, so must the organization. The organization is also seen as being composed of interrelated components, or subsystems, and is itself a subsystem of larger systems—the economic, political, or social system (see Figure 1–3). The organization is open to the influences of these larger systems in the environment, and the designers of all of the organization's subsystems, including the human resource management subsystem of which PAR is a part (see Figure 1–9), must account for such environmental influences.

At the other extreme is the closed, or rational, systems perspective. Here outside environmental factors are thought to be less important, since they are perceived as not completely controllable by management.
Attention is thus directed toward making the internal operations of the organization as efficient as possible. Less effort is directed at anticipating environmental influences or at influencing the external environment itself.

While the open/closed concept is meant to be a matter of degree rather than a dichotomy, there is increasing acceptance of an open systems perspective, the perspective taken in this book. The vast majority of organizations are seen as consisting of various components or subsystems that must be compatible with the other subsystems of the organization in order to survive. The open systems perspective can be taken to the level of the human-resource management subsystem and in turn to the PAR system as one of its subsystems. Within this perspective, PAR systems are also buffered by external environmental conditions such as labor legislation and the state of labor markets.

**Organizational Subsystems**

As discussed below, the PAR system is part of the human-resource management subsystem of an organization. This subsystem is involved in obtaining, developing, and motivating human resources required by
the organization (see Figure 1–9). Other organizational subsystems obtain and effectively utilize other needed resources such as capital and equipment. Still others purchase inputs, manage finances, produce goods and services, sell or distribute outputs, study and predict future environments, and control and coordinate the other subsystems (see Figure 1–3). All subsystems’ objectives should be congruent, contributing to the adaptability of the organization as a whole by performing activities that contribute to achievement of organizational goals. Thus the human-resource subsystem must ensure that the personnel employed in other subsystems have the requisite abilities and requisite motivations and attitudes to perform their unique functions.

The External Environment

Figure 1–4 identifies some specific external and internal (organizational) environmental factors which impact on the human-resource management subsystem of an organization. First, it is obvious that the domain of products and services it chooses (or is assigned) to provide presents an organization with a set of givens to which it must adapt. For example, certain products or services can only be provided given a particular technology. In turn, a certain workforce composition may be required by a particular technology. In producing certain products, an organization becomes a member of an industry which has, at any time, a given degree of competition, a particular stance on unionization, and a particular set of economic circumstances. Organizations within any industry, as well as
those in the public sector, can vary among themselves to some extent with respect to these factors, with the industry as a whole varying from other industries.

The Internal Environment

The external environmental factors in turn impact on the organization itself, as represented by the top management, and on the various components or subsystems of the organization. The organization's policies and authority systems, as well as its size and structure, are key influences on all subsystems. Furthermore, both the size of the organization and the degree of technological complexity may influence a particular organizational structure. Among effective organizations, higher technological complexity and higher market competition are associated with greater environmental volatility and hence with a looser or less formal structure, while their opposites are associated with greater environmental stability and more formalized structures (Carroll and Tosi, 1977).

Mechanistic and Organic Organizations

Since organization structure is such an important determinant of other organizational characteristics, including those of its human-resource management system and PAR subsystem, references to two extreme types of structure—mechanistic and organic (Burns and Stalker, 1961)—are made in subsequent chapters. Mechanistic organizations are tightly structured, suitable for more stable environments, and, typically, tending toward the "closed" end of the continuum described above. Organic organizations are more loosely structured, suitable for more volatile environments, and closer to the "open" end of the continuum (see Figure 1–5). Obviously, the two types are themselves extreme categories, representing ends of a continuum along which organizations lie. In addition, some units within an organization may be more mechanistic while others are more organic.

