

# The "Usefulness" Of the 360-degree Feedback System: A Consideration Before Implementing The System

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## Abstract

Performance appraisal is crucial in organizational management. Accuracy, fairness and effectiveness of a performance appraisal system are important to an effective evaluation result, which has influence on job satisfaction, motivation, career development and performance management. There are few limitations that can undermine the accuracy, fairness and effectiveness of a performance appraisal system. However, these flaws can be minimized through several practices, such as: having the appraisee's participation; generating inputs from different parties; adopting an appropriate information gathering technique; and having knowledgeable appraisers. Compared to a traditional performance appraisal system (or single-rate system), the 360-degree feedback system features greater accuracy, fairness and effectiveness. In addition, forces from business environment that cause changes in organizational structure, management style and job design have increased the popularity of the system. However, there is no assurance that the 360-degree feedback system is the best performance appraisal system, or even that it is a useful approach for every organization.

In this paper, the term 'appraiser(s)' and appraisee(s)' will be adopted instead of 'employer(s)' (or 'supervisors') and 'employee(s)'. This is to ensure the consistency in this essay, as in a 360-degree feedback system, appraisers can be employees and vice-versa.

## Introduction

Performance Appraisal (PA) is fundamentally adopted to assess employees' past performance, the results of which are used for increment adjustments, bonuses, promotions and probationary reviews (Rees and Porter, 2003). Furthermore, it is being applied to identify individual and organizational strengths and areas for improvement, which is important to individual and organizational development (Rowe 1995). PA is playing an important role in the organizational ability to achieve both short- and long-term goals, as it helps an organization recruit the right talent pool to do the right job or task at the right place and at the right time.

To attain assessment and developmental purposes effectively, the result of performance evaluation is crucial. The accuracy, fairness and effectiveness of a PA system are important components which contribute to an effective evaluation result. However, as PA systems are designed, commenced and reviewed by human beings, some common limitations of any appraisal system should be expected. These include appraiser's biases; cognitive

limitation (Folger, Konovsky and Cropanzano, 1992); insufficient and/or inappropriate knowledge; inadequate understanding of the job, or of the PA system (Ilgen and Barnes-Farrell in Greenberg, 1996); and appraisers' errors, such as halo effect, central tendency, recency effect and contrast effect (Landy and Farr in Longenecker and Ludwig, 1995). These could affect the accuracy, fairness and effectiveness of a PA system. Besides, the information-gathering techniques (Greenberg, 1996) and the rating format (Carson, Cardy and Dobbins, 1991) could also have impacts on the three main components of a PA system.

Although these are common problems in any PA system, there are several practices which can be followed to mitigate these deficiencies.

### **Practices To Enhance Accuracy, Fairness And Effectiveness Of A PA System**

Owing to the broad and subjective definition of 'accuracy', 'fairness', and 'effectiveness' of a PA system, the definition will be narrowed and framed as a guideline when explaining the suggested requirements for achieving accuracy, fairness and effectiveness in a PA system.

According to Longenecker and Ludwig (1995), the accuracy of a PA system should be based on the ability of the PA system to provide accurate evidence of the appraisee's actual performance during a finite time period. The fairness of a PA will depend on the procedural fairness, which will have an effect on the perceived fairness and thus the acceptance of the outcome (Greenberg, 1996). The effectiveness of a PA system will be the extent to which an evaluation result can assist in achieving an effective and efficient assessment and developmental purpose, and eventually attaining organizational goals. Even though it is almost impossible to have a perfectly accurate, fair and effective PA system, the common errors and deficiencies in a PA system can be minimized by allowing an appraisee to participate and have an open discussion during the PA process; collecting feedback from multiple sources; adopting an appropriate information-gathering technique; and having knowledgeable appraisers.

