The Prudent Path: How to Avoid the Dangers of Using 360 Feedback in Performance Management

by Dennis E. Coates, Ph.D.

My first experience with multi-source appraisal happened at West Point in 1963, where cadets formally evaluated each other's performance three times a year. The ratings had profound consequences. Academy officials studied the scores along with several other performance factors. If peer ratings were consistently low, a person could be expelled from the Academy. During my four years there, I knew several students who were forced to leave under this system.

By contrast, this early form of multi-source (360) feedback was practically unknown in business organizations then. 360 did not become popular until the late 1980s, and then mostly as an executive development tool. Today, it has been introduced into most Fortune 1000 companies, and its use is widespread. It is now affordable enough to use with all employees, and it's also flexible enough to use in a variety of applications, such as team development, customer feedback and organization climate surveys.

And performance management! Senior managers are intensely interested in this application, because performance appraisal has been a perennially frustrating area of human resource management. Problems with appraisal have led authorities such as Edwards Deming, Tom Peters and Peter Drucker to discredit it. On the one hand, managers need ways to let people know how they are doing and to document individual achievements and problems. On the other hand, few organizations have set up appraisal systems that do this without creating discontent, distrust, loss of productivity and law suits.

360 feedback technology is viewed by many as an intriguing solution to the problems with traditional performance appraisal. With ratings coming from many sources, evaluations can have greater validity. With on-line input systems, people can give ratings and comments quickly and conveniently. The desire to use 360 technology for performance management is strong, even though a pattern of real-world successes and best practices has not been established.

While the envisioned benefits are substantial, most managers don't understand the risks of using 360 feedback as a platform for performance management. Furthermore, they aren't aware that this concept is a major controversy among HR practitioners. 360 evolved over two decades as a developmental feedback process, not as a performance appraisal process. Experts agree that computerizing an appraisal system will not correct its inherent problems. While multi-source judgments are usually superior to single-source judgments, experience has shown that linking competence data to pay and personnel decisions introduces unacceptable biases into ratings, thereby rendering the assessment system invalid.

Still, many organizations are boldly going into uncharted territory, encouraged by authors who suggest that with the right technology and know-how, they can work around the issues. Computer programs that facilitate 360-based appraisal have appeared, positioned to capitalize on an expressed need in the market. At the same time, most experts and organizations are backing away from this application.

Why? Are the dangers real? Is 360-supported performance management too good to be true? Can it be achieved with the right know-how? In the end, will the judgment of bold executives prove to be superior to the cautiousness of human resource professionals?

Using 360 feedback in the context of performance management involves significant risks that no prudent manager should underestimate. It's as if a dark, mysterious territory separates managers from the promised land of high-tech appraisal. But approaching this territory is like visiting a great city. The payoffs are there, but part of the journey is knowing where not to go and what not to do. Guides promise to lead the way, but a prudent traveler should make some preliminary inquiries. What's involved in this path? What are the options? What are the risks? What are the costs?

In this article I will explain how to minimize risks and obtain the maximum benefit when using individual 360 feedback in the context of performance management. The prudent path has three guideposts: (1) Link competence feedback to development decisions, (2) Link results feedback to pay and other personnel decisions, and (3) Maintain confidentiality. This approach evolved from my work with over 300 organizations that launched a variety of 360 programs during the past five years. The organizations that followed this path achieved their goals without negative consequences; the same may not be said for the organizations that departed from it.

Guidepost #1: Link competence feedback to development.

Using 360 successfully in performance management requires a clear understanding of what is meant by "performance." Few words in the management lexicon are as important as this term, but in fact the word has two quite different meanings.

In one usage, the word performance refers to results - what gets accomplished. Have individuals, teams and organizations achieved their goals? Are standards being met? Are projects completed on time? Are products and services delighting customers? Have business goals been achieved?

The word performance also means something else: competence: how well people do their work. Are people knowledgeable and skilled? How effectively do they use their skills? How well do employees interact with each other? How do people treat their customers? Are procedures effective? How is the work getting done?

Managing performance means managing both results and competence. Both aspects can be measured, but they should be measured differently and separately. The failure of performance appraisal to separate the two processes has caused many of its problems.

This is not to say that there isn't a cause-and-effect relationship between competence and results. In fact, how the work gets done does influence what gets done. However, it's important to understand that competence – knowledge, skills, practices, abilities, etc. – isn't the only factor that influences results. Actually, it's one of an impressive array of variables that exert a strong influence on results: strategy, structure, culture, values, executive leadership, team leadership, planning, work process design, incentives, internal motivation, personal character, individual style, the quantity and quality of feedback, access to information, the quality of communication and information systems, authority, staffing, facilities, equipment, transportation and funds.