In keeping with the open systems perspective, the human-resource management subsystem and its PAR subsystem are influenced by the organization's structure. The use of one appraisal system for all types of organizations, or even all units within the same organization, may be counterproductive (Keeley, 1978). In a research and development unit—which are typically organic in nature—a loosely administered PAR system, allowing each scientist to set his or her own performance objectives, may be effective, especially since innovation and change are key objectives of this kind of unit. In a more mechanistic organization, such as an automated manufacturing plant or a tightly structured clerical unit, specific performance targets can be set in advance for each group of like jobs. The PAR system, like the unit in which it must operate, can be
<table>
<thead>
<tr>
<th>MECHANISTIC (stable technology and markets)</th>
<th>ORGANIC (unstable technology and markets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor</td>
<td></td>
</tr>
<tr>
<td>Lower</td>
<td>Task complexity</td>
</tr>
<tr>
<td>Lower proportion</td>
<td>Number of professionals employed as proportion of work-force</td>
</tr>
<tr>
<td>Higher use</td>
<td>Use of standard operating methods and procedures</td>
</tr>
<tr>
<td>Higher use</td>
<td>Use of job descriptions or task definition</td>
</tr>
<tr>
<td>Lower proportion</td>
<td>Managers as proportion of the workforce</td>
</tr>
<tr>
<td>Higher number</td>
<td>Typical number of subordinates supervised by each supervisor</td>
</tr>
<tr>
<td>Formal and vertical</td>
<td>Communication procedures</td>
</tr>
<tr>
<td>Loyalty and obedience</td>
<td>Values rewarded</td>
</tr>
<tr>
<td>Top management</td>
<td>Reference groups for higher-level personnel</td>
</tr>
</tbody>
</table>

more tightly controlled, less flexible, and more standardized. Here the emphasis is on consistency in performance to meet cost and quality standards.

The PAR system thus must fit the organization's constraints, as determined not only by its structure but also by its size. In large, as opposed to smaller, organizations it is much more difficult for centralized managers to have personal contact with all organizational members. Trust must be placed in appraisals conducted by many different managers. The importance of obtaining accurate and comparable performance appraisals is further increased when the organization is geographically dispersed.

Certain types of PAR systems may be incompatible with certain top-management values. A PAR system requiring a great deal of participation on the part of ratees may be incongruent with a bureaucratic organization or with top management's authoritarian values. It is very difficult to establish long-range objectives for individuals in an organization when the organization itself sets only short-range goals. If an organization deals with a strong union representing a significant number of
employees, the union's attitudes toward PAR systems must be considered.

To be acceptable, a PAR system must be compatible with the needs, values, and expectations of its users (Beer, 1981; Schneier and Beatty, 1979a). A PAR system acceptable to one occupational group may be unacceptable, and hence ineffective, to another. Particular characteristics of the work-force may be quite significant in the relative effectiveness of alternative PAR systems. In industrial organizations, current economic conditions may have a critical impact on all human-resource management systems. Under adverse conditions there may be more pressure for performance and attempts to reduce the size of the work-force or reduce financial support for the human-resource management programs themselves. Type of ownership is another factor influencing how an organization is structured and what values are emphasized. The values of owners may be different from those of professional managers, and PAR systems must be compatible with each.

As the various components of PAR systems are discussed in subsequent chapters, organizational characteristics that influence such a system's design, implementation, and hence effectiveness, must be kept in mind.

PAR ORGANIZATIONAL OBJECTIVES

PAR objectives should be viewed within the open systems perspective. The purposes for which any system is designed determine its characteristics. The objectives of PAR systems (see Figure 1-6) will be influenced significantly by the various external and internal environmental characteristics (see Figure 3-5). They are also influenced by the nature of the other human-resource management systems (see Figure 1-9). This is because an open systems perspective dictates that all subsystems and their objectives exist to provide some function or value to the larger, more general system (and its objectives) of which they are a part.

FIGURE 1-6 PAR Systems Objectives

1. Obtain user acceptance and commitment.
2. Comply with organization and public policy and legislation.
3. Determine costs versus benefits and administrative efficiency.
4. Psychometric soundness and accurate ratings.
5. Provide useful inputs to other human resource management systems.
The objectives of subsystems may themselves be seen as contradictory (e.g., provide promotional opportunities but keep experienced people in all positions). Further, the relative importance of various objectives of the organization and those of its subsystems change over time as environmental and organizational conditions change. When this happens, the objectives of a PAR system must change as well. It is thus essential that the objectives of a PAR system be established, that these objectives be derived from the objectives of the organization itself and the subsystems the PAR system serves, and that some priority of PAR system objectives be determined. Some PAR system objectives are attained at the expense of others.

