

360-Degree Feedback Revisited: The Transition From Development to Appraisal

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Successfully using 360-degree feedback for both employee development and performance appraisal requires a clear understanding of objectives and possible outcomes.



The need to measure performance has become critical. The ability to understand and evaluate true performance has been the elusive target of human resources and compensation professionals for decades. Understanding performance levels affects compensation, goal setting, training and development, succession, administrative action and appraisal. Fortunately, numerous tools and methods have been developed to provide input into these levels of performance. Among these, 360-degree feedback has become a

common source of input for both development and appraisal purposes.

Despite general acceptance, a great deal of controversy still exists as to whether 360-degree feedback should be used for appraisal, with administrative consequences, or strictly for development. With the recent shifts in the economy, the case for using 360s is again under the microscope. Whether a company currently uses 360-degree feedback, is considering the use of 360s or dismisses this method altogether, understanding how 360-degree feedback can be used in appraisal and compensation is an important tool in the repertoire of any HR professional.

360-Degree Dilemma

Multirater feedback processes, if not correctly implemented, can be costly to implement, administratively complex and time-consuming.

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Especially during times of cost cutting, when all expenses are scrutinized, a 360-degree feedback process may be considered by some as a nonessential “nice-to-have” tool. On the other hand, it is even more important today to understand levels of employee performance, and 360-degree feedback is considered by many to be an essential input component in evaluating performance.

Ensuring that an organization’s limited human resources generate a return on investment is essential. Equally important in the present-day economy is ensuring that these valuable resources are taken care of and remain actively engaged in their work. For many, 360-degree feedback plays an important investment in the development of employees as well as the evaluation of their performance.

The use of multirater feedback has increased dramatically over the past two decades. Some estimates suggest that as many as 90% of all *Fortune* 500 firms use some type of multirater feedback with their managers.¹ However, the purpose behind these assessments varies greatly.

Originally used almost exclusively for developmental purposes, using 360-degree feedback for purposes other than employee development increased significantly over the past decade. One application increasing in popularity is the use of multirater feedback for performance appraisal. This, in turn, serves as input into administrative decisions, such as compensation. Opinions are mixed as to whether multirater feedback should also be used for appraisal purposes or used exclusively for development. Where two very opinionated camps once existed on this issue, the lines are beginning to blur.

Whether one agrees with it or not, economic reality has caused an increasing number of organizations to begin using 360-degree feedback for appraisal rather than exclusively for development. This carries with it some significant pros and cons. Multirater feedback can be used for both development and appraisal purposes. There are, however, important differences between the two, and understanding and designing the feedback process to account for these differences could determine whether an organization’s formal evaluation processes succeed or fail.

Performance Appraisal

Before determining whether to use multirater feedback for development or for appraisal, it is

important to understand the role of feedback within an organization.

Feedback is a vital part of performance, growth and development. Understanding oneself and how one interacts with others helps to understand the impact one has on one’s surroundings. The perceptions of others within one’s circle of influence, whether those perceptions are accurate or inaccurate, determine each employee’s level of success. This is where 360-degree feedback comes into the picture.

As many companies saw the advantages that multirater feedback carried within employee development programs, some organizations quickly perceived 360-degree feedback as the panacea for their appraisal woes. Many also found that making administrative decisions based solely on a single manager’s opinion in annual performance evaluations may be incomplete. Going back to the old adage, “two heads are better than one,” multirater feedback was found to provide a more complete and, hopefully, a more accurate picture of overall performance.

In using multiple sources of information as input into the performance appraisal process, organizations had additional points of data on which to base appraisal and compensation decisions. This also helped to partially squelch some of the legal concerns that arose related to compensation practices, as compensation could be better tied to input from multiple sources.

As cost-constrained organizations began to look for ways to get the biggest bang for their evaluation buck, using 360-degree feedback for both performance appraisal and development seemed to be an attractive solution. The question from many executives soon became, “Why not just combine the two?” However, most managers failed to realize that these two forms of feedback, although similar in design, produce significantly different results.