### **Appraisee's participation**

According to Greenberg (1996), in a PA activity, decisions should be made based on the most accurate information. Relying solely on an appraiser's input is insufficient because some important information might be overlooked due to the biases and cognitive limitations of the appraiser (Folger et. al., 1992). Thus, having an appraisee's inputs through his own participation at different PA stages is essential to ensure that information adopted during the PA process is as accurate as possible (Greenberg, 1996). The benefits of an appraisee's participation will be enhanced if open communication and discussion are encouraged during the PA process.

According to Folger et. al. (1992), a PA format should be able to reflect individual performance and developmental goals as well as be able to evaluate specific behaviors, instead of general personal traits. Thus, an appraisee's inputs are essential to ensure that the PA objective, standards, criteria (including the definition of each criteria) and format are formulated in such a way that both appraiser and appraisee can understand and agree (Folger et. al., 1992).

Carson et. al. (1991) raised the concern that appraiser and appraisee may have different views on the causes of performance differential, especially when the performance

differential is due to system factors (such as defective equipment or non-equivalent work flows), which usually are beyond the individual's control. Thus, an appraisee's participation can be seen as an appeal mechanism to represent himself in the evaluation judgment and PA interview stage (Folger et. al., 1992). This practice will prevent the concentration of decision-making power in the hands of managers (Folger et. al., 1992), while allowing appraisees to have some degree of decision-making power in the evaluations. All of these essential factors could lead to a more accurate, fair and effective PA outcome that satisfies both individuals and the organization.

By having inputs from appraiser and appraisee, the assessment and developmental purposes can be achieved more successfully, because the individual and organizational performance gap can be identified more effectively. It can assist in designing an appropriate reward, training and development program for individual employees, in order to achieve both personal and organizational goals.

### **Inputs from multi-sources**

Secondly, due to the different roles played by individuals in an organization, the views on one's performance will depend on the appraiser-appraisee relationship in the workplace (Greenberg, 1996), and these come from multiple inputs, which could assist in ensuring an accurate, fair and effective PA system. Feedback from multiple sources can be generated from downward appraisal, upward appraisal, peer appraisals or self-appraisals (Rowe, 1995). Besides, PA can also be done by external stakeholders, such as customers and suppliers, depending on the nature and scope of the job (Edward and Ewen, 1996). Although it is argued that leniency and bias (especially from peer and self-appraisal) will affect the accuracy of PA outcomes, it is a way to generate a more balanced perspective on individual performance and enhance the perceived accuracy, fairness, and effectiveness of the PA system. Furthermore, it allows discrepancies to be mitigated through a better structure of procedures, safeguards and training.

### **Appropriate information gathering techniques**

Thirdly, to ensure an accurate, fair and effective PA system, the information-gathering technique is important. Generally, performance appraisal is undertaken once a year, and it is not uncommon to have performance evaluations based on the vague memory of appraisers. Dealing with this problem, Greenberg (1996) suggested the use of diaries, which require appraisers to keep a regular, detailed recording of critical incidents and/or daily working behaviour from actual observations. When performance is being observed and recorded in a consistent and ongoing manner, information collected tends to be perceived as high quality, accurate and fair (Greenberg, 1996). Besides, the results could assist managers to design a more appropriate reward, training and development program, which satisfies individual and organizational needs and goals.

### **Knowledgeable Appraisers**

Fourth, having a procedurally sound PA system is insufficient to ensure the accuracy, fairness and effectiveness of a PA system (Longenecker, Liverpool and Wilson in Longenecker and Ludwig, 1995). The appraiser is in fact playing an important role. When performing PA, it is important to ensure that the appraiser has sufficient and appropriate knowledge in the job requirements as well as the PA system; otherwise it could weaken the accuracy, fairness and effectiveness of the PA system. As a result, before carrying out a PA system, appropriate training should be given to appraisers.

From the suggested practices above, it seems that these suggestions are describing the 360-degree feedback system, since the nature of this system can fulfil most of the requirements. The 360-degree feedback system is a popular PA system as it displays a high degree of accuracy, fairness and effectiveness, compared to traditional PA systems. However, what is the level of "usefulness" indicated in this system? The following section will examine whether the 360-degree feedback system is indeed a useful PA system for all organizations.