Obtaining User Acceptance and Commitment

As with all human-resource management systems, users should probably have some involvement in the development of a particular PAR system if they are to accept it as legitimate and useful. Indeed, a significant proportion of PAR systems are not acceptable to their users. High user acceptance is required because appraisal necessitates judgment, creativity, initiative, and considerable expenditure of time on the part of its users. Appraisal accuracy is a function not only of the characteristics of the rating instrument but also of rater and ratee motivation to use the system. As a general rule we can say that the more a system requires of those who are to use it, the more important user acceptance and commitment are to the success of the system.

Compliance with Organization Policy, Public Policy, and Legislation

All PAR systems policies must be consistent with those of other human-resource management programs, as well as with organizational policies in general. For example, if an organization's policies stress promotion based on seniority, the importance of PAR results is diminished.

There is a large and growing body of public policy, legislation, executive orders, federal agency guidelines, and court decisions which impact PAR systems both directly and indirectly. While the vast majority of such legal and legislative information pertains to Equal Employment Opportunity (EEO) and discrimination issues (see Chapter 2), legal implications for other aspects of the employment situation, such as compensation, affect appraisal as well. Those responsible for design and use of PAR systems must therefore be extremely careful that their systems are in compliance with all legislation. Current legislation must be considered when systems are designed (e.g., raters must not use appraisal results to discriminate against persons in promotion, reward, or other decisions).
Costs versus Benefits and Administrative Efficiency

PAR systems must be assessed according to the benefits or results they produce relative to the costs in terms of resources expended for their design and implementation. The time taken to complete a very detailed rating form must be weighed against the benefits derived from the additional data obtained versus that available from a simpler form. Costs and benefits are, of course, subjectively evaluated. A PAR system which is actually able to assist managers in their evaluation and development responsibilities may require a good deal of managerial time because of its required complexity (See Beer et al., 1978). A simpler system may require far less time but may not provide data of value to the organization.

Psychometric Soundness and Accurate Ratings

No matter what its other advantages, such as simplicity and low developmental cost, any PAR system must produce psychometrically sound and accurate ratings. This refers to a rating instrument’s ability to measure that personal characteristic or aspect of job performance which it was designed to measure, and the degree to which the results of an appraisal are indicative of a ratee’s true performance level. The system must also deal with any potential rater judgment errors and biases that would detract from accuracy. PAR systems are essentially data-based systems and the accuracy of the data is hence of paramount importance.

Providing Useful Inputs to Other Human-Resource Management Systems

Many administrative decisions must be made about human resources in an organization in order to solve problems or implement higher-level decisions. Such decisions generally must conform to the organization’s personnel policies, stating the intentions of top management with respect to how human resources are to be managed. The PAR system often provides a critical input to these decisions and the quality of the output from the PAR system helps determine the effectiveness of such decisions.

Promotion, reward, training, demotion, layoff, transfer, and career-planning decisions all require accurate data on performance levels. The burden is placed on a PAR system to provide the data for such decisions as well as for those decisions required on a day-to-day basis by managers as they make staffing assignments and supervise their subordinates (Schneier and Beatty, 1979a).
CHAPTER 1

Maintaining and Improving Desired Performance and Job Satisfaction—Toward a Performance Model

PAR systems assist in performance improvement and maintenance through accurate identification of performance differences across people, which then lead to differential rewards. These rewards, if satisfying, can help to motivate people to improve or maintain performance levels. But PAR systems can also help to direct and motivate workers by specifying desired performance levels for them and providing performance-relevant feedback to them. In attempting to maintain and improve performance and satisfaction, it is important to identify the most critical determinants of such performance and satisfaction through research and experience. Effective PAR systems are congruent with such research results.