Measuring competence as the first step to self-improvement is the best use of 360 feedback. In this role, there are no concerns about using the results to put someone's career or compensation in jeopardy. Competence feedback helps individuals identify strengths and weaknesses so they can set development goals. Aggregated competence data may be used by the organization to invest thoughtfully in developmental resources and programs.

It's important to keep in mind that 360 feedback is not the best tool for measuring competence that is already easily quantified/measured. This includes most technical areas. For example, why would you ask for several people's opinions about someone's typing ability, when all you have to do is conduct a five-minute performance test?

However, many key workplace skills and activities are exceedingly difficult to quantify and measure. These encompass mostly the interpersonal dimension of work: communication, team interaction, leadership, customer service, consulting, sales, negotiation, presentation, instruction and facilitation. Because multi-source feedback uses scaled ratings from a variety of sources on researched areas of performance, its able to compile remarkably objective performance data, and modern 360 administration software programs make doing so a relatively simple, cost-effective procedure.

The key is to link feedback about competence to development action, not to pay and personnel action. While an effective performance management system will address both aspects of performance - competence and results - the prudent path involves separate measurement, reporting and follow-up. Many organizations have found that it’s effective to emphasize the separateness by administering them at different times.

Guidepost #2: Link results feedback to pay and other personnel decisions.

There's nothing wrong with linking feedback to personnel and pay decisions, provided that the feedback is about results. People should be held accountable for results and rewarded for achieving them. But in a desire to "pay for performance," organizations sometimes mistakenly focus on the competence aspect, rather than the results aspect of performance. They make this error because of a failure to appreciate the distinction between competence and results, and because 360 feedback makes it easier to gather competence data than results data.

The magnitude of the error has to do with the fact that it's enormously expensive to administer compensation programs. If the rewards don't have the desired impact on results, this huge investment is largely misdirected. Chances are, rewarding competence won't have much impact on results; as I've already pointed out, competence is only one of over a dozen major factors that influence results. It makes more sense to set goals and standards, measure them, hold people accountable and reward achievement appropriately.

However, executives have learned that rewarding only business results can have unintended negative consequences. Thoughtful managers express the issue this way: "Yes, results are the most important consideration, but it's not enough to hold key people accountable for things like market share, sales, profit, costs and other bottom-line measures. We want to hold leaders accountable for how they get these results. We know they can't achieve them without working through people, so we don't want them to improve the bottom line and collect bonuses for doing so while discouraging, misusing or burning out the talented people who produced those results. We don't want them to kill the goose that lays the golden eggs."

The reference to golden eggs comes from one of Aesop's fables. In the story, a farmer discovers that his goose had laid a golden egg. The egg looks real, and when he has it evaluated he learns that it is, indeed, made of solid gold. The goose regularly produces other golden eggs, and soon the farmer becomes wealthy. However, overcome by greed and impatience, the farmer kills the goose to get the remaining eggs. When he finds no more golden eggs inside the goose, he realizes that he has destroyed forever the thing that could produce them.

Something like this happens in organizations. Executives want their enterprise to produce results that are the equivalent of golden eggs: better products, better services, more customers, higher profit margins, greater market share, and so on. The geese that lay these golden eggs are the talented people within the organization. If they are willing, able and adequately supported, employees will deliver the outcomes that equate to success.

Wise executives care most about results, but they also care about how the results are achieved. They want managers to build up - not use up - the human resources that make them successful. They don't want to kill the geese that lay the golden eggs. They learn to hold managers accountable for developing, inspiring and empowering the people that produce results, as well as for the bottom-line results themselves.

To accomplish this, executives are often tempted to use competence feedback as measures of leadership. Most 360 leadership surveys measure leadership competence, not leadership results. Once again, the mistake is that if you define, measure, hold accountable and reward leadership behavior, at best you'll get improved behavior. Behavior – competencies – is only one of dozens of factors that influence results. The key is to define, measure, hold accountable and reward the outcomes or results of leadership.

But what are the results of leadership? And how do you measure them? If it's a mistake to link rewards to multi-source (360) leadership feedback, in which bosses, peers and direct reports give ratings and comments on specific core aspects of leadership behavior, then what is to be measured and rewarded?

Rewarding results is a simple concept, but the challenge is to set the right goals, which is the responsibility of senior managers. Leaders must be wise enough to define outcomes that actually help an organization achieve its vision. Some organizations overemphasize financial objectives, not appreciating that if they don't also focus on employees and customers, the desired financial results will eventually falter.

