

DECISIONWISE
Leadership Intelligence®

DecisionWise Whitepaper:

**Guide to Using 360 Degree Feedback
for Performance Reviews**

Table of Contents:

Why Feedback	1
360 Degree Feedback for Performance Appraisal	2
Migration from Development to Performance	2
Problems with Standard Performance Appraisals.....	3
Multi-Rater Advantages	4
Differences between Appraisal Scores and 360 Scores	4
Measuring the 'What' verses the 'How'	5
Absolute vs. Relative Scores	5
Who Owns the Data?.....	6
Perception Gaps.....	6
10 Tips for Using 360s for Performance Reviews	7
Final Thoughts	8
About the Authors	9
About DecisionWise.....	9

Guide to Using 360 Degree Feedback for Performance Reviews

Understanding how to obtain a complete picture of overall performance.

**By Tracy M. Maylett, Ed.D
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The use of multi-rater feedback, also known as 360 degree 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 multi-rater feedback with their managers. However, the purpose behind these assessments varies greatly.

Originally used almost exclusively for developmental purposes, 360 degree feedback is seeing increased use for purposes other than employee development. One application that is gaining increasing popularity is the use of multi-rater feedback for performance appraisals. Opinions are mixed as to whether multi-rater 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.

We often see multi-rater feedback 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 your formal evaluation processes succeed or fail.

Why Feedback?

Before determining whether to use multi-rater feedback for development or for appraisal, it's important to understand the role of feedback within an organization. Feedback is a vital part of performance, growth, and development. Understanding ourselves and how we interact with others helps us to understand what impact we have on those around us. The perceptions of others within our circle of influence, whether those perceptions are accurate or inaccurate, determine our level of success. Regardless of the accuracy of these perceptions, our interaction with others both influences and is influenced by the perceptions of others. This is where 360 degree feedback comes into the picture.

Based on the philosophy that individuals should receive a full 360-degree picture of performance by gaining multiple perspectives, multi-rater feedback gathers input about an individual's performance by soliciting feedback from those stakeholders impacted by that individual. Similar to the 360 degrees of a circle, an individual is figuratively at the center of that circle, and feedback is gathered by way of a survey from those in positions to observe the person's performance: supervisors, direct reports, peers, customers, etc.



360 Degree Feedback for Performance Appraisal

As many companies saw the advantages that multi-rater feedback carried within the employee development programs, many quickly perceived 360 degree feedback as the panacea for their appraisal woes. There appears to be the added pressure of wanting to “get the biggest bang for the buck.” Using 360 degree feedback for performance appraisal, as well as development, appeared to be a cost effective solution. The question from many executives soon became, “Why not just combine the two?” However, most managers fail to realize that the purposes behind these two forms of feedback, although similar in design, produce significantly different results.

First of all, it is important to note that we typically recommend that an organization use, or at least start off by using, multi-rater assessments for development purposes only. Because many organizations (and managers) operate in feedback-poor environments, first exposure to a multi-rater assessment 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, they are more apt to accept the feedback as a “gift” from those they impact.

When first exposure to multi-rater feedback has administrative consequences (i.e., raises, promotions, bonuses, possible lay-offs, etc.), employees may be more likely to attack the feedback rather than accept it. After all, they may have much more to lose. Similarly, raters are less likely to provide honest, candid feedback when they know that it may impact someone’s pay or position.

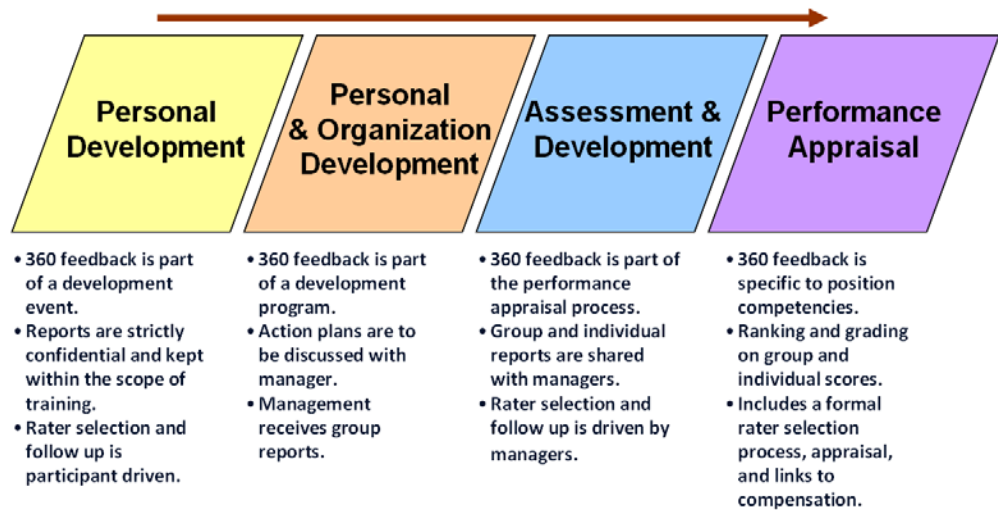
While we encourage the use of multi-rater feedback for development, we also realize that often the decision to use 360s for appraisal has already been made. We have seen a number of organizations successfully use 360 degree feedback for development and then begin using it for appraisal purposes at a later date, once the organization becomes more adept at giving and receiving feedback. These companies often find that gathering multiple perspectives for appraisal provides very rich data. We have also seen other organizations 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.