To understand how a PAR system maintains and improves performance, we must understand why people perform at various levels. Figure 1–7 is a model of job performance and satisfaction. It describes the factors that impact on individual performance in an organizational setting. The figure indicates that choice of a performance level is influenced by a number of factors, including two types of personal expectancies (Mobley, 1971; Anderson and Carroll, 1980). The effort-performance expectancy reflects the individual's personal assessment of the probability of reaching a particular performance level with a given amount of effort. Certainly the individual's degree of self-confidence in his or her general ability to do the task is a factor here. People believe they are strong in some abilities and weak in others. If individuals believe they are most competent in a given area, they may expend more effort in that area than in activities for which they feel they are less well suited (Korman, 1976).

Even if individuals feel they have the skills needed for a particular task, they may feel that the performance level demanded is too high for them to attain in the time allowed. Self-perceived task skills are relevant to certain task requirements. Furthermore, even if individuals are confident that they can reach a certain performance level in the time required they may not be motivated to do so, because the perceived disadvantages may be equal to or greater than the perceived advantages. Studies have shown, for example, that to reach a high performance level it may be necessary to experience considerable fatigue or negative comments from fellow employees (Anderson and Carroll, 1980). These negative outcomes may more than offset any additional compensation, personal recognition, or sense of personal achievement a person could receive for achieving a particular performance level. The level of effort desired by the organization may not be obtained. In a given situation, the level of reward or positive outcome must be sufficiently high to overcome the negative outcome of the situation.
FIGURE 1-7 A Model of Job Performance and Satisfaction
Figure 1-7 indicates that another important factor influencing the performance level chosen, particularly in complex jobs, is specification of desired performance. As shown in Chapter 6, many individuals probably perform at a rather low level of performance because they have never been told that this level is unsatisfactory. Many employees do not know what constitutes good performance. Goal specificity can influence performance by giving employees a target at which to aim (e.g., Locke, 1975). In fact, if pay increases have been received in the past for a given (rather low) level of performance, the employee may assume that this level is quite satisfactory to his supervisor and/or the organization— rewards have been offered for it (see Schneier, 1974a; Hamner, 1974; Luthans and Kreitner, 1975). Simply stating a higher performance level in specific terms can have a favorable effect on performance (Locke, 1968; Latham and Locke, 1979).

There is evidence that on complex jobs where many different tasks and responsibilities must be carried out, a great deal of disagreement often exists among superiors and subordinates regarding which tasks and responsibilities should be emphasized (Maier, Hoffman, Hooven, and Read, 1959). This is often true even on lower-level jobs (Gannon and Haslem, 1971), resulting in organizational members allocating too much time and energy to tasks that have a low value for the organization and insufficient time and energy to tasks that have a high value for the organization. Since the PAR system forces attention to be spent on the most productive investments of time (Carroll, 1974), it can improve individual performance.

The Psychological Contract and Performance Levels

As Figure 1-7 indicates, choice of a particular performance level among several possible levels is influenced by what has been called the psychological contract, as described previously. Schein (1965) has defined the psychological contract in this context as follows:

The individual has a variety of expectations of the organization and that the organization has a variety of expectations of him [or her]. These expectations not only cover how much work is to be performed for how much pay, but also involve the whole pattern of rights, privileges, and obligation between the worker and organization. (p. 11)

Employees have been conditioned throughout their working lives to believe that others who provide benefits to them have a legitimate right to make demands on them and that they should comply. Of course, employees may feel that their obligations to the employer are limited rather than infinite. These limitations form what we might consider the boundaries of the psychological contract (Tosi and Carroll, 1976). The boundaries of the psychological contract will differ from one person to another depending upon their values, their personalities, their level in the organization, and so on.
PERFORMANCE APPRAISAL AND REVIEW (PAR) SYSTEMS

organization, and a host of other factors. Individuals who are higher in the organizational structure and who therefore receive more benefits are apt to have wider boundaries than those at lower levels who receive fewer benefits.

The boundaries of the psychological contract can be widened by the supervisor's behavior (Tosi and Carroll, 1976). This is essentially the difference between leadership and administration. Gratitude and respect for the supervisor can increase the subordinate's acceptability of higher-level directives. Also, a supervisor's behavior in performance review session can significantly influence the subordinate's feelings about the supervisor.

