

## Why Ratings Based Appraisals Fail

In the January edition of The Public Sector Manager / Workplace2001 newsletters, we discussed why the use of RANKING procedures to compare employees to each other can create disastrous consequences. Fortunately, ranking systems for performance appraisal aren't used that frequently compared to the use of RATING systems. Unfortunately, RATING systems are also problematic, and are used in a huge number of organizations.

First, what is the difference between a ranking and a rating system? A ranking system evaluates employees based on whether they are better, equal or worse than their peers. It is a comparison. A rating system compares employee performance to some set of criterion, and produces either a number or a letter grade that supposedly represents the employee's level of performance. With a RANKING system it isn't really possible for everyone to be ranked as excellent (or at the top of the heap), even if all employees are excellent. A rating system permits everyone to be rated highly, if they warrant it.

Rating systems are so popular that computer programs have been developed to undertake the evaluations. In addition, most 360 evaluation processes are based on ratings systems, with the ratings obtained by not just the supervisor, but peers, customers, etc.

The question is whether they "work".

### Problem One: Appearance of Objectivity

In our organizations we have legal and philosophical pressure to evaluate employees in an objective, consistent and fair way. There is no question that being objective is critical. Because of our desire to conform to those needs, we create systems that use numerical scales (for example 1-5) to evaluate employees. As an example, the University of California uses the following rating categories (in addition to some other components):

- Job knowledge: Evaluate the use of information, procedures...etc required for current jobs.
- Quality: Evaluate the accuracy, completeness, etc of work.
- Planning/Organization: Consider areas such as varying work demands, developing efficient measures,...
- Initiative: Consider the self-starting ability, resourcefulness, and creativity applied to the duties of the position.

If you look carefully at the criteria above, you will see that they don't eliminate subjective judgements at all. One manager's idea of "self-starting ability" can be quite different than another's idea. How does one objectively evaluate "creativity".

This wouldn't be a major problem except that often we act as if the ratings ARE objective. We make pay and promotion decisions on information that is at best quite subjective. We forget that any rating is only an indication of how one person (the manager) applies a fuzzy criterion. In terms of legal consequences, a poorly and badly designed set of criterion is probably not sufficient to protect an employer. Dismissing an employee based on, let's say, a low ranking on creativity is going to be really problematic unless one can justify that rating in terms of hard, concrete events (failed to create a new product between January and December). But if we use the criterion above, we don't need rankings.

Ratings systems give people a false sense of security, protection and objectivity.

#### Problem Two: Development Issues

One function of performance appraisals is to help employees develop so they can contribute more effectively. Do rating systems, in and of themselves, contribute to employee development? The answer is No.

In order for staff to develop and learn they need to know what they need to change, where (specifically) they have fallen short, and what they need to do. If a manager assigns a 1 (unsatisfactory) on a scale of 5 to the dependability criterion, what information does that convey (by itself) to the employee? Not much. It just says the manager is dissatisfied with something. In order to make it meaningful and promote growth, far more information must be added to the appraisal process. When were they undependable? In what very specific ways? What changes need to occur? Those are the critical growth questions.

One argument offered by ratings proponents that the manager can use the rating scale as a springboard to discuss those details. That's true. However, why do the ratings. A manager dealing with an employee who is habitually late can simply document the lateness, and discuss with the employee what needs to be done to remediate the problem. No numbers, and no very rough, subjective categories.

Simply put, ratings, on their own, do not convey sufficient information for people to improve. And since they don't do that, why use them?

#### Problem Three: Fairness Issues

If, as we suggest, ratings systems are too subjective (but appear objective) and ratings do not help employees get better, there are some serious problems from the position of the employee.

First, since the criteria for ratings are so often loose, most employees are going to resist being classified at the low end of the scale. Employees who are low rated are more likely to resist the subjective evaluation of the boss, argue, claim personal vendettas, etc. Simply put, they are easy to argue with, just because performance compared to vague criteria are unmeasurable. So, the manager says performance is unsatisfactory (1) and the employee believes it is excellent (5). Where do you go from there.

