A Question of Ethics: An Examination of Stakeholder Perspectives in the Performance Appraisal Process

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Effective performance management is an essential element in building an efficient, productive and profitable organization. To be effective, all parties must perceive that the performance evaluation system has integrity. This paper examines employees' and managers' perceptions of the performance evaluation process to determine which aspects of the system they view as ethical. Results indicate that respondents appear to view all forms of appraisal as ethical, even though the trait approach has been shown to be subjective and imprecise. However, they perceive that forced distribution ratings, pre-determined rating distributions, and the manipulation of appraisals based on anything other than employee performance are unethical practices.

INTRODUCTION

Thurston and McNall (2010, p. 222) state that "Perceptions of inaccuracy and injustice as well as feelings of dissatisfaction have long plagued performance appraisals and the organizational processes that generate them". Nonetheless, performance management is perhaps the most important activity undertaken by the managers in any organization. It is the responsibility of the manager to train, coach, encourage, motivate and reward employees in such a way that they deliver their peak performance on a consistent basis. It has been defined as a "…broad term that has come to stand for the set of practices through which work is defined and reviewed, capabilities are developed, and rewards are distributed in organizations" (Mohrman & Mohrman, 1995, p. 69). It is also evident that the performance appraisal process "…has been one of the most praised, criticized, and debated management practices for decades" (Lawler, 1994, p. 16). But the case for continuing to measure employee performance is strong. O'Boyle (2013) reports that how organizations manage employee performance is a key indicator of their overall success or failure. Kotter and Heskett (1992) conducted an 11-year study of more than 200 companies and found that those with performance-enhancing cultures significantly outperformed companies without such cultures in both financial and operational measures (as reported in SHRM, 2006). O'Boyle (2013) also notes that when performance appraisals are applied effectively they have the benefit of improving communication between management and employees.

While the significant positive contributions that an effective performance evaluation process can make to the organization are clear, it is also important to recognize the ethical challenges surrounding its implementation. Ethical questions arise from people relationships within the organization (Axline, 1996,

p. 44) and any time judgments are made about people there is an opportunity for ethical transgressions (Sillup & Klimberg, 2010, p. 43). Winstanley and Stuart-Smith (1996) identify four ethical principles that they advocate as essential elements in any employee evaluation system:

1. Respect for the individual
2. Mutual respect
3. Procedural fairness
4. Transparency of decision making (p. 66)

Winstanley and Stuart-Smith (1996) believe that the failure to consider these principles in the development of any evaluation system that is designed to measure and manage performance will likely demotivate staff and be viewed as a form of control designed to police performance rather than to improve it. Often, the Human Resources department focuses its efforts on ensuring the performance evaluation process meets all legal requirements in order to avoid challenges to the process in court (O'Boyle, 2013). However, as Axline (1996) points out, being legal does not always equate to being ethical as "…being legal is not enough. It is entirely possible to comply with the ritual and surface requirements of performance review without injecting the proper spirit into the process, which is to enable the individual to recognize and strive for performance improvement in specified areas" (Axline, 1996, p. 45). While much of the recent literature on performance evaluations focuses on how they impact perceptions of organizational justice (see for example Clark, Harcourt, & Flynn, 2013; Ismail, Mashkuri, Sulaiman, & Hock 2011; Linna et al., 2012; Thurston & McNall, 2010), this paper will identify some of the major ethical issues surrounding the current performance appraisal process and include an analysis of survey data designed to capture participants' perceptions of the ethics of common performance appraisal practices.

Traditional Performance Appraisal

In a traditional performance appraisal system, the employee's immediate supervisor evaluates the employee's traits, behaviors and/or achievements during the prescribed rating period. Hence, the key stakeholders are the employee and the supervisor. Many traditional appraisal systems are retrospective; that is, they involve evaluating an employee by looking backward at the employee's behavior or conduct over the past year. Such systems might include "trait" evaluations in which the employee is appraised on basic characteristics such as degree of initiative shown, degree of cooperation, level of communication, or level of work effort. More progressive systems are more likely to focus on the degree to which specific employee behaviors have been demonstrated. Two prominent behavioral systems are "Behaviorally Anchored Rating Scales" or BARS and "Behavioral Observation Scales" or BOS. Both methods attempt to increase the objectivity of the appraisal process by focusing on specific employee behaviors versus employee traits or characteristics. A third form of traditional appraisal has employees rated on goals that are mutually determined at the beginning of the appraisal period by the employee and the supervisor. This system, referred to as "Management by Objectives" or MBO focuses on results achieved by the employee rather than the employee's traits or behaviors. Results-oriented systems are thought to be even more objective in assessment than behavioral systems. As we will see later, however, the nature of these systems reduces subjectivity in the appraisal process, but it does not eliminate it.