Migration from Development to Performance

When starting to use 360 degree feedback for the first time, we recommend implementing a process for personal development during the first year and progressing towards performance appraisal use in the following years. The speed at which an organization moves from using 360s for development to performance depends largely on the culture of the organization and employees’ openness to feedback. The following diagram illustrates a common migration path:

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360 Degree Feedback Migration Path



Problems with Standard Performance 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. The *Wall Street Journal* reported that “in almost every major survey, most employees who get...evaluations and most supervisors who give them rate the process as a resounding failure” (Schellhardt, 1996, p. 41). SHRM conducted a study among HR leaders and found that 90% of respondents reported that their performance appraisal systems are unsuccessful.

Other organizations find that their performance appraisal metrics generally do not take into account the manner in which employees go about reaching targets. We recently worked with a group of senior leaders that were regularly achieving revenue targets. Because of this, these managers consistently received exceptional performance appraisal ratings. 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. They were also leaving a “wake of dead in their path,” as the company described it, in achieving these short-term revenue targets. Although their performance appraisals indicated that they were excellent performers, these managers and their departments were often found to be the origination points of many of the employee issues.

It was quickly realized that the top-down appraisal being used by this organization only took into account the ratings of the supervisor. These ratings were based almost entirely on whether or not the manager hit monthly revenue targets. However, the managers’ true overall performance was largely unmeasured. The company made the decision to use multi-rater feedback to look at overall performance and leadership behavior. Through this process, they found that many of these so-called “stellar performers,” were actually not so stellar after all. In fact, it became apparent that their traditional performance appraisal was ineffective at determining true levels of performance, particularly in terms of leadership behaviors.

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Multi-rater Advantages

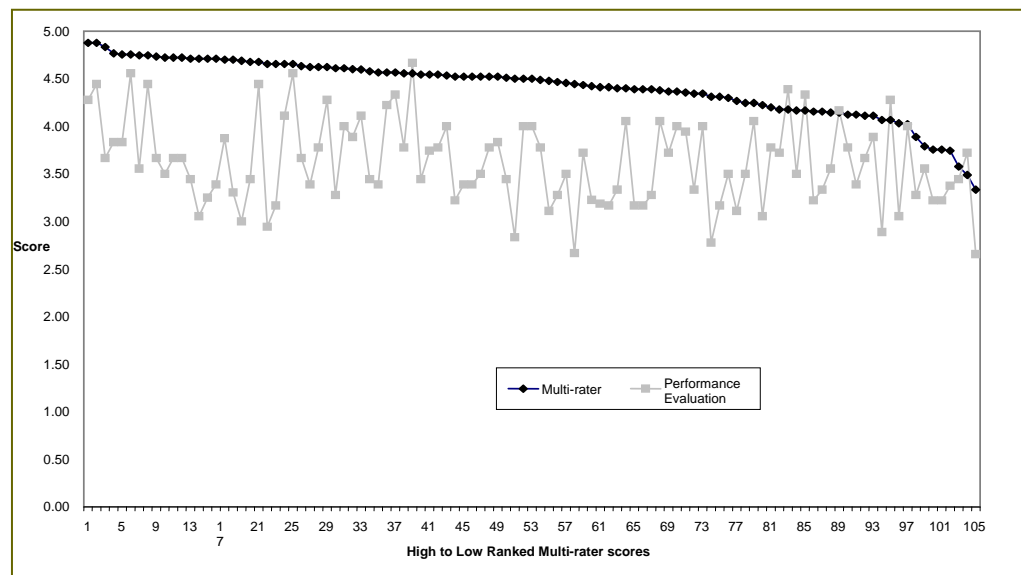
Multi-rater feedback has several significant advantages over single-rater assessment. Rather than relying on the perceptions of one individual, multi-rater feedback takes into account multiple perspectives. This is especially critical when one person (i.e., the supervisor) does not have the opportunity to observe all areas of an employee's performance. 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.

