

© Copyright by Timothy P. Gibson 1991

All Rights Reserved

EMPLOYEE PERCEPTIONS OF PERFORMANCE APPRAISAL  
ACCEPTABILITY IN A MERIT PAY SETTING

by

Timothy Paul Gibson

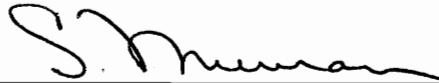
Thesis submitted to the Faculty of the  
Virginia Polytechnic Institute and State University  
in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE

in

Hotel, Restaurant and Institutional Management

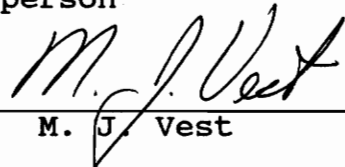
Approved:



S. Murrmann, Chairperson



P. Weaver



M. J. Vest

July, 1991

Blacksburg, Virginia

C.L

LD  
S655  
V855  
1991  
G553  
C.2

EMPLOYEE PERCEPTIONS OF PERFORMANCE APPRAISAL  
ACCEPTABILITY IN A MERIT PAY SETTING

by

TIMOTHY PAUL GIBSON

Virginia Polytechnic Institute and State University  
Committee Chairperson: Dr. Suzanne K. Murrmann  
Hotel, Restaurant and Institutional Management

(ABSTRACT)

The purpose of this study was to audit employee perceptions of the Sentara Health System performance appraisal system in a merit pay setting. To accomplish this, the study investigated variables having a positive relationship on employee perception of performance appraisal acceptability, fairness and accuracy. The study had three objectives: (1) integrate the current body of literature to develop variables that adequately describe employee perception of appraisal systems, (2) integrate these variables into several hypotheses that are consistent with current literature, and (3) test the hypotheses using Pearson product moment correlations.

Nine variables hypothesized as depicting aspects of employee perceptions were conceptualized, and multiple indicators were developed for each variable. A

questionnaire containing these items was randomly distributed to 300 employees throughout a large health care system.

Results indicate that performance appraisal acceptability, fairness and accuracy had a positive relationship with supervisor trust, supervisor knowledge of performance, interview information, interview atmosphere, performance standard acceptability, participation in development, performance reward link and merit pay acceptability. All the hypotheses had significant positive correlations ( $p \leq .01$ ). These findings were discussed in terms of the study limitations, suggested future research and implications for the organization studied, as well as other organizations with merit pay programs.

## ACKNOWLEDGMENTS

I would like to thank my thesis committee members, Drs. Pamela Weaver, Michael Vest, and my chairperson, Suzanne Murrmann, for their contributions, support and direction throughout this endeavor. I would also like to thank Dr. Michael Olsen who in many ways made this possible. Drs. Murrmann and Olsen, in their own inimitable way, made their mark upon the manner in which I approach, conceptualize and assail both research and broader institutional issues. I have benefitted personally and professionally by working with them. Also, I owe a major part of my development to Vickie Greene, who shared these experiences with me during the last year. I have grown significantly as a result of her guidance and friendship. I would like to thank my wife, Susan, who supported me throughout the process and to Bob Tindall, Jack McNamara, Ed Berdick, Richard Hanson and Howard Kern who encouraged me to complete the research. Also, I want to thank Janet Sampson, Adele Neupert, Melinda Montgomery and Mic Fedorko for their valuable assistance. In closing, I want to dedicate this achievement to my mother and father, whose patience and love served as the motivating force throughout my personal and professional development.

## TABLE OF CONTENTS

	<u>Page</u>
LIST OF TABLES .....	viii
LIST OF FIGURES .....	ix
CHAPTER	
1. INTRODUCTION .....	1
Purpose of the Study .....	3
Significance of the Study .....	4
2. LITERATURE REVIEW .....	6
Merit Pay .....	23
Sentara Health System .....	28
3. METHODOLOGY .....	33
Hypotheses .....	33
Variables .....	34
Trust in Supervisor .....	35
Supervisor Knowledge of Performance.....	35
Interview Information .....	36
Interview Atmosphere .....	37
Performance Standard Acceptability .....	37
Participation in Development .....	38
Performance Reward Link .....	39
Merit Pay Acceptability .....	40

	<u>Page</u>
Development of Survey .....	41
Acceptability .....	41
Fairness .....	42
Accuracy .....	42
Trust in Supervisor .....	43
Supervisor Knowledge of Performance ....	44
Interview Information .....	45
Interview Atmosphere .....	45
Performance Standard Acceptability ....	46
Participation in Development .....	46
Performance Reward Link .....	47
Merit Pay Acceptability .....