The key is to know which outcomes will contribute most to the organization's success, measure them and reward their achievement. It's better to focus on major results rather than on a comprehensive list. And it's important to specify end outcomes, not in-process milestones. Furthermore, desired outcomes usually involve a team effort. Therefore, team goals and team rewards are often more appropriate than individual ones.

Most business goals are easily quantified, and effective methods for measurement already exist. In this case, 360 assessment systems will not be needed; it wouldn't make sense to ask for opinions about on-time deliveries, improved quality, reduced waste, safety, sales, new accounts, market share, project phases completed, profit, return on investment, etc., because effective systems already exist to compile and track this information.

However, some key results are hard to quantify. For example, how would you measure whether a leader was taking care of the geese who lay the golden eggs - the human resources that create desired business outcomes?

Remarkably objective data can be gathered about outcomes that are otherwise hard to measure using satisfaction surveys - a traditional source of information within organizations. How do your customers feel about the way you treat them? You can find out using customized customer satisfaction surveys. How do team members feel about working in their group? You can find out using team climate surveys. Some 360 software programs are flexible enough to administer customized climate surveys, although it's important to keep these surveys separate from individual development assessments. Using the results of a baseline survey of carefully chosen leadership outcomes (such as levels of trust, loyalty, commitment, cooperation, professional satisfaction, development, etc.), specific results goals tied to leadership, communication, relationships and team development can be agreed upon.

To illustrate, the following items may be included in a team climate survey:

- The work of our group helps fulfill the organization's vision and values.
- The activities of my unit are well planned.

- The people who work around me show concern for our customers.
- My colleagues encourage each other when work is challenging.
- I feel empowered to do my best work.
- Adequate resources are available to achieve my goals.
- I work in a safe environment.
- I trust my boss.
- I have the freedom of action I need to do my job.

Wise leaders understand that in a busy workplace, people focus on specific results only if there is a significant benefit for doing so. People may have the "know-how," but they also need the "want-to." As almost everyone knows, motivation comes from within.

Effective leaders have a way of inspiring people by focusing on the future, building relationships, communicating well, providing support and using a wide range of non-monetary incentives. In my opinion, these dynamics are more influential than money.

But certain forms of compensation can also be powerful incentives. Unlike praise, salary increases and bonuses have the power to help employees care for elderly parents or put their children through college. Successful organizations have learned to define what they need from people, empower them and hold them responsible for results. When these payoffs are achieved, the people responsible are rewarded financially.

While it's not possible in this space to treat all the issues related to establishing and rewarding results, the best guidelines are the ones most commonly suggested by experts:

1. Ensure that performance goals conform to EEO guidelines:
    - Related to specific corporate goals
    - Linked to the person's responsibilities
    - Achievable
    - Observable
    - Measurable
2. Reward team development as well as business results
3. Empower people to achieve the goals you set
4. Reward the people who do the work:
    - If it was a team effort, reward the team
    - If it was an individual effort, reward the individual
5. Keep the goal-setting, tracking and reward system simple:
    - Reward outstanding effort, not routine performance
    - Track and reward outcomes, not process steps
    - Don't track and reward every result, only high-impact results

One final caution. Paying for performance results is a good idea, but think twice before rewarding goal achievement with salary increases: (1) It's amazingly expensive. The salary differential is awarded not just once, but every year afterward, as long as the person is employed. In addition, if salary level is linked to retirement pay, the extra compensation will be expended for an undetermined number of years during retirement. (2) The incentive doesn't have immediate impact; the full amount of the reward is distributed through dozens upon dozens of future paychecks. (3) The incentive is only temporarily effective. The motivation of a promised salary disappears immediately after it is awarded.

Once a salary is increased, it is perceived as a revision of the employment contract: fair compensation for defined levels of employment - not as a reason to continue exceptional levels of performance. Salary increases should be based on an established track record of achievement, when a history of accomplishment indicates that the value of the employee in the career market place has increased.

Guidepost #3: Maintain confidentiality.

Confidentiality safeguards – and the perception of confidentiality – are essential to the validity of the information gathered. The most important way to protect confidentiality is to limit the feedback that managers see. Coworkers may want to give a person honest feedback, because they know that if the individual doesn't face up to the truth, changes in behavior are unlikely. On the other hand, coworkers don't want their ratings and comments to be seen by managers who make personnel and pay decisions. They don't want to be responsible for drastic career consequences. In short, they may want an individual to have specific developmental feedback – but only the individual and only for development.

Assurances of confidentiality are based on trust, and this trust must be earned. People may believe their managers when they are told that 360 information will be safeguarded and used for development only. But if they discover that they were misled, trust will be lost immediately and in most cases can never be restored. This consequence would render a 360 system useless as a development tool.