It is far more sensible to eliminate the rating completely, and use critical incident reports or firm, measurable objectives where there is less possibility for interpretation. Which is less likely to cause resistance on the part of an employee? Telling someone you think they rate an unsatisfactory classification for dependability, or providing employees with an attendance sheet that documents that they were late eight times in the month?

#### Why Is Rating So Popular?

If ratings are not objective, are not needed to promote employee development (and productivity), and create friction and argument in the workplace, why are they so popular?

The answer is simple. Organizations can use a common, "one-size-fits-all" form that can be administered quickly and easily. It doesn't cost as much as an Management by Objectives approach which has potential for providing objectivity and the perception of fairness. It also doesn't provide objectivity and fairness.

It's cheap and it doesn't take a whole lot of time. Or is that really true? In a short-term perspective it IS true. However if a rating system doesn't help people do better, are there costs that are incurred as a result of having such a system? Probably. A poor system is expensive later. In legal issues, grievances, and the cost of performance problems that are not addressed using a rating system.

### Final Comments

In a short article we can't complete a fuller picture of all the issues. We invite those interested to order our white paper entitled "Performance Management - Why Doesn't It Work" for a more detailed, but focused discussion. In closing let's consider some of the following regarding performance appraisal.

1. Many organizations report that once a person's salary is no longer tied to doing rating type appraisals, they cease to be done. The reason: Badly implemented systems cost too much in terms of time, money and discomfort on both staff and management sides.
2. 360 Appraisals (rankings from multiple sources) are worse than regular manager-employee rating systems. They create more subjective data, with rankings from one source contradicting ratings from another. Hugely expensive.
3. Where ranking systems appear to be succeeding (and the value they add is not usually assessed), they work IN SPITE of the ratings. A good manager can make a rating system work. A poor manager who relies solely on the ranking system is going to do more damage with it than if they did nothing at all. Conflict, bad feelings and argument are going to occur.

Next month we will be completing this series by addressing the question:

If ranking systems aren't good, and rating systems aren't good, how do we do performance management?

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## Performance Appraisals Don't Work

From Susan M. Heathfield,  
Your Guide to Human Resources.  
FREE Newsletter. Sign Up Now!

### The Traditional Performance Appraisal Process

Second only to firing an employee, managers cite performance appraisal as the task they dislike the most. This is understandable given that the process of performance appraisal, as traditionally practiced, is fundamentally flawed. It is incongruent with the values-based, vision-driven, mission-oriented, participative work environments favored by forward thinking organizations today. It smacks of an old fashioned, paternalistic, top down, autocratic mode of management which treats employees as possessions of the company.

### The Traditional Performance Appraisal Process

In the conventional performance appraisal or review process, the manager annually writes his opinions of the performance of a reporting staff member on a document supplied by the HR department. In some organizations, the staff member is asked to fill out a self-review to share with the supervisor.

Most of the time, the appraisal reflects what the manager can remember; this is usually the most recent events. Almost always, the appraisal is based on opinions as real performance measurement takes time and follow-up to do well. The documents in use in many organizations also ask the supervisor to make judgments based on concepts and words such as excellent performance (what's that?), exhibits enthusiasm (hmmm, laughs a lot?) and achievement oriented (likes to score?).

Many managers are uncomfortable in the role of judge, so uncomfortable, in fact, that performance appraisals are often months overdue. The HR professional, who manages the appraisal system, finds his most important roles are to develop the form and maintain an employee official file, notify supervisors of due dates, and then nag, nag, nag when the review is long overdue.

Despite the fact that annual raises are often tied to the performance evaluation, managers avoid doing them as long as possible. This results in an unmotivated employee who feels his manager doesn't care about him enough to facilitate his annual raise.