The question is also often raised as to whether managers are skilled (and impartial) at providing feedback through performance appraisal. While some organizations provide appropriate training to supervisors in how to evaluate employees, most do not. Not only does this raise questions as to the accuracy of performance appraisals (which is a constant source of employee complaints), it can also bring to the surface some legal concerns.

Differences between Appraisal Scores and 360 Scores

It is critical to be clear about the purpose behind an assessment. Is the purpose of the process administrative/appraisal focused, or is it intended purely for development? Failure to clearly answer this question up front could spell disaster.

...little, if any, correlation exists between a person's traditional (single-rater, top-down) performance appraisal and the same person's developmental multi-rater assessment.



We recently completed a comprehensive 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 multi-rater assessment. Additional studies show that when an employee's developmental 360 degree feedback score was compared to his or her performance appraisal score, there was little correlation.

We might expect that those receiving very high 360 scores would also receive the highest performance appraisal scores. Those in the middle ranges of one 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 (top 10%) on a developmental multi-rater assessment typically scored in the top half of performance appraisal scores when compared to others. Similarly, those who ranked in the bottom

10% of multi-rater scores were generally ranked in the bottom half of performance appraisal scores.

Measuring the 'What' vs. the 'How'

A first glance at these studies bring into question the validity and reliability of 360s to begin with. While 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, theoretically, a manager could accomplish all of his or her stated objectives: something that is measured in a performance appraisal. This is the *what*. However, the manner in which he or she accomplished it is measured in a developmental assessment. This is the *how*. He or she may have hit all the key performance goals, yet destroyed important relationships in his or her path (haven't we all worked for this manager at some point in our careers?). Because of this, it is possible to receive high scores on one form of assessment and low scores on the other.

Absolute vs. Relative Scores

One of the concerns typically expressed about multi-rater feedback is that the "scores are too high." On a five-point scale, this may mean that the scores hover around the 4.0-4.2 range. When you stop to examine this, it is no surprise that this is the case. The vast majority of employees should be performing at this level. If not, the company has a separate performance issue. However, it is important to recognize that, by nature, multi-rater feedback used for development will typically result in higher (by about 20%) mean, median, and mode scores than do performance appraisals.

In fact, over 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's a bit like the "grading on a curve" that we all came to know and love in school.

This also means that a greater range in scores will likely be found in feedback used for appraisal versus feedback used for development. 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, it is also important to note that much of this variability is the result of a wider range in scores provided by supervisors, and not necessarily by the other raters. Much 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 in order to divide 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

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longer indicative of true performance levels, and therefore are of questionable use to the person receiving the feedback report.

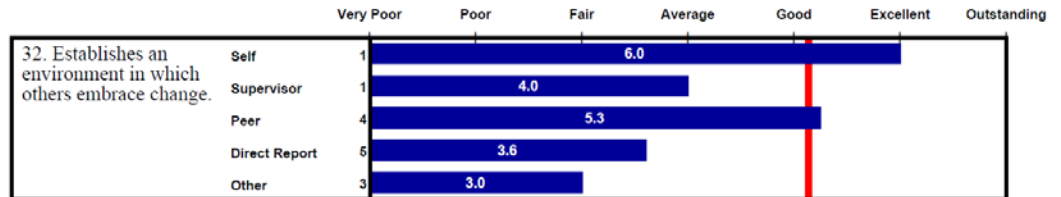
Who Owns the Data?

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 is 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 data is willingly shared with a supervisor. Occasionally, Human Resources has access to the data as well. The upside of involving HR is that there is a perceived safety net. The employee knows that the data is purely developmental. The downside, however, is that development is left completely up to the employee, which may or may not lead to change.

When used for appraisal, on the other hand, the employee’s supervisor, as well as Human Resources, typically has access to the data either before or at the same time as the employee. 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 I see myself differently than others see me, this gap in perception is a valuable source of information. Similarly if there are gaps in the way my supervisor rates me versus the way my peers rate me, this is critical information.



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-average performers. Chances are very few hands will go up; an interesting observation, as statistically half of the room is at or below average.

Generally with development, employees are encouraged to explore these gaps and ask questions of clarification from their raters in order 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 supervisor ratings versus others’ ratings, are somewhat distorted when used for appraisal (as discussed previously).