Problems With Standard Appraisals

A significant percentage of companies report that their traditional performance appraisal process—a top-down, supervisor-to-subordinate process—is inadequate and fails to provide an extensive view of performance.² To further complicate the situation, tying compensation to a questionable appraisal system only complicates already-flawed compensation practices. This would certainly come as no surprise to a compensation or human resources professional.

Other organizations find that their performance appraisal metrics generally do not take into account the manner in which employees go about reaching targets. Consider the case of a large manufacturing organization that learned this fact the hard way. One particular group of senior leaders stuck out more than the rest of this organization in this regard.

This particular group of managers regularly achieved revenue targets. As a result, these managers consistently received exceptional performance appraisal ratings and, consequently, significant bonuses beyond those of their counterparts. However, they also experienced high levels of employee attrition. They had difficulty attracting and retaining talent. It soon became clear that these managers were meeting short-term targets at the expense of long-term profitability.

These managers were also leaving a “wake of dead in their paths,” as the company described it, in achieving their short-term revenue targets. Although their performance appraisals indicated that they were excellent performers, and their compensation so reflected, these managers and their departments were often found to be the origination points of many employee issues.

It was quickly realized that the top-down appraisal being used by this organization took into account only the ratings of the manager’s supervisor. These ratings were based almost entirely on whether or not the manager hit monthly revenue targets. However, the manager’s true overall performance went largely unmeasured.

The company made the decision to use multi-rater feedback to look at overall performance and leadership behavior. Through this process, it found that many of these managers being compensated as “outstanding performers” were actually not so stellar after all. In fact, it became apparent that these managers’ traditional performance appraisals were ineffective at determining true levels of performance, particularly in terms of leadership behaviors.

Advantages and Disadvantages

Multirater feedback has several significant advantages over single-rater assessment. Rather than relying on the perceptions of one individual, multirater feedback takes into account multiple perspectives. Those working with the employee, along with the supervisor, are generally able to

provide a more comprehensive picture of an employee’s behavior or performance. This is especially critical when the supervisor does not have the opportunity to observe all areas of an employee’s performance.

However, there are some significant disadvantages to using multirater feedback for appraisal purposes. Because many organizations and managers operate in poor feedback environments, the first exposure to 360-degree feedback may be accompanied by some degree of angst on the part of both the organization and the employee.

When employees understand that the feedback they receive will be used purely for their own developmental benefit, they tend to be more receptive to the feedback provided. Rather than receiving the feedback from a defensive posture, employees are more apt to accept the feedback as a “gift” from those they affect.

When 360-degree feedback has administrative consequences, such as raises, promotions, bonuses or possible layoffs, employees may be more likely to attack the feedback rather than accept it. After all, they may have much more to lose. Similarly, raters may be less likely to provide honest, candid feedback when they know that it may affect someone’s pay or position.

Measuring the What Versus the How

It is critical to be clear about the purpose behind an assessment. Is the purpose of the process administrative or appraisal focused, or is it intended purely for development? Failure to clearly answer this question upfront could spell disaster. DecisionWise, an assessment and organization development firm, recently completed a comprehensive, 3-year series of studies that show that little, if any, correlation exists between a person’s traditional single-rater, top-down performance appraisal and the same person’s developmental multirater assessment.³

One might expect that those receiving very high 360 scores would also receive the highest performance appraisal scores. Employees in the middle ranges of one appraisal would naturally be in the middle ranges of the other. These studies found that this was not necessarily the case.

However, those who were the highest performers—the top 10% on a developmental, multirater assessment—typically scored in the top half of performance appraisal scores when compared to others. Similarly, those who ranked in the bottom

10% of multirater scores were generally ranked in the bottom half of performance appraisal scores.

A first glance at these performance studies brings into question the validity and reliability of 360s and performance appraisals. Although it is true that validity and reliability of the instruments are important, the primary issue here is not one of statistics. It lies in the purpose of the instrument.

The primary purpose of a performance appraisal is to rate an employee's performance based on what he or she has accomplished. It measures skills, performance and accomplishment according to established metrics, goals and company or unit objectives.

The purpose of a developmental assessment is to measure how it was accomplished and what behaviors brought this about. In other words, a manager could theoretically accomplish all of his or her stated objectives—something that is measured in a performance appraisal. This is the what. An employee's supervisor may be in the best position to provide this type of feedback.

However, the manner in which he or she accomplished the objectives is measured in a developmental assessment. This is the how. The employee may have hit all the key performance goals but destroyed important relationships in his or her path, a situation more common than not in many organizations. Persons other than the manager—peers, subordinates and others—may be in the best positions to evaluate this component of performance. Because of these not-so-subtle differences, it is possible to receive high scores on one form of assessment and low scores on the other.

Absolute Versus Relative Scores

One of the concerns typically expressed about multirater feedback is that the scores are too high. On a 7-point scale, this may mean that average scores hover in the 5.0 to 5.4 range. On further examination, it is no surprise that this is the case. The vast majority of employees *should* be performing at least at this level. If not, the company has a separate performance issue.

However, it is important to recognize that, by nature, multirater feedback used for development purposes will typically result in mean, median and mode scores that are about 20% higher than performance appraisal scores. In fact, more than 90% of employees will receive

higher overall developmental feedback scores than they do on their overall performance appraisal scores when rating scales are similar.

Part of the reason for this is that those providing feedback for development tend to look at absolute performance rather than relative performance. In other words, on a scale from 1 to 10 in terms of how the employee actually performed, where did the employee fall on an absolute scale?

On the other hand, when used for appraisal purposes, raters tend to look at the relative performance: How well did they perform relative to others? It is a bit like the grading on a curve experienced by generations of college students everywhere.

This also means that a greater range in scores will likely be found in feedback used for appraisal. This is a fact that tends to encourage proponents of 360s for appraisal; there is a greater spread between high scorers and low scorers. However, some of this comes from pressure on the supervisor, real or perceived, to make a visible distinction between high and low performers.

This pressure is often carried over from the need to provide clear performance ratings to divvy up bonus or compensation pools. Unfortunately, this forced ranking system may cause supervisors to spread scoring ranges out to the point that they are no longer indicative of true performance levels and therefore are of questionable use to the person receiving the feedback report.

Who Owns the Data?

This also brings up another key difference: Who owns the data? Typically, when used for development, the person being rated "owns" the data. In other words, the data are generally presented to the employee first, often with great concern for complete confidentiality. The employee is usually the only person to see the data unless the data are willingly shared with a supervisor.

This creates a perceived safety net, as the employee knows that the data are purely developmental. The downside, however, is that development is left completely up to the employee, which may or may not lead to actual change.

When used for appraisal, on the other hand, the employee's supervisor and/or human resources department typically have access to the data either before or at the same time as the employee. As this is technically used as an organization metric, others within the organization may also have access to this information. Quite often this

leads to sources other than the employee “owning” the data, which leads to greater accountability.

Perception Gaps

Another important difference in using multi-rater assessment for appraisal versus development comes to light when examining perception gaps. When used for development, identifying gaps between raters’ perceptions is one of the most important elements of the feedback. If one sees oneself differently than others, this gap in perception is a valuable source of information. Similarly, if there are gaps in the way a supervisor rates the employee versus the way his or her peers rate the employee, this is critical information.

Generally, with development, employees are encouraged to explore these gaps and ask questions of clarification from their raters to understand the reasons behind the ratings. When used for development, these conversations are generally very productive and often fairly comfortable. However, these gaps in perception, particularly in supervisors’ ratings versus others’ ratings, are somewhat distorted when used for appraisal, as previously discussed.

Gaps between employees’ self-ratings and supervisor ratings are often significant, particularly on performance appraisals. If this is difficult to believe, try a little experiment. Ask a room full of people on the same work team to close their eyes and raise their hands if they consider themselves to be below the median in their performance. Chances are very few hands will go up; an interesting observation, as statistically half of the room is at or below the median.

Now, ask the supervisor about the same group of individuals, and he or she will likely be able to tell you which half of the group is below the median. Although all or most may be strong performers, the supervisor has, in effect, conducted a version of a forced ranking process. The result is a noted difference in perception between the employee’s self-rating and the rating of the supervisor. This difference in perception may be even further exaggerated through performance appraisals.

Asking for clarification of ratings from those who are rated may not be as appropriate in appraisal feedback and may often be perceived as defensive or even hostile. However, when compensation is on the line, some employees may aggressively and inappropriately pursue these conversations.

360s for Succession Planning

Another common application for 360-degree feedback that has gained momentum during the past few years is in succession planning. In this case, the development and appraisal components mesh. Employee performance is looked at from more than a job-specific perspective.

The appraisal aspect becomes reflective, and the development component is predictive. The future potential of an employee is analyzed in terms of not just what was accomplished in the past but also what this individual could bring to the table going forward. The organization is then able to see where the employee’s potential plays into future company strategy, analyze any gaps and chart a development course for closing those gaps.

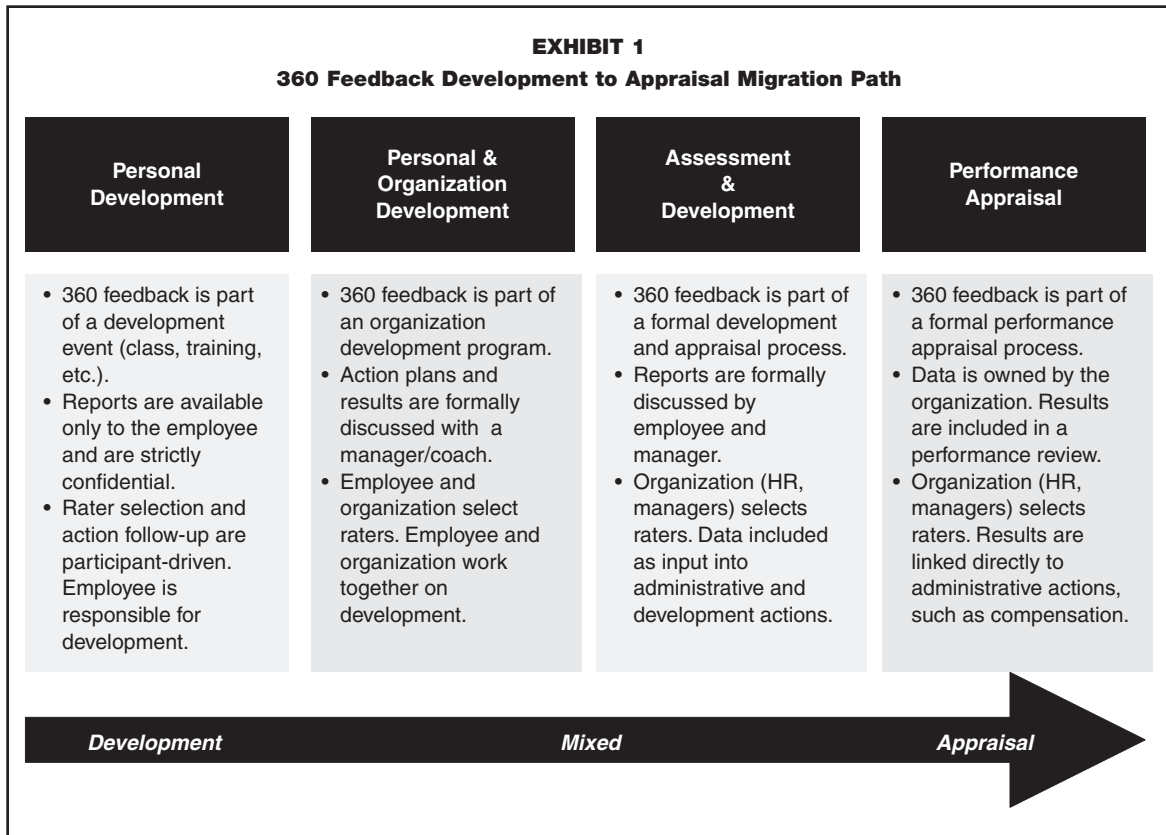
From a broader perspective, the organization is now in a better position to understand what human capital is available for future leadership. Rather than basing this solely on the perspective of one manager, multiple perspectives provide a more comprehensive view of current performance, potential and organization fit.

Migration From Development to Performance

In many cases today, the decision to use 360s for appraisal has already been made. Fortunately, a number of organizations have been able to successfully use 360-degree feedback for development and then begin using it for appraisal purposes at a later date, once the organizations become more adept at giving and receiving feedback.

These companies often find that gathering multiple perspectives for appraisal provides very rich data. Although less common, some organizations have been able to successfully use multi-rater appraisal from the very beginning. The organizations that succeed are those that understand the difference ahead of time and build their processes accordingly.

When using 360-degree feedback for the first time, implementing a process for personal development during the first year and progressing toward performance appraisal use in the following years generally provides a better long-term result. The speed at which an organization moves from using 360s for development to performance appraisal largely depends on the culture of the organization and employees’ openness to



feedback. The diagram in Exhibit 1 illustrates a common migration path.

Tips for Using 360s for Performance Reviews

A number of organizations have successfully used 360-degree feedback for their performance appraisals and have noted great benefit from this. These organizations appear to share a common process that helps them succeed where others fail. Companies can use the following tips to smooth the way:

1. Recognize the differences in use and purpose: The two types of assessments are not interchangeable. Understanding that scores will differ depending on the purpose, as previously discussed, will help in determining how best to use and interpret the scores. As outcomes will likely be different depending on the purpose, these differences should be taken into account when determining how best to use and interpret the results.

2. Communicate the purpose and process: Let employees know the intended purpose before administering the assessments as well as how the results will be used. Communicate the process and hold to it.

3. Use a pilot group: Using a pilot group or groups of 35 to 50 people prior to organization-wide rollout has several advantages. First, it allows for refinement of the process and of the instruments used. Many potential problems are quickly identified through this process. Second, the members of the pilot group can act as champions throughout the rest of the organization. This pilot study may also provide a small taste of what to expect when rolled out to the rest of the organization.

4. Wait before taking administrative action: Although many organizations successfully use 360s for appraisal, most have waited 12 to 18 months before tying the feedback to compensation and other administrative actions. This allows people to become familiar with the process and more comfortable with providing feedback.

5. *Select the appropriate raters:* It is often more appropriate for employees to select their own raters with developmental feedback than with appraisal feedback. With appraisals, there may be the temptation to “stack the deck” in terms of who is selected to provide feedback. This can be solved by selecting raters on behalf of the employee rather than requiring the employee to select his or her own raters. It is also critical to ensure that selected raters have regular interaction with the employee being rated and can provide accurate feedback as to performance.

6. *Use small but relevant rater groups:* Consider the number of people who will be involved in providing feedback. Multirater appraisals involve more of the organization in terms of providing feedback. Each person, and especially managers, may be required to complete multiple evaluations. As time is a precious commodity, limiting the number of assessments and employees who need to complete them should be taken into consideration.

7. *Consider and communicate the scale:* A 7-point Likert-type scale is generally more effective than a 5-point scale. This allows for greater differentiation in scores. Those providing ratings should also be provided with directions and guidelines as to what the scale means and how levels of performance should be rated. This results in a common understanding of what constitutes the various levels of performance.

8. *Keep the survey short:* It is also important to design a survey that is short enough that it can be completed in 15 minutes or less. DecisionWise, in its studies, found this to be approximately 45 to 55 questions. If it is any longer, raters tend to experience rater fatigue, often resulting in all scores falling in the “good” range. The shorter the survey, the more apt raters are to provide accurate information. It therefore becomes especially important that the survey be even more concise. Keep in mind, however, that this brevity should never come at the expense of losing the value of comprehensive feedback.

9. *Use a customized survey:* Multirater assessment for development should include questions geared at behavior (the how), whereas appraisal assessments can focus more on operational performance (the what). Survey questions should reflect these differences in design. Be aware that

EXHIBIT 2
**10 Tips for Using 360 Feedback
for Performance Appraisal**

1. Recognize the differences in use and purpose.
2. Communicate the purpose and process.
3. Use a pilot group.
4. Wait before taking administrative action.
5. Select the appropriate raters.
6. Use small but relevant rater groups.
7. Consider and communicate the scale.
8. Keep the survey short.
9. Use a customized survey.
10. Provide a score for each question.

most off-the-shelf surveys are designed for developmental use, not for appraisals. Off-the-shelf surveys are typically inappropriate for appraisal purposes, and organizations should consider a survey customized to their specific purposes.

10. *Provide a score for each question:* Many performance appraisals group a series of questions under one category or competency. An example of this would be the category of “communications.” Communications is composed of many elements: oral communications, written communications and listening skills. Rather than providing scores for each item, many appraisals solicit one overall score for the category. When this is the case, it is often difficult for an employee to know which area of communications is being addressed. Providing a score for each individual question provides more useful data and is easier for the rater to more accurately evaluate.

Final Thoughts

Using multirater assessment for appraisal has some significant advantages as well as disadvantages. It is important to note, however, that 360s for performance and 360s for development are likely to produce completely different outcomes. Also, multirater feedback used for development shows little correlation to traditional top-down appraisals. They are not interchangeable and should not be treated as such.

Ideally, organizations should use both a multirater assessment for development and a separate performance evaluation, whether it be multirater or single rater, and they should be

clearly separate. When both instruments are used, the developmental piece can specifically focus on the how and identify specific leadership behaviors rather than goal accomplishment. The evaluative piece then can focus more on the what, including such traditional elements as achievement of performance targets, MBOs (management by objectives), and organizational metrics.

Another particularly effective method is to link compensation to the accomplishment of developmental goals. For example, rather than basing compensation on an employee's developmental 360 score, it may be based on whether he or she accomplished the previous development goal that came out of the developmental 360-degree feedback from the previous appraisal cycle. In this manner, employees are still held accountable for reaching developmental goals and are compensated for this, but the 360-degree feedback maintains its developmental focus.

Using both types of feedback will provide a more complete picture of overall performance. Both make up important elements of an employee's overall development plan. Whether or not the appraisal piece comes in the form of multirater feedback is something that requires careful consideration and design because it poses some unique challenges. Used effectively, multirater

feedback has the potential to provide valuable insight for the organization and the individual.

Notes

1. Some studies suggest that more than one third of U.S. companies use multisource feedback. Bracken, D. W., Timmereck, C. W., & Church, A. H. (2001). *The handbook of multisource feedback*. San Francisco: Jossey-Bass. Others claim that the estimate is closer to 90% of all *Fortune* 500 firms. Edwards, M. R., & Ewen, A. J. (1996). How to manage performance and pay with 360-degree feedback. *Compensation and Benefits Review*, 28(3), 41-46.
2. The *Wall Street Journal* also reported that in most every major survey conducted, employees indicate that their performance appraisal systems are resounding failures. Schellhardt, T. D. (1996, November 19). Annual agony: It's time to evaluate your work, and all involved are groaning. *Wall Street Journal*, pp. A1, A5.
3. DecisionWise Leadership Intelligence, Inc. (2008). *Evaluating employee performance: Multisource feedback and traditional performance appraisal provide a bigger picture*. Available from DecisionWise Web site, <http://www.decwise.com>

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