In addition to the supervisory review, many traditional appraisal systems permit employees to submit self-evaluations in advance of the appraisal session. These self-evaluations are to be considered by the supervisor as input in determining the employee's final appraisal ratings. The rationale for self-evaluations is that a supervisor does not observe the totality of the employee's performance but typically "samples" the behavior of employees throughout the performance period. Regardless, the traditional approach to appraisal tends to be top-down and weighted heavily in favor of the rating supervisor.

360-Degree Performance Appraisal

Ward (as cited in Morgan, Cannan, & Cullinane, 2005) defines 360-degree feedback as "the systematic collection and feedback of performance data on an individual or group, derived from a number of the stakeholders in their performance…the data is then fed back to the participant, in a way that is intended to result in acceptance of the information and the formulation of a development plan" (p. 664). Data from multiple sources, or stakeholders, are desirable because they give a more complete perspective about employees' performance and reduce the chance of ethical concerns (Sillup & Klimberg, 2010). If the inclusion of 360-degree feedback results in perceptions of higher reliability, credibility and lower deficiency (by including multiple perspectives instead of just one), it may in turn improve perceptions of fairness where performance evaluations are linked to employee pay (Rynes, Gerhart, & Parks, 2005). But collecting data from a variety of reviewers is not without ethical considerations. Also, quantity of data collected from multiple sources in and of itself does not produce quality, accurate data. If those providing the feedback, whether they are co-workers, customers, or subordinates, are not adequately trained to understand the performance standards, the performance measures, common perception errors, and the appraisal process in general, the feedback will lack utility.

While in many cases 360-degree feedback is collected largely for individual development purposes (O'Boyle, 2013), today we see its purpose expanded to include performance appraisal ratings, compensation, and promotional considerations (Rogers, Rogers, & Metlay, 2002). In fact Rynes et al. (2005) question the value of collecting 360-degree feedback if it is not linked to pay. Without a financial incentive to change, there may be limited motivation for an employee to act upon the feedback provided through the process. By including 360-degree feedback in compensation decisions, it increases the stakes. As Wexley and Klimoski (as cited in Stubblebine, 2001) observe "…peer ratings can be thought of as potentially the most accurate judgments of employee behavior or viewed as fraught with numerous problems" (p. 86). Interestingly Stubblebine (2001) reports that peer evaluations were perceived to be less accurate and less trustworthy than evaluations by managers. Peers were perceived to have fewer opportunities to observe co-workers, were less qualified to evaluate behaviors and are more susceptible to friendship biases. Overall, Stubblebine reports that in his analysis, peer evaluations were less accepted by employees than those conducted by their supervisors. With this in mind, emphasis must be placed on ensuring that the 360-degree feedback process is developed and implemented in an ethical manner. As Bracken, Timmreck, Fleenor and Summers (2001) indicate, one key consideration in the implementation process is to first determine "Who is the customer of 360- degree feedback?" With the short length of the instruments and/or very small rater group sizes, it seems in many cases that the rater is the primary customer (Bracken et al., 2001). However if the goal is an accurate appraisal of employee behavior along with employee development, the 360-degree evaluation must be developed and implemented with primary consideration given to the needs of the employee.

Also, 360-degree appraisals are limited in their scope. While many organizations use a Management-by-Objectives approach that focuses on "results," 360-degree appraisal is unsuitable to provide peer or subordinate feedback on results. Peer evaluations, subordinate evaluations, and customer evaluations are more suitable for assessing the behavior of the subject of the appraisal. Hence, while it may be suitable as a supplement to MBO appraisal, it is unable to be used as a replacement.