The positive and negative outcomes associated with reaching a particular performance level will influence emotional reactions, which in turn can influence future behavior. Reactions to outcomes may be based on individual perceptions of the outcomes experienced by others in the organizational unit. This can be called the social-comparison process. The supervisor, while not controlling all such outcomes, can certainly influence some of them. Supervisors can recommend individuals for merit pay increases or promotions, provide recognition or extra favors for high performers, study how to make a task less fatiguing, help protect an individual employee from group pressure, or clarify distorted perceptions of rewards received by others.

The model thus indicates that the performance appraisal and review (PAR) process can be a major determinant of an individual's performance and satisfaction, since it has the potential to impact on so many of the determinants of performance and satisfaction in an organizational setting. It can specify the desired performance level directly. The outcomes of the PAR process can influence not only satisfaction but also effort-performance and performance-outcome expectancies (see Figure 1-7), which in turn are related to future performance-level choices.

The manner in which the performance review is carried out can influence attitudes toward the supervisor and perhaps also toward the organization and, with this, the reactions of organizational members to future directives from supervisor or organization, because of the psychological contract. On the other hand, the performance model indicates that the PAR system is not the only determinant of performance and satisfaction. As indicated previously, an effective PAR system must be associated with other compatible and supporting systems such as performance information, organizational reward, selection, and training systems.

PROBLEMS IN PAR SYSTEMS

Regardless of the specific type of PAR system used, three broad classes of problems must be addressed. There are problems arising from
the jobs being evaluated, the persons using the system, and the situational context in which the system is used (Schneider and Beatty, 1979a). These problems, discussed in detail in subsequent chapters, are considered briefly below (see Figure 1–8).

**Problems from the Job**

Development of performance standards or criteria against which to evaluate performance, as well as decisions as to which aspects of job performance to measure at all, can be a source of problems in appraisal. In entry-level jobs and those with routine tasks and observable outputs, this problem is minor. Typists can be appraised on typing speed and accuracy, maintenance workers on number of machines serviced correctly per time period. But for upper-level positions and/or positions with nonrecurring, complex, or unprogrammed tasks and little or no observable output, the problems become acute. Most managerial/administrative/professional positions fall into this category. How do we

---

**FIGURE 1–8 Sources of Problems in Appraisal Systems**

<table>
<thead>
<tr>
<th>The Job</th>
<th>The People</th>
<th>The Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>No identifiable outputs</td>
<td>Subjectivity in human judgment process</td>
<td>Failure to change system when organizational tasks or objectives change</td>
</tr>
<tr>
<td>Lack of specificity of appraisal criteria or performance standards</td>
<td>Differences in perspectives due to sex, race, age, role, etc.</td>
<td>Lack of compatibility of appraisal system with organization structure, size, work-force composition, technology, etc.</td>
</tr>
<tr>
<td>Nonroutine, unprogrammed work</td>
<td>Errors due to failure to observe ratee's performance, understand ratee's job, or understand appraisal system</td>
<td>Failure to develop or apply policies to reinforce importance of efforts in area of appraisal</td>
</tr>
<tr>
<td></td>
<td>Errors due to completion of the rating form</td>
<td>Human-resource management decisions that ignore appraisal data</td>
</tr>
<tr>
<td></td>
<td>Intentional biases against ratees</td>
<td></td>
</tr>
</tbody>
</table>

---

Ineffective Appraisal System
evaluate an advertising executive or a police officer? No ready, quantifiable measures exist. Deciding what to measure and developing a reasonably accurate method to measure it are therefore sizable PAR problems.

Problems from the People

The users themselves are a major source of problems in PAR systems. Since appraisal requires judgment, subjectivity and error are all too commonplace. Individual differences between people, such as age, race, and sex, sometimes cause them to have differing perspectives on the same observed ratee behavior. In addition to these unintentional biases, errors in judgment are made as raters use the various appraisal instruments. They may fail to discriminate among aspects of performance, rating someone low in all areas if they perceive the person to be gravely deficient in one area, or they may rate all ratees too high or too low.

Raters may also give erroneous appraisals if they have little knowledge of ratees' jobs, little time to observe performance, or little understanding of the appraisal instruments or process. Finally, intentional errors and biases may result from overt discrimination against certain ratees for any number of reasons, including sex, political ideology, or religion.