### **360-degree Feedback System**

The main characteristic of a 360-degree feedback system is its multi-sources assessment process (Armstrong, 2000). Compared to a traditional PA system (or a single-source system), the nature of the 360-degree feedback system is more accurate, fairer and more effective, as it involves different parties along the performance appraisal process (from setting objectives, deciding evaluation criteria and format, providing performance feedback and evaluating the evaluation results). The information collected from multiple sources provides a less biased, more balanced perspective by avoiding over-critical or over-lenient inputs (Edward and Ewen, 1996). In addition, as this performance system also gives the appraisee opportunities to offer his view on self-performance, the influence in decision-making is distributed among different appraisers instead of the managers' only (Garavan, Morley, and Flynn, 1997). As a result, the reliability, fairness and acceptance of the feedback system as well as the result will increase.

Another advantage of the 360-degree feedback system is that this system encourages two-way communication, open discussion and open culture in an organization (Garavan, et. al., 1997). This communication style enables appraiser and appraisee to set PA objectives, standards, criteria and format that both parties agree are worthwhile. This is significant to enhance the effectiveness and efficiency of a PA process and its outcome, and also to assist in reaching a decision that is fair to the individual and the organization. Other than that, the anonymous nature of the system also encourages appraisers to provide feedback, which may not be expressed openly (Tornow in Garavan et. al., 1997). This enhances the accuracy of the input.

In a 360-degree feedback system, an appraisee is given a certain degree of freedom to choose who should be his appraiser (Garavan et. al. 1997). This helps reduce the possibility that the appraisee's performance is being evaluated by appraiser(s) who lack sufficient and appropriate understanding of the job requirements.

Moreover, due to changes in the business environment, there is greater complexity in job requirements today, and employees need more information (with better quality) for individual performance improvement (Luthans and Farner, 2002). In addition, as a result of the trend in downsizing and empowerment, employees need to be more independent and responsible for their own personal development and performance improvement (Tornow and London in Luthans and Farner, 2002).

Relying on single-source performance feedback is insufficient for individual performance improvement. Hence, by adopting a 360-degree feedback system, the relevant yet different feedback will increase appraisee's self-awareness of his own performance gap, and how he is being perceived. The difference between self and appraisee's discrepancies will enhance personal learning (Garavan et. al., 1997) and could serve the directional purposes which guide the appraisee in formulating career development plans (Curtis, 1996).

Although the 360-degree feedback system is a popular performance assessment and developmental tool that gives better results in terms of accuracy, fairness and effectiveness, it is not a PA system without defects, and it is not an ideal system for every organization. Hence, before adopting a 360-degree feedback system, there are some limitations and considerations which need to be taken into account.

### **Considerations Before Adopting 360-degree Feedback System**

A 360-degree feedback system may be seen as the best PA practice that delivers accurate, fair and effective results, yet it may not necessarily fit into every organization. For instance, there are organizations adopting a 360-degree feedback system because their competitors are implementing the system. But they should not do so without considering whether this is a system that best suits the organization. Eventually, these organizations could end up with problems caused by their adoption of the 360-degree feedback system.

Due to the rather complicated appraisal procedures of a 360-degree feedback system, it is not an easy system to adopt. Compared to other PA mechanisms, a 360-degree feedback system could ensure a higher degree of accuracy, fairness, and effectiveness, but Rowe (1995: 19) warned that if an organization starts using this system, it has to continue adopting it. Hence, before using a 360-degree feedback system, it is important to examine whether this system will be supported by organization resources; the alignment between the system and organizational objectives; business strategy and organizational structure; the level of participation, commitment and support from top management; whether there is a supportive organizational and/or national culture; and the extent of implementation that is possible.