### Employee Performance Appraisal is Painful and It Doesn't Work

Why is this established process so painful for all participants? The manager is uncomfortable in the judgment seat. He knows he may have to justify his opinions with specific examples when the staff member asks. He lacks skill in providing feedback and often provokes a defensive response from the employee, who may justifiably feel he is under attack. Consequently, managers avoid giving honest feedback which defeats the purpose of the performance appraisal.

In turn, the staff member whose performance is under review often becomes defensive. Whenever his performance is rated as less than the best, or less than the level at which he personally perceives his contribution, the manager is viewed as punitive.

Disagreement about contribution and performance ratings can create a conflict ridden situation that festers for months. Most managers avoid conflict that will undermine work place harmony. In today's team-oriented work environment, it is also difficult to ask people who work as colleagues, and sometimes even friends, to take on the role of judge and defendant.

Further compromising the situation, with salary increases frequently tied to the numerical rating or ranking, the manager knows he is limiting the staff member's increase if he rates his performance less than "outstanding". No wonder managers waffle, and in one organization with whom I worked, ninety-six percent of all employees were rated "one".

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# About: Human Resources

## Performance Appraisals Don't Work

From Susan M. Heathfield,  
Your Guide to Human Resources.  
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### Eliminate Performance Appraisals as You've Known Them

Am I completely against performance appraisals? Yes, if the approach taken is the traditional one I have described in this article. It is harmful to performance development; damages work place trust, undermines harmony and fails to encourage personal best performance. Furthermore, it underutilizes the talents of HR professionals and managers and forever limits their ability to contribute to true performance improvement within your organization.

A performance management system, which I would propose to replace the old approach, is a completely different discussion. And, I don't mean renaming performance appraisal as "performance management" because the words are currently in vogue. Performance management starts with how a position is defined and ends when you have determined why an excellent employee left your organization for another opportunity.

Within such a system, feedback to each staff member occurs regularly. Individual performance objectives are measurable and based on prioritized goals that support the accomplishment of the overall goals of the total organization. The vibrancy and performance of your organization is ensured because you focus on developmental plans and opportunities for each staff member.

### Performance Feedback

In a performance management system, feedback remains integral to successful practice. The feedback, however, is a discussion. Both the staff person and his manager have an equivalent opportunity to bring information to the dialogue. Feedback is often obtained from peers, direct reporting staff, and customers to enhance mutual understanding of an individual's contribution and developmental needs. (This is commonly known as 360 degree feedback.) The developmental plan establishes the organization's commitment to help each person continue to expand his knowledge and skills. This is the foundation upon which a continuously improving organization builds.

### The HR Challenge

Leading the adoption and implementation of a performance management system is a wonderful opportunity for the HR professional. It challenges your creativity, improves your ability to influence, allows you to foster real change in your organization, and it sure beats the heck out of "nag, nag, nag".

### What Do You Think?

Please let me know what you think. Is your organization ready to toss out the traditional performance appraisal? In future articles, I will discuss the various components of a successful performance management system. In the meantime, I encourage you to think about a change for your own organization and check the following additional resources. Communicate with your Guide and author.

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PAPER

# PERFORMANCE MANAGEMENT SYSTEMS: WHAT DO WE WANT TO ACCOMPLISH?

By James A. (Jim) Laumeyer, SPHR, MBA

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Performance management is a critical challenge for employers, especially in light of intense competition in the pursuit of maximum productivity and total quality. While all parties perceive value in performance management systems, few declare an adequate satisfaction level with the systems currently utilized in most workplaces.

## Performance Management Systems

Performance management systems take distinct and disparate forms depending upon the desired objectives from the system. This paper will discuss two systems which are distinctly different but need not be mutually exclusive in all instances. Employers may elect to include both systems in their repertoire to be used in different circumstances and/or to meet specific objectives. The two systems discussed in this White Paper are:

1. Performance Appraisal System.
2. Continuous Feedback System.

While advantages and suggested uses for performance appraisal will be illustrated, the author will clearly espouse continuous feedback systems for use in most circumstances and as a golden opportunity for both employers and employees.