Certain precautions in PAR system design phases, use of various types of appraisal instruments or formats, and rater training can help here, but as long as appraisal requires people to evaluate the performance of other people, the potential for subjectivity and bias is a problem.

Problems from the Situation

As discussed above, each PAR system exists in a particular organizational context, containing a unique set of policies, external environmental influences, work-force composition, and organizational structure, among numerous other influences. Any one of these characteristics can be problematic for a PAR system. One of the most typical problem areas is organizational policy. If promotion policies do not, for example, reinforce the notion of promotion based on performance, there is little incentive to complete an accurate rating—its data is simply not used. If organizational rewards are dispensed only for outputs and the time taken to assess, appraise, and develop one's subordinates is not considered a legitimate managerial function, little time or effort will be given to appraisal.

The organization must back up its efforts at developing a PAR system with policies which are compatible. Likewise, designers and
users of PAR systems must assure their compatibility with organizational realities such as its structure, its size, and demands placed on it by its environment.

Problems arising from the three broad sources noted above are never totally eliminated in a practical sense. They can, however, be lessened if PAR systems designers and users are aware of their existence and of various techniques which help alleviate them. If left unchecked, these problem sources will render even the most thorough, sophisticated, and/or technically sound PAR system useless as it moves from the planning stages to the organizational setting.

**PAR's POSITION AMONG INTERDEPENDENT HUMAN-RESOURCE MANAGEMENT PROGRAMS**

An effective organization contains specific programs for the procurement, development, and utilization of its human resources. As Figure 1–9 indicates, these related programs or subsystems together form the human-resource management system. Before people can be selected, their number and type must be determined through planning and forecasting activities, jobs must be analyzed and described to ascertain what duties persons are to perform, and desired performance must be identified in order that people can be evaluated and developed. Once selected, people must be trained and rewarded, with both financial and nonfinancial rewards, in order to sustain and improve performance.

All human-resource management systems are directed toward insuring that the organization has the quantity and quality of human resources it needs. The ultimate test of a human-resource management system is, thus, performance. Since the PAR system identifies, measures, and evaluates performance, it helps evaluate the adequacy or effectiveness of the other human-resource management subsystems (see Schneier and Beatty, 1978b; Baird, Beatty, and Schneier, 1981).

The PAR system further serves as a necessary input to the other human-resource management systems. For example, selection to positions above the entry level is based on evaluation of behavior and performance. The training and development needs of organizational members are also determined through an appraisal of current performance and its comparison with what is required now or in the future. Output from the PAR system is obviously a necessary input into the reward system.

If the PAR system incorrectly identifies, or fails to identify, the good and poor performers, then training and development expenditures may be wasted and a selection system producing the wrong people for the organization will go unnoticed. If differential pay increases are based not on real differences in performance pointed out by the PAR system but on
FIGURE 1-9 An Interdependent Human-Resource Management System*
personal differences irrelevant to organizational objectives, the level of performance and motivation in the organization may be depressed. If PAR results are inaccurate, causing the wrong people to be released when a reduction in force is necessary, the organization may lose some of its most valuable resources.

THE PAR PROCESS: TOWARD PERFORMANCE MANAGEMENT

The view taken in this book is that PAR in organizations is a process consisting of several sequential and recurring steps (see Figure 1–10). These are conducted within and influenced by the nature of each superior-subordinate relationship and, in turn, help define it. First, those aspects of performance which are to be measured must be identified and defined. These can be called appraisal criteria. A thorough analysis of the job is required to develop criteria. As discussed above, identifying appropriate criteria is often difficult for complex jobs.

After criteria are identified and defined, they must be communicated very clearly to those being rated. It is all too common for ratees to learn they were evaluated negatively on an aspect of their performance they felt was inconsequential, outside the scope of their job, or for which they felt performance standards were lower than those actually used by their superior. As a next step in the PAR process, performance expectations, targets, and/or objectives should be (jointly) set by raters and ratees. Raters must describe the level of performance they require and help set challenging but realistic goals to focus ratee energy and effort. Ratees must understand and accept the goals. Appraisal criteria must be addressed in the context of the job being evaluated and the superior-subordinate relationship inside which the appraisal will be conducted. Each superior must explain specifically what he or she means by "effective" reports, "timely" responses, or "good" service to customers.