### **Support from Organisational Resources**

A 360-degree feedback system often involves comprehensive arrangements. As it engages different parties along the process (from setting up objectives, formulating criteria and formatting the PA system, collecting feedback, and evaluating results), a 360-degree feedback system is more complicated, time-consuming and expensive (Garavan et. al., 1997) than other systems.

Furthermore, if an organization wishes to get the best results from a 360-degree feedback system, Garavan et. al. (1992) suggested that training in areas, such as the mechanics of the 360-degree feedback system and how to give and respond to constructive feedbacks, should be given to organizational members. Hence, the first fundamental step to be taken before implementing a 360-degree feedback system is to ensure that the organization has the resources to provide people the knowledge, skills, ability and experience to implement the system.

In fact, resources are needed not only when implementing the system, but also in order to sustain it (Anonymous, 2002). Rees and Porter (2003) suggested that when preparing for a 360-degree feedback system, it is crucial to do a detailed costs-benefits analysis to identify and compare any possible costs (including opportunity costs) when diverting organizational resources to implement and sustain the system, as well as to consider the benefits that can be obtained from the system. Hence, before enjoying any valuable outcome brought by this feedback system, it is important to examine if an organization has sufficient organizational resources to implement and sustain the system.

Other than support of organizational resources, a 360-degree feedback system has to be linked to organizational objectives, business strategy and organizational structure.

The integration between the 360-degree feedback system and organisational objective, structure, business strategy

Similar to other performance feedback systems, a 360-degree feedback system plays an important role in ensuring that the organization has the right talent pool to achieve organizational goals. Therefore the objectives, appraisal criteria, standards and procedures need to be well- aligned with organizational objectives (Wright, 2004).

Furthermore, it is important to ensure that the 360-degree feedback system has a congruent linked with business strategy. For instance, if the business strategy of an organization is being customer-focused, the objectives, rating criteria, rating percentage, and procedures of the 360-degree feedback system should be able support the business strategy by ensuring that the performance of organizational members is customer-oriented. In this scenario, the organization may include customers among the important external appraisers to evaluate the performance of relevant organization members.

Other than that, before employing a 360-degree feedback system it is important to examine the organizational structure and evaluate whether the feedback system is appropriate and can fit into the organizational structure. According to Hill and Jones (2001), communication effectiveness can be influenced by the design of an organizational structure. Generally, organizations with tall and bureaucratic structures tend to have a more extensive communication flow, which has to go through several organizational layers (Hill and Jones, 2001). This structure could undermine the effectiveness and efficiency of the communication process between appraisers and appraisees, which is the core of the 360-degree feedback system.

### **Participation, Commitment And Support From Top Management**

When introducing and implementing a 360-degree feedback system, participation, commitment and support from top management is crucial. Top management has the responsibility of communicating the goals of the 360-degree feedback system, and explaining the importance of the system to every organisational member (John, Robert, Carol, Lynda and Jay, 1994).

The important role played by top management does not end even when a 360-degree feedback system has been implemented successfully. Top management has to give ongoing participation, commitment and support to sustain the feedback system in the organization, or else the success of the system will be short-lived.

### **Supportive Organisational (And National) Culture**

Owing to globalization, a lot of organizations are expanding internationally and having subsidiaries around the world. To perform in the international market successfully, the business practice that influenced by the dogma, "think globally, act locally" has been adopted widely. In fact, this dogma is applicable to IHRM (International Human Resource Management).

When expanding globally, a diverse culture that reflects different management values, norms, behaviors, practices and employee expectations often becomes the challenge for

MNC (Gillespie, 2005). It is important to note that a system which can work effectively in the home country may not necessarily work in host countries. To a certain extent, some HR practices implemented by headquarters can be transferred to subsidiaries located in different countries. Nevertheless, there is still a need to localize certain practices according to the local culture (Myloni, Harzing and Mirza, 2004).