## Performance Appraisal Systems

Performance appraisal systems are practiced in most organizations today. The costs, time and effort for U.S. businesses is staggering. Performance appraisal systems have few true supporters. Employers have often indicated informally a low level of satisfaction; supervisors often must be coerced to comply. Employees often feel short-changed or treated unfairly. While not effective for some significant objectives, performance appraisals are very effective for two critical objectives. First, the documentation of unsatisfactory performance will remain a very critical objective as long as poor performance and review proceedings (the legal system and arbitration) continue to exist. Performance appraisal systems satisfy this requirement very well and have been recognized as effective in the courts and in arbitration proceedings. Second, many employers elect to design compensation systems which provide for distribution of wage increases based to some extent on performance evaluations. Performance appraisal systems can be designed to result in a normal distribution and can effectively serve the objective of a basis for compensation distribution. This paper will not address the issues involved or the debate of the efficacy of such compensation systems.

Finally, while performance appraisal systems are effective for both of the critical objectives—the documentation of unsatisfactory performance and as basis for compensation distribution—they have not been effective for a most critical objective: the provision of sufficient feedback.

## Continuous Feedback Systems

The effective provision of feedback to employees is a golden opportunity for employers. In general, employees are very desirous of feedback to meet employers expectations and to improve their performance. Further, employees prefer feedback that is timely

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and in a manner that is not threatening. In the dynamic workplace, continuous feedback gives employers the opportunity to provide employees with adequate direction on a more frequent basis than annual or semi-annual review sessions. The continuous feedback system addresses these basic employee/employer needs.

The mechanics of a continuous feedback system are quite simple. Supervisors and managers receive sufficient training and accountability to insure frequent feedback is provided to employees as the employees perform their jobs. Accordingly, desired performance is identified and reinforced. Undesirable performance/results are identified at a time when change and/or direction can more easily be made. Clearly the training and accountability of supervisors is critical, since the provision of continuous feedback is truly a dramatic change from the learned and expected behavior of supervisors and managers.

In addition to continuous feedback, the supervisor/manager should have more formal and elaborate performance discussions with each employee at least once a year although two to four times a year would be best.

Since the employee is receiving continuous feedback, the nature and objectives of these discussions are quite different than the traditional performance appraisal. There is no need to rehash the past since that performance was praised or corrected at that time. Extraordinary performance of a positive nature could be eluded to in order to give additional "strokes" to the employee.

However, the appropriate foci of the formal discussions are the present and the future, not the past. An over-simplification of the objectives of these discussions can be demonstrated by the following questions that should be answered at the discussions:

1. How is your job going?
2. What can be done to make the job/products/services better?
3. What can be done to improve your work/products/services or that of the work unit/organization?
4. Are there developmental/career opportunities that you would like to discuss/pursue?

Due to the nature of the objectives for the formal discussions, self-appraisal by employees is strongly encouraged.

Subsequent to the sessions, it is important that the employee receive a written record of the formal discussion. A form could be developed listing the questions and answers for the employee. A letter or office memorandum to the employee and personnel file adds a more personal touch and generally results in more employee appreciation than a standardized form. Since the form is the product of mutual discussions, the form should be drafted by the supervisor/manager and reviewed by the employee prior to finalization.

Finally, it is apparent that continuous feedback systems support and easily integrate with other programs such as quality and recognition.

### Conclusion

There are significant differences between traditional performance appraisal systems and continuous feedback systems. Conceivably, both systems could be endorsed and implemented in organizations but targeted for different audiences. Optional feedback should clearly be the primary objective of any performance appraisal/feedback system. Unfortunately the provision of adequate feedback is an opportunity missed by most organizations at this time.

*Thanks to Jim Laumeyer, Chair of the SHRM's National Employee and Labor Relations Committee, for contributing this paper. This paper is intended as general information, and is not a substitute for legal or other professional advice.*

*For more information on this subject, send an e-mail to the SHRM Information Center at [infocen@shrm.org](mailto:infocen@shrm.org), please click here to ask the Information Center for help.*

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