The PAR process is only effective if it is an ongoing one. Periodic observation, monitoring, coaching, counseling, feedback, and record-keeping by the superior are crucial. In this way, performance problems are caught early and corrected before they have costly consequences. Likewise, performance strengths are recognized so they can be reinforced. It is really the PAR tasks of continually setting standards, monitoring subordinate performance, and providing periodic feedback and help which are at the heart of the supervisory job, and they are difficult ones. They require constant attention, observation, clear definition of desired performance, sound and unbiased judgment, and keen communication and interpersonal skills.

At the end of an appraisal period, the rating must be completed. Unfortunately, this single step is often thought to be the only important one in the PAR process. It is only as effective, however, as those steps
FIGURE 1-10 The PAR Process: toward Performance Management
which precede and succeed it. The actual rating, for example, cannot be accurate if observation was too infrequent or if PAR criteria were not identified, defined specifically, and communicated to ratees. Likewise, the rating scale or format must be specific enough to facilitate an accurate rating.

After the rating has been made, the results are fed back to the ratee in what is often called a performance review session. This session allows raters to explain their judgment and ratees to learn where they stand, what improvements they must make, and what aspects of their performance are acceptable. Only if provided with detailed feedback can ratees be expected to improve. The session should contain a problemsolving and action-planning component. That is, detailed plans for performance improvement, if required, must be developed, and disagreement between rater and ratee perceptions or judgments must be resolved. It is obvious that the nature of the rater-ratee relationship—the trust, respect, and openness present—as well as the parties' skills in communication, will impact the results of a performance review session. Here the rater must shift back and forth between the two difficult roles of the judge who gives the rating and the coach who diagnoses problems and helps develop performance improvement techniques.

Finally, the consequences of the rating occur. The first is to initiate any personnel actions on the basis of the rating. These may include administration of wage, salary, bonus, or other rewards, as well as promotion, transfer, demotion, layoff, or termination. Second, plans developed in the performance review session to improve performance, such as training, job redesign, or on-the-job coaching, must be implemented.

As the next appraisal period begins, the next cycle of the PAR process also begins. Any changes in the job signal changes in the criteria, triggering a new set of expectations or goals to be met. As shown in Figure 1–10, the process is an ongoing one. Results of one cycle impact the next. The supervisor is continually observing, monitoring, and feeding back his or her judgments. As supervisors perform the various steps in the PAR process, they develop a performance management system that effectively assesses and develops their staff. In this way, performance is not merely appraised, it is managed. The larger responsibility of supervisory personnel is performance management—the PAR system is the tool which facilitates this process.

**CHAPTER SEQUENCE**

The remaining eight chapters in this book were written in a sequence which mirrors the process of designing, implementing, and evaluating a
PAR system. Subsequent to decisions on the system’s objectives and an awareness of the impact of various organizational characteristics on an appraisal system discussed above, appraisal criteria must be determined (Chapter 2). Criteria are the aspects of job performance which would be evaluated. Deciding what criteria to employ is often a major PAR system problem, as are combining criteria and weighting them. Chapter 2 also discusses various rating problems. These “response set” errors include tendencies of raters to rate too high or low and their failure to differentiate between performance levels of a group of ratees.

The reliability and validity of ratings are addressed in Chapter 2, with an emphasis on the types of validity generally applied to PAR systems and methods for assessing each type. While accuracy of a set of ratings is an obvious PAR system objective, we must be realistic regarding the level of accuracy that can be attained and the ability of various types of PAR formats to alleviate rating errors. Research reviewed in Chapter 2 indicates that a high degree of accuracy in appraisal is a goal generally not yet attained.