Stakeholders

As we have seen, the traditional approach to appraisal primarily involves two stakeholders, although the company itself may be considered a third stakeholder as it is responsible for development and implementation of the appraisal system. Under the 360-degree approach to appraisal the number of stakeholders increases to six. We define the major stakeholders to include the employee, the manager, and the company. We define minor stakeholders as peers, customers, and, where supervisors are the targets of the evaluation, subordinates. The major stakeholders are directly involved in the performance evaluation and drive the process (for example, an employee and a manager may jointly decide on the employee's goals for the year); minor stakeholders are viewed as secondary players who provide input to the process but do not participate in its development. For the purposes of this analysis the HR department is considered to be part of the "company" stakeholder group. Each stakeholder has different objectives that he/she seeks to fulfill in the process. At times, these objectives may be in conflict. For example, Longenecker and Ludwig (1990) indicate that for the manager, the performance appraisal system is a means to an end. The manager may manipulate the data in order to achieve a goal that may or may not be in the organization's best interest (e.g., an employee is given a high rating for marginal work because the manager wants to get rid of the employee by transferring the employee to another area of the company). For the HR department the data are ends in themselves. The data collected are utilized for organizational-planning purposes and accuracy of that data is paramount to serve that purpose. Table 1 below summarizes the major stakeholders and their objectives.

TABLE 1
STAKEHOLDER OBJECTIVES

Stakeholder	Objectives
Organization	• Retain best employees to ensure productivity, efficiency and profitability • Terminate low performing employees • Collect accurate performance data for organization-level planning and decision making related to promotion, salary increases, training needs, etc.
Supervisor	• Reward best employees to ensure retention • Improve individual and group performance • Identify coaching requirements • "Check the box" to complete the process as required by the organization • Potentially manipulate system to retain, transfer, or terminate employees to meet manager's short term objectives
Employee	• High evaluation rating • Career development opportunities • Maximum pay increase
Subordinates	• Remove an ineffective manager; reward an effective one • Identify behaviors managers should change in order to be more effective • "Check the box" to complete the process as required by the organization • "Get even" with managers who rate employees lower than desired
Peers	• Identify "freeloaders" who are not effective team players • Identify individual behaviors/actions that are not productive • Acknowledge contributions of effective co-workers • Use the system for political advantage (e.g., rate high performing co-workers lower to improve own standing in ratings)
Customers	• Identify employees who meet their needs • Target employees who do not meet their needs for improvement or potential termination • Provide feedback on ways to improve customer satisfaction • Punish employees who do not "play ball" in meeting customer desires

ETHICAL THEORIES

In order to investigate the ethical aspects of performance appraisal systems, it is necessary to propose standards for evaluating potential ethical considerations. Several major ethical theories are available to assist in this regard. A brief summary of the two theories most applicable to performance appraisal processes is presented below.

Major ethical theories in moral philosophy may be categorized principally as either teleological or deontological. Teleological theories focus on the amount of good or harm embodied in the consequences of a behavior (Singhapakdi & Vitell, 1991). The guiding principle of teleology is: "Act in order to produce the greatest good as a consequence." Within the teleological framework, "egoists" act in ways that bring them the greatest personal good; "utilitarians" act in ways that produce the greatest good for the greatest number of people. Hence, teleological theories are outcome oriented.

Deontological theories deal mainly with the inherent righteousness of a specific behavior (Hunt & Vitell, 1986). Deontologists look for conformance to moral principles to determine if an action is ethical. What is right is determined by a widely accepted standard that is independent of the actor. These standards are assumed to be embodied in the shared beliefs and assumptions that people hold (e.g., religious convictions, societal values) or are assumed to be self-evident. For example, the statement "Treat others as you would have them treat you" is a moral standard that can be used to judge ethical conduct. The guiding principle of deontology is: "Act according to the proper principle (e.g., fairness, justice, honesty, integrity), and be consistent in applying it." Hence, deontological theories are process oriented.

We would hope that performance appraisal is not governed by the principles of ethical egoism where managers or employees act in ways that bring them the most good. However, there are instances where this would seem to be the case. For example, it is possible in 360-degree appraisal processes, since ratings are anonymous, that an employee might rate a peer lower than justified to advance his or her own appraisal standing. Similarly, a supervisor might rate an employee higher than justified to support the supervisor's attempt to transfer the employee to another department. While these actions might be considered "ethical" under ethical egoism, it is difficult to consider these actions ethical under deontological theories governed by fairness, justice and honesty. Hence, within the teleological framework, only utilitarianism might be considered as a reasonable standard for ethical outcomes.

One might purport that performance appraisal systems, in and of themselves, produce the greatest good for the greatest number of employees in the organization because they provide a mechanism to identify, develop, and reward employees. Aguinis, Joo, and Gottfredson (2011) list many benefits of a well-constructed performance management system including: identifying development activities to address both employee strengths and weaknesses, directing development at employees who are more competent, and acting as a vehicle to bring about organizational change by targeting behaviors to develop and reward in the evaluation process. However, there is a serious body of thought that opines that performance appraisal systems do more harm than good and should therefore be eliminated. For example, W. Edward Deming, a revered statistician and quality expert, suggests that individual performance appraisals be abolished (Scholtes, Joiner & Streibel, 2003). Deming believes that the developmental purpose of performance appraisals is more effectively accomplished through coaching, counseling, and mutual support. Similarly, he asserts that the evaluative purpose of performance appraisals, and the resulting differentiation among workers, can cause degeneration of teamwork and personal morale. Similarly, UCLA business professor, Samuel Culbert, in his book, *Get Rid of the Performance Review* (Culbert & Rout, 2010), said that employee performance appraisals should be eliminated. He also said that appraisal is a pretentious, bogus practice that produces absolutely nothing that any thinking executive should call a corporate plus. Aguinis et al. (2011) state that many managers perceive that there is something inherently wrong with performance management and view it as a bureaucratic requirement to be overcome rather than a process to be embraced. Hence, there is not universal agreement that performance appraisal systems produce significant good for the greatest numbers. For that reason, in the remainder of this article we will focus our attention on the process approach identified with deontological theory. We shall assess the ethical nature of various performance appraisal actions by the principles of fairness, justice and honesty.

Ethical Issues

According to Axline (1996) the "…overall objective of high-ethics performance review should be to provide an honest assessment of performance and to mutually develop a plan to improve the individual's effectiveness. That requires telling people where they stand and being straight with them" (p. 44). The literature has identified many ethical "danger zones" that must be considered in the development and implementation of any performance appraisal system. Some of these are identified in Table 2 below.

TABLE 2
POTENTIAL ETHICAL ISSUES BY STAKEHOLDER

Stakeholder	Potential Ethical Issues
Organization	• Are employees involved in development of evaluation system? (Winstanley & Stuart-Smith, 1996) • Is the basis of the system (job analysis, performance standards) valid? If not, increasing objectivity is meaningless (Winstanley & Stuart-Smith, 1996) • Are the performance measures aligned with the organization's strategy? (Bracken et al., 2001; Sillup & Klimberg, 2010) • Should the same evaluation form be implemented across all employees, jobs and levels? (Rogers et al., 2002) • Does the form generate task oriented feedback or feedback focused on the self concept? (Morgan et al., 2005; Rynes et al., 2005) • Is the manager given adequate time to prepare evaluations and is preparing effective and meaningful evaluations one of the manager's objectives? (Sillup & Klimberg, 2010) • Should the organization avoid team incentives due to the potential for social loafing? (Rynes et al., 2005)
Supervisor	• Does the manager communicate with employees at the beginning of the measurement period to clearly inform them what is expected of them? Are progress reports provided throughout the measurement period? (Clarke et al., 2013, Aquinis et al., 2011) • Does the manager engage in short term manipulation of ratings at a potential long term cost to the organization? (Longenecker & Ludwig, 1990; Rynes et al., 2005). Examples include rating all employees about the same (whether high, low or average), downgrading the rating warranted by performance in order to comply with salary increase budgets, or arbitrarily rating an employee high or low to influence motivation levels. • Are managers more lenient in evaluation ratings when they are used for administrative (pay, promotion, termination) purposes (Rynes et al., 2005) • Is the manager evaluating factors that are beyond the control of the employee? (Rynes et al., 2005) • If employees meet their goals in the current year, will their goals automatically increase in the subsequent year? (Rynes et al., 2005) • Does the manager follow through on feedback with a coaching plan? (Morgan et al., 2005; Rogers et al., 2002)
Employee	• Is the employee accountable to act on the information provided by all of the raters? (Bracken et al., 2001) • Is there an incentive to act on the feedback provided if it does not impact compensation and rewards? (Rynes et al., 2005)
Subordinates/ peers/ customers	• Who chooses the individuals who will provide 360-degree feedback? (Morgan et al., 2005) • Should feedback from peers, subordinates and/or customers be anonymous or confidential? Does anonymity impact accuracy and accountability? Does anonymity make the feedback less meaningful? Without anonymity can retribution be prevented? (Bracken et al., 2001; Morgan et al., 2005; Stubblebine, 2001) • Will 360-degree feedback be linked to compensation? (Rynes et al., 2005) • Is the effectiveness of the 360-degree feedback process being evaluated on an on-going basis? (Rogers et al., 2002) • Are peer/subordinate/customer ratings accepted by employees? (Stubblebine, 2001)

While the research to date identifies some of the significant ethical issues involving stakeholders, a few other issues can be raised. For example, a major issue in the employee/peers/customers section is "Will the individuals involved in the appraisal process provide accurate ratings or will they use this rating opportunity to serve their personal agendas?" More specifically, will employees provide accurate self-evaluations knowing that the data will be used to determine their overall performance rating? Will subordinates use this rating opportunity to either "get even" with a supervisor for a previous poor performance review or will they tacitly conspire with their supervisor to support mutually higher ratings? Will peers see this as an opportunity to position themselves in a more favorable light by rating perceived "competitors" lower than justified? And will customers use this as an opportunity to reward or punish the company for the service they are receiving or desire?

Regarding the organization itself, an unstated ethical issue is whether all employees receive training in the performance appraisal process. That is, is it ethical to have employees rated and participate in an appraisal system where the players have not been appropriately trained? Also, does the organization use a "forced distribution" approach to performance appraisal which may force supervisors to rate employees either higher or lower than is actually justified by their performance to achieve a predetermined distribution of rating outcomes.

A survey was conducted to explore perceptions of the ethical nature of various performance appraisal practices as described above. A description of the survey and its results follow.

Methodology

To gain a preliminary perspective of employee views of the ethical nature of various appraisal practices, a pilot study was conducted of employed adults in the graduate business and criminal justice programs of a large Southeastern university. The initial questionnaire contained 30 survey items related to performance appraisal practices that potentially have ethical implications. For each item, respondents were asked whether or not the practice was ethical. A limited number of demographic variables (e.g., gender, managerial status, amount of work experience) were also included to assess if ethical responses were differentiated by these factors. Because of the amount of time involved in obtaining university approval to conduct the research survey, the initial number of survey responses was low (N=46). It is the intent of the authors to obtain a larger sample in the near future and reanalyze the data.

Initially, each survey item was examined to determine the percentage of respondents agreeing or disagreeing that the performance appraisal practice cited was ethical. The results of this frequency analysis are presented in Table 3. Second, a cross tabulation analysis was conducted to assess the association between the individual performance appraisal items and three demographic variables considered to be of greatest relevance to the study: gender, whether or not the respondent is a supervisor/manager where he/she works, and whether or not the respondent has ever conducted a performance appraisal. The coefficient "Phi" was used to measure the strength of association between the variables. Those results showing significant relationships, or approaching statistical significance, are presented in Table 4. Finally, a principal components factor analysis with Varimax rotation was conducted. Typically, for this analysis one would like at least twice as many respondents as the number of items to be factor analyzed. However, since this was not the case in this preliminary study, the number of factors for this initial analysis was restricted to three. Selected items were those with a factor loading of at least 0.5. Table 5 presents the factor loading matrix.

RESULTS

Frequency Analysis

The frequency analysis of the performance-related survey items yielded the following results. First, respondents indicated that they believed that integrity or honesty is a primary concern in the evaluation process; they viewed the manipulation of appraisals for personal gain as unethical, whether the manipulation was conducted by the manager, a co-worker, a customer, or the individual or individuals being appraised. Second, respondents appear to view all forms of appraisal (i.e., trait, results, and 360-

degree) as ethical, even though the trait approach has been shown to be subjective and imprecise. However, if 360-degree systems are used, respondents perceived it to be unethical if those being appraised were not provided with the results of the appraisal or did not receive assistance in interpreting the results. Also, there were mixed views regarding the ethics of increasing the goals of high performers annually. Nearly 25% of respondents reported that it is unethical to raise an employee's goals for the following year if he or she is rated "excellent" by the supervisor in the annual evaluation. Third, respondents were quite mixed in their views as to whether forced distribution systems and those with predetermined rating distributions were ethical. They also had mixed views regarding the termination of low performers based on these systems. Slightly less than 50% of the sample believes that it is unethical to terminate employees rated in the bottom 5% of performance ratings annually in an effort to improve the workforce. Finally, respondents saw as ethical the use of annual cost-of-living increases rather than annual merit increases based on performance appraisal data.

TABLE 3
FREQUENCY ANALYSIS

Performance Appraisal Item	**Ethical**	**Unethical**
A manager rates an employee higher than justified because the employee is a close personal friend.	2.2%	97.8%
An employee rates a supervisor lower than is justified because the supervisor has evaluated the employee low in the past.	2.4%	97.6%
An employee rates a supervisor lower than is justified because the supervisor has evaluated the employee low in the past.	4.4%	95.6%
Employees rate their supervisor higher than is justified in hopes that the supervisor will reciprocate when appraising them.	4.9%	95.1%
An employee rates a co-worker lower than is justified to reduce the co-workers overall appraisal.	4.9%	95.1%
A supervisor rates a "marginal" employee much higher than is justified to facilitate transfer to another department.	6.5%	93.5%
A customer rates an employee lower than is justified in hopes of getting a higher level of service in the future.	9.8%	90.2%
A manager rates all employees near the middle of the performance scale to minimize bad feelings among employees.	10.9%	89.1%
A manager rates his/her employees higher than is justified because other managers in the organization tend to inflate their ratings.	11.1%	88.9%
An employee exaggerates his/her accomplishments when submitting a self-evaluation as part of the appraisal process.	11.1%	88.9%
A manager rates all employees near the top of the performance scale to create a positive workgroup climate.	11.4%	88.6%
A company provides its employees with their personal results from 360-appraisal but does not provide materials or counseling to help employees interpret the data.	14.6%	85.4%
A company does not provide supervisors with training in how to conduct a performance appraisal.	15.9%	84.1%
A manager rates an employee near the top of the performance scale because the manager is unsure of the accuracy of the performance data.	18.2%	81.8%

A company requires employees to participate in 360-appraisal but does not provide the employees with their personal results.	22.0%	78.0%
A company implements a “forced distribution” performance appraisal system which requires employees to be rated according to a predetermined distribution.	26.1%	73.9%
A company establishes a quota on the percentage of employees that can be rated in any given performance category.	28.9%	71.1%
A manager takes less than 15 minutes to complete an employee’s annual performance appraisal.	47.8%	52.2%
A company terminates employees rated in the bottom 5% of performance ratings annually to improve the overall quality of the workforce.	52.2%	47.8%
A company does not include an employee self-appraisal in its appraisal process.	58.7%	41.3%
An employee rated “excellent” in the annual performance appraisal process has even higher goals set for next year by the supervisor.	76.1%	23.9%
A company’s performance appraisal process requires an employee to be evaluated by his/her peers/co-workers.	77.5%	22.5%
A company evaluates its supervisors and managers on how well they conduct the performance appraisals of subordinates.	78.3%	21.7%
A company’s performance appraisal process requires an employee to be evaluated by his/her “customers” (individuals who are recipients of his/her product or	82.5%	17.5%
A company uses the “trait” approach in its annual performance appraisal; that is, employees are rated on their personal characteristics such as being cooperative, showing initiative, etc.	84.1%	15.9%
A company’s performance appraisal process requires that ratings from subordinates, peers, and customers by anonymous; that is, the individual being appraised does not know who provided the ratings.	87.8%	12.2%
A company’s performance appraisal process requires employees to evaluate their own supervisor.	89.7%	10.3%
A company uses a “results-oriented” approach in its annual performance appraisal; that is, employees are rated on how well they achieve specific predetermined goals.	91.3%	8.7%
A company decides to eliminate its annual performance appraisal system and merit pay and, instead, give workers an annual cost-of-living increase.	91.3%	8.7%
A company links specific levels of performance ratings to specific merit increase percentages.	95.6%	4.4%

Cross Tabulation Analysis

Because of the small sample size, there were few statistically significant results, or near significant results, from the cross tabulation analysis. However, moderately suggestive relationships were found between several variables. The two demographic variables presented in Table 4 below have a phi coefficient greater than 0.250 and a significance level of at least $p < 0.10$.

TABLE 4
SUGGESTIVE RELATIONSHIPS FROM CROSS TABULATION ANALYSIS

Independent variable	Dependent variable
Individual is currently a supervisor/manager	• Managers are more likely than non-managers to believe it is ethical to rate a "marginal" employee much higher than is justified to facilitate transfer to another department • Managers are more likely than non-managers to believe it is ethical to have an appraisal system where employees rate their supervisors • Managers are more likely than non-managers to believe it is ethical to use a "trait" approach to appraisal
Gender	• In a 360-appraisal system, men are more likely than women to see rating a co-worker lower than is justified to reduce the co-worker's overall appraisal as ethical • Men are more likely than women to believe it is ethical for employees to evaluate their supervisors • Men are more likely than women to believe it is ethical for employees to rate their supervisors more highly than justified to receive reciprocity in appraisal • Men are more likely than women to believe it is ethical for a company not to provide employees with the results from a 360-appraisal

Factor Analysis

The three factors resulting from the factor analysis with Verimax rotation were comprised of 21 of the 30 original survey items. Factor 1, which was comprised of twelve items, was named "Individual Rating Practices." Sample items include the following:

- A manager rates an employee higher than justified because the employee is a close personal friend (Factor Loading = 0.954).
- A supervisor rates a "marginal" employee much higher than justified to facilitate transfer to another department (Factor Loading = 0.954).
- A manager rates all employees lower than justified in hopes of encouraging the employees to try harder (Factor Loading = 0.778).

Factor 2, which was comprised of six items, was named "Company Appraisal Processes." Sample items include the following:

- A company implements a "forced distribution" performance appraisal system which requires employees to be rated according to a predetermined distribution (Factor Loading = 0.716).
- A company's performance appraisal process requires an employee to be evaluated by his/her peers/coworkers (Factor Loading = 0.653)

- A company does not provide supervisors with training in how to conduct a performance appraisal (Factor Loading = 0.562)

Factor 3, comprised of three survey items related to the type of performance appraisal system used, was named "Type of Appraisal Process." The three items were:

- An employee rated "excellent" in the annual performance appraisal process has even higher goals set for next year by the supervisor (Factor Loading = 0.680)
- A company uses the "trait approach" in its annual performance appraisal process; that is, employees are rated on their personal characteristics such as being cooperative, showing initiative, etc. (Factor Loading = 0.573).
- A company's performance appraisal process requires an employee to be evaluated by his/her "customers," i.e., individuals who are recipients of his/her product or service (Factor Loading = 0.553)

TABLE 5
FACTOR LOADING MATRIX

Performance Appraisal Item	**Component**		
	1	**2**	**3**
A company establishes a quota on the percentage of employees that can be rated in any given performance category.	.241	.151	.265
A manager rates all employees near the middle of the performance scale to minimize bad feelings among employees	.659	-.030	.518
A manager rates all employees near the top of the performance scale to create a positive workgroup climate.	.659	-.030	.518
A manager rates all employees lower than justified in hopes of encouraging the employees to try harder.	.778	.089	.276
A manager rates an employee higher than justified because the employee is a close personal friend.	.954	.096	.021
A manager rates his/her employees higher than justified because other managers in the organization tend to inflate their ratings.	.501	.046	-.298
A manager rates an employee near the top of the performance scale because the manager is unsure of the accuracy of the performance data.	.533	-.451	-.135
A company implements a "forced distribution" performance appraisal system which requires employees to be rated according to a predetermined distribution.	.272	.716	-.107
An employee exaggerates his/her accomplishments when submitting a self-evaluation as part of the appraisal process.	.701	.065	-.153
A company links specific levels of performance ratings to specific merit increase percentages.	.032	.255	-.421
A company decides to eliminate its annual performance appraisal system and merit pay and instead, give employees an annual cost-of-living increase.	.056	.411	-.223
A company does not provide supervisors with training in how to conduct a performance appraisal.	.459	.562	.031
A company does not include an employee self-appraisal in its appraisal process.	.162	.505	-.180
A company terminates employees rated in the bottom 5% of performance ratings annually to improve the overall quality of the workforce.	.238	.154	.133
A company uses the "trait" approach in its annual performance appraisal; that is, employees are rated on their personal characteristics such as being cooperative, showing initiative, etc.	.001	.451	.573

A company uses a "results-oriented" approach in its annual performance appraisal; that is, employees are rated on how well they achieved specific predetermined goals.	.021	-.196	.460
An employee rated "excellent" in the annual performance appraisal process has even higher goals set for next year by the supervisor.	.076	.032	.680
A supervisor rates a "marginal" employee much higher than is justified to facilitate transfer to another department.	.954	.096	.021
A company evaluates its supervisors and managers on how well they conduct e performance appraisals of subordinates.	.078	-.017	.518
A manager takes less than 15 minutes to complete an employee's annual performance appraisal.	.255	.496	.178
An employee rates a co-worker lower than is justified to reduce the co-worker's overall appraisal.	.711	.315	.009
A customer rates an employee lower than is justified in hopes of getting a higher level of service in the future	.667	.279	.225
Employees rate their supervisor higher than is justified in hopes that the supervisor will reciprocate when appraising them.	.954	.096	.021
A company requires employees to participate in 360-appraisal but does not provide the employees with their personal results.	.424	.227	-.419
A company provides its employees with their personal results from 360-appraisal but does not provide materials or counseling to help employees interpret the data.	.401	.428	.063
An employee rates a supervisor lower than is justified because the supervisor has evaluated the employee low in the past.	.954	.096	.021
A company's performance appraisal process requires an employee to be evaluated by his/her "customer" (individuals who are recipients for his/her product or service)	-.043	.368	.553
A company's performance appraisal process requires an employee to be evaluated by his/her peers/coworkers.	-.057	.653	.028
A company's performance appraisal process requires employees to evaluate their own supervisor.	-.019	.376	.038
A company's performance appraisal process requires that rating from subordinates, peers, and customers by anonymous; that is, the individual being appraised is not aware of who provided the various ratings	.062	.402	-.014

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization

DISCUSSION AND CONCLUSION

Because this is a pilot study with a very small sample size, we are unable to draw any strong conclusions from the data. However, the findings do suggest some interesting associations that can be built upon in future research. Employees seem to be generally receptive to the 360-degree approach to performance appraisal and do not see ethical problems with its use. In general, they do not support the manipulation of performance appraisal data to achieve goals other than those directly related to evaluating an employee's performance. Employees seem particularly opposed to an evaluation system that incorporates the use of forced distribution ratings. In many organizations this is used to manage salary costs as high ratings are associated with larger merit pay increases. By limiting the number of high ratings managers can assign, they are forced to differentiate among their employees to determine who is most deserving of the high rating and larger pay increase. Beyond managing the budget and ensuring that the highest salary increases are paid to the most deserving, highest performing employees, forced distribution plays a role in managing the arbitrarily and unwarranted inflation of performance ratings that can occur simply to keep employees happy and make them less likely to complain (Aquinis et al., 2011). However, the downside is that some employees may not receive the rating they believed that they earned due to the quota system. This can result in dissatisfaction with the evaluation system and any decisions made utilizing these ratings (including pay increases and promotions). Therefore, if the company chooses to implement a forced distribution system the rationale behind its application must be clearly explained to employees so as it maintain their faith in the equity of the evaluation process and deter a more general feeling of frustration with corporate policies. Some notable differences were found in the ethical perceptions of men and women, those with experience conducting performance appraisals and those without that experience, and between those currently holding supervisory roles and those who do not manage others. Those differences warrant further exploration in the future.

Based on these preliminary findings, some questions to be pursued in future research include the following:

- Do ethical differences exist in perceptions of various aspects of performance appraisal between those in managerial positions and those who are non-managers or between those who have conducted performance appraisals and those who have not?
- Do men and women bring different ethical systems into the workplace that influence their approach to the performance appraisal process?
- Does organizational size impact employees' perceptions about the performance evaluation process? If larger organizations tend to be more bureaucratic and rule-driven, we would expect their performance evaluation process to be more systematic and formalized. Does this formalization lead to more ethical (or perhaps objective) performance evaluations?
- Which factors should organizations consider before implementing peer feedback to ensure that it is perceived to be fair and equitable to all participants? What processes and outcomes lead some employees to embrace this process and others to reject it as subjective and without value?
- The self-appraisal is seen by the participants in this research as an essential element in an effective performance evaluation. Is it ethical for a manager to simply reproduce the self-appraisal as the final evaluation?
- Many respondents viewed a manager completing an annual performance evaluation in less than 15 minutes as ethical, even though the performance review reflected upon an employee's performance for an entire year. What are the factors that lead respondents to this conclusion?
- Respondents were strongly supportive of the implementation of 360-degree feedback. Further research should investigate who is included in the data collection process. Are the participants chosen by the employee, by the manager, or by an organizational policy? Does who selected the individuals to participate in 360-degree feedback affect the perceptions of the process?

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