For instance, from research done by Myloni et. al., (2004) and Gillespie (2005), to apply a 360-degree feedback system in subsidiaries located in nations with higher power distance and collectivism, more time and effort will be required. Nations with higher power-distance cultures and collectivism tend to respect authority, and the people expect autocratic leadership that involves close supervision at work (Chhokar, Zhuplev, Fok, Hartman, 2001). Hence, people in these countries would find it strange to include peers and subordinates to in the performance evaluation process. Although the appraiser's identity remains anonymous, they may still uncomfortable evaluating peers and supervisors.

Moreover, Gillespie pointed out that, due to differences in cultural values and norms, perceptions and interpretations of certain behaviors (such as leadership style) and the performance of appraisees could vary greatly. Hence, when designing the 360-degree feedback system, the means, translation of the rating criteria and interpretation of the result need to be well aligned with the national culture context and, suitable for local HR practices.

### **The Extent Of Implementation**

Despite the benefits obtained from a 360-degree feedback system, there are criticisms of the usefulness of this system involving issues of pay, bonuses and promotability. According to Lepsinger and Lucia (1997), a 360-degree feedback system tends to be less effective when the PA results will ultimately relate to self-interest, such as compensation and career advancement. For instance, although feedback will be anonymous, if appraisers believe that his feedback will have an influence on his career, pay opportunities or working relationship with other appraisees, the accuracy of feedback will be affected.

Moreover, since an appraisee has freedom to choose appraisers, it could also lead to cheating, as noted mentioned by Garavan et. al. (1997). The 'mutual supporters club' effect that is indicated by Grint (in Redman and Mathews, 1995) could exist in the system, as appraisers and appraisee might well give more favorable feedback about each other. This could affect the accuracy of the evaluation result and affect assessment and developmental decisions.

In a 360-degree feedback system, the appraisee needs to identify personal career goals. However, Rees and Porter (2003) pointed out if conflict exists between individual goals and organizational goals and such a condition threatens personal job status, employees may manipulate their performance targets so that the targets will be achieved more easily.

All of these are undesired side effects that occur when the result of a 360-degree feedback system is linked to self-interest. Hence, it is important to consider the extent of implementation of the 360-degree feedback system. Lepsinger and Lucia (1997) suggested starting the system for development purposes (identifying the strengths and areas of improvement) and slowly adopting it as part of the performance assessment process after the resistance from organizational members is mitigated.

### Suggestions For Further Research

A 360-degree feedback system could improve the quality of individual performance evaluation results. However, it has to be supported by an appropriate culture (both organizational and national). In fact, a vital area for further research in international human resource management, particularly when considering different cultures, is how to determine whether a 360-degree feedback system creates practical values in individual and organizational performance development. Other than cultural factors, the contribution of a 360-degree feedback system to effective employee motivation and job satisfaction would be a fascinating area to explore further.

Additionally, many studies have shown the usefulness of the 360-degree feedback system in individual and organizational performance development, while casting doubts about its impact on matters of pay, bonus and promotability. However, there is little empirical research on methods to improve this deficiency. Hence, we need further research on methods to improve the effectiveness of the 360-degree feedback system.

### Conclusion

Having an accurate, fair and effective PA system is important for individual and organizational performance and development. Compared to a traditional system, a 360-degree feedback system is fairly considered a PA system with a higher degree of accuracy, fairness and effectiveness. The external environmental challenges that lead to changes in management style (such as empowerment), job design and organizational structure (including downsizing and flatter structures) make the 360-degree feedback system quite popular. Nevertheless, due to its complex process and arrangement, it is not a simple PA system to adopt. Furthermore, it is also a more expensive PA system, as it requires more time, effort and money to implement and sustain.

It is unwise to simply follow the trend without considering whether a particular system is needed by the organization, and will suit the organization. Many factors--organizational resources; strategic integration with organizational objectives; business strategy and organizational structure; participation, commitment and support from top management; and cultural factors associated with implementation--are fundamental considerations that need to be taken into account when evaluating the readiness of the organization to adopt a 360-degree feedback system.

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