After those aspects of job performance to be measured have been identified, rater judgment and information-processing characteristics significantly influence their use. In a PAR system, information about ratees is processed—gathered, analyzed, integrated, categorized, recalled (or forgotten)—eventually forming a judgment about a ratee’s performance level. We are beginning to understand how these judgment processes operate and how they influence ratings. Chapter 3 presents one view of the information-processing activities of raters and their consequences. A premise guiding this chapter is that we may be able to learn more about how and why individual raters give specific ratings by analyzing the rater’s judgment processes, as opposed to limiting our study to the ratee’s actual performance or to the appraisal instrument itself.

In addition to the “cognitive” characteristics’ influence on the rating process, the rater’s (and ratee’s) role both in the organization and relative to the ratee (and rater) impact the PAR process. Chapter 4 views organizations as role systems in which expectations for desired behavior accompanying a role help set expectations for performance levels of ratees. A supervisor, due to his or her role as evaluator of performance, may hold higher expectations of a subordinate than the subordinate’s peers do. Advantages and disadvantages of using various role occupants (e.g., peer, supervisor) as raters are discussed.

Another set of rater (and ratee) characteristics has also been shown to influence appraisal results. Race, age, sex, and personality, among other characteristics, should be considered as PAR systems are designed and implemented. Chapter 4 analyzes the impact of these factors.
CHAPTER 1

It is quite appropriate that a discussion of types of PAR formats or instruments be placed in the center of this book. Only after considerable thought, and as a result of many policy and other decisions, should specific formats on types of appraisal forms be addressed. As noted above, PAR is seen here as a process, with the completion of the rating form itself only one step in this process. Chapter 5 describes the major types of rating scales, checklists, and ranking procedures and analyzes the advantages and disadvantages of each, given research results and practical considerations. While no format or form can lead to an effective PAR system simply through its design and implementation, certain categories of formats facilitate various of the PAR system objectives enumerated above (see also Chapter 9). The search for the best format thus becomes one of a match between organization setting, intended PAR system uses, rater and ratee characteristics, and format.

In addition to those using one of an infinite variety of scales, PAR systems are often based on what are called objective measures. Examples of such criteria are work output, cost, and sales volume, in addition to attainment of various types of performance objectives set at the beginning of the rating period. Chapter 6 discusses deciding which performance standards to measure, setting the standards, and utilizing such data in a PAR system. Unfortunately, use of such measures does not eliminate PAR system problems. Management by Objectives (MBO) systems are presented in Chapter 6 as a viable approach to measuring performance, particularly at the managerial level. The organizational factors which facilitate or impede successful implementation of MBO systems are emphasized.

Regardless of the type of system chosen, performance appraisal results must be reviewed and fed back to those being rated, in order that strengths and weaknesses may be pinpointed and action plans be developed to improve performance. Chapter 7 details this phase of the PAR process, providing a conceptual base for effective communications between rater and ratee and suggesting ways to reduce defensiveness. Characteristics of effective feedback are noted and organizational characteristics such as structure are taken into account as moderators of the review process. Unless the results of a PAR system can be fed back to ratees and acted upon by both ratees and the organization, their impact is minimal, regardless of their relevance and accuracy.

The term performance appraisal typically suggests evaluation of past performance, yet organizations have a vital need to know how their members will perform on future assignments and in positions they may hold at a later date. Rational promotion decisions hinge on an analysis of potential to perform in the future, as well as the record of the past. As pointed out in Chapter 8, the analysis of potential is not a simple process, and reliance on appraisals of past performance as predictions of future performance can be problematic. Identification of knowledge, skills,
abilities, interests, personal traits, etc., required in various positions must precede the task of assessing individuals' fitness for positions. Both identification of position requirements and assessment of individual potential are difficult tasks. Assessment centers have been utilized effectively for in-depth assessments of potential. This technique is reviewed briefly in Chapter 8.

Design and implementation are related but distinct aspects of PAR systems. Like any other program designed to manage human resources, it rarely is an elegant design able to overcome implementation problems. How is resistance to change or past experiences overcome? How are negative perceptions changed? How is trust built? These questions are addressed in Chapter 9, along with the important areas of training raters in a PAR system and audit and evaluation of PAR systems. Implementation strategies must also take into account the interdependencies between PAR systems and other human-resource management programs such as training and compensation. Each uses the results of a PAR system, and these linkages are explored in Chapter 9.