One division of a large communications company began using 360 feedback for team development. When faced with the need to "downsize," managers concluded that the 360 performance data would help them decide who to keep and who to let go. When employees discovered what was happening, they raised such a furor that the company had to abandon the use of 360 altogether.

A regional bank experimented with using 360 feedback for management development. But the organizational climate was characterized by low trust and internal politics, and many people feared that the data would be used for personnel and pay decisions. As a result, several participants found ways to avoid or sabotage the process. With the pilot program in disarray and the expected benefits unachieved, those who opposed the program used their influence to eliminate it.

People who are urging the use of 360 for appraisal frequently offer this rationale: "If managers use 360 feedback to coach development, isn't it unrealistic to expect them to ignore this information while preparing performance appraisals?" This question suggests a mindset that doesn't distinguish between competence and results. It also implies that managers who make judgments about personnel and compensation decisions have access to the detailed feedback that was given to their subordinates for development purposes.

As matter of fact, managers don't need access to a complete set of individual feedback data in order to carry out their responsibilities as performance coaches. Detailed ratings and comments are useful only to the individual doing development planning. In order to give quality guidance and encouragement, a manager needs to be able to review and make suggestions about the development plan - not specific ratings from the individual's 360 feedback report. Awareness of the plan, along with average category scores and group norms, is all a supervisor needs to monitor and hold an individual accountable for development.

In addition, managers can hold people accountable for development progress by tracking several indicators. Have they been implementing their individual development plan? Are they involved in meaningful development activities? Do they respond well to feedback? Has there been a noticeable improvement in interpersonal behavior? Do they keep a record of development activities? Over time (2 or 3 cycles), have 360 summary scores improved?

Conclusion

I've explained why there are unacceptable and unnecessary risks involved in linking 360 competence data to pay and personnel action. However, 360 feedback can be safely linked to appraisal in a performance management system by doing the following:

1. Use individual 360 feedback to measure the hard-to-quantify aspects of competence.
2. Link measurements of competence to appropriate development activities. Hold people accountable for their development.
3. Use satisfaction surveys to measure the hard-to-quantify results.
4. Link the measurement of results to appropriate rewards. Hold people accountable for results.
5. Separate both processes; coordinate them in time so that they support each other.

In light of this approach, the typical rationalizations that encourage linking individual 360 feedback to pay and personnel decisions are remarkably unconvincing.

"If 360 feedback isn't linked to pay, what would motivate anyone to take it seriously?" Most people want to remain competitive in the workplace, and they know that feedback gives them an edge. Feedback is important to people who want to: (1) See themselves as professionals, (2) Upgrade their skills, (3) Find out what their coworkers already know about their weaknesses, (4) Resolve problems they may be causing, and (5) Contribute to the team mission and its success.

"A multi-source appraisal is more effective than a single-source appraisal." That's true. But single-source (boss) feedback is only one of the problems that plague performance appraisal.

Using multi-source feedback as a platform for appraisal is like putting a new horn and side mirrors on a junk car. It's safer to drive, but the car still needs major repairs.

"We've already invested in 360 technology for development. Why not get extra value from it by using it for appraisal, too?" From a cost viewpoint this may sound like a reasonable idea, but as I have emphasized repeatedly, there are huge risks. The solution is to take the prudent path.

"We can start with the development-only approach, get them used to 360, then 'ease it in' to using it for performance appraisal." No matter how gradually you familiarize people with the process, if you connect a 360 appraisal to compensation and personnel decisions, employees will know that their evaluations can affect a person's career and will find it insurmountably difficult to give honest feedback and accurate ratings. When this happens, 360 feedback will no longer be useful for development. And since supervisors have been challenged to give fair appraisals for decades and have not met the challenge satisfactorily, how can anyone expect coworkers to be more objective?

Trust is at the core of using 360 to enhance productivity. Trust determines how much an individual is willing to contribute for an employer. Using 360 confidentially for developmental purposes builds trust; using it to trigger pay and other personnel decisions puts trust at risk. Why would an organization consciously choose to jeopardize trust for the sake of convenience or efficiency?

In the end, leaders are responsible for "managing" performance - both competence and results. Performance appraisal and 360 feedback are tools that help leaders fulfill this responsibility - powerful tools, when used with care and good judgment.

About the Author

Dennis E. Coates, Ph.D., is CEO of Performance Support Systems, based in Virginia. He is the author of 20/20 Insight GOLD, an award-winning 360-degree feedback system (**www.2020insight.net**), and Strong for Performance, an interactive online coaching platform for developing leadership skills (**www.StrongForPerformance.com**). Dr. Coates has over 40 years experience as a leader, manager and HR professional.