Gaps between raters’ self-ratings and supervisor ratings are often significant, particularly on performance appraisals. If this is difficult to believe, you may want to 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-average performers. Chances are very few hands will go up; an interesting observation, as statistically half of the room is at or below average. 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 average. This difference is exaggerated through performance appraisals.

Because of factors such as these, gaps in scores may not provide the valuable information they do when used for development. Additionally, asking for clarification of

ratings from ratees may not be as appropriate in appraisal feedback, and may often be perceived as defensive or even hostile.

10 Tips for Using 360s for Performance Reviews

A number of organizations have successfully used 360 degree feedback for performance appraisals. These organizations appear to share several common characteristics that help them to succeed where others fail:

1. **Understand the differences in use and purpose.** These two types of assessments are not interchangeable. Understanding that scores will differ depending on the purpose, as discussed previously, 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. Train the organization on how to provide accurate ratings.
3. **Use a pilot group.** Using a pilot group (or groups) of 35-50 people prior to organization-wide rollout has several advantages. First, it allows for refinement of the process and of the instrument itself. Many potential problems are quickly identified through this process that would have been wide-spread otherwise. Second, the pilot group can act as champions throughout the rest of the organization. This pilot study may also give you a small taste of what to expect when rolled out to the rest of the organization.
4. **Wait before taking administrative action.** Although these successful organizations use 360s for appraisal, most have waited 12-18 months before beginning to tie raises, promotions, etc. to the appraisal results. This allows people to become familiar with the process and comfortable with providing feedback.
5. **Select 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. It is also important to limit the number of raters.
6. **Consider the answer scale.** Multi-rater assessment for development should include questions geared at behavior (the *how*), while appraisal assessments can focus more on the performance (the *what*). Survey questions should reflect these differences in design. We also recommend that a 7-point Likert scale be used, rather than a 5-point scale. This allows for greater differentiation in scores.
7. **Use small but relevant rater groups.** Consider the number of people that will be involved in providing feedback. Multi-rater appraisals involve more of the

organization in terms of providing feedback. Each person (especially managers), may be required to complete multiple evaluations.

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. We have found this to be approximately 45-55 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 the time needed to give accurate information. It therefore becomes especially important that the survey be even more concise, as completing multiple, lengthy assessments may become time-consuming and ineffective. Keep in mind, however, that this brevity should never be at the expense of losing the value of comprehensive feedback.
9. **Use a customized survey.** Be aware that most off-the-shelf surveys are designed for developmental use, not for appraisals. We typically find that off-the-shelf surveys are inappropriate for appraisal purposes, and that organizations should consider a survey customized to their specific purposes.
10. **Don't group questions into single category scores.** Many performance appraisals group a series of questions under one category. An example of this would be the category of “Communications.” Communications is comprised of many elements: oral communications, written communications, listening, etc. Rather than providing scores for each item, many appraisals will give 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 evaluate more accurately.

Final Thoughts

Using multi-rater 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 different outcomes. Also, multi-rater feedback used for development shows little correlation to traditional top-down appraisals. They are not interchangeable, and should not be treated as such.

Ideally, we recommend that organizations use *both* a multi-rater assessment for development *and* a separate performance evaluation, and that they be clearly separated. When both instruments are used together, the developmental piece can focus specifically on the *how*, identifying specific leadership behaviors, rather than goal accomplishment. The evaluative piece then focuses more on the *what*, including such traditional elements as achievement of performance targets, MBOs (management by objectives), and organizational metrics.

Using both instruments 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 multi-rater feedback is something that requires careful consideration and design, as it does pose some unique challenges. Used effectively, multi-rater feedback has the potential to provide valuable insight for the organization and the individual.

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Tracy's business, coaching, and consulting background extends over a period of 20 years and across 5 continents. With experience in technology, retail, government, education, and manufacturing environments, Dr. Maylett has worked with executive and leadership teams in over 20 countries.

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About DecisionWise

DecisionWise, Inc. is a management consulting firm specializing in leadership and organization development using assessments, feedback, coaching, and training. Our Leadership Intelligence® process leads to more effective working relationships, higher levels of employee engagement, and increased business performance. We provide our consulting and survey services to organizations throughout the world, including many Fortune 500 companies, government organizations, and non-profits. Our mission is simple and straightforward: "To help people work more effectively by turning feedback into results." DecisionWise was founded in 1996, is privately owned, and based along the Wasatch Mountains in Provo, Utah.

For more information about DecisionWise, visit www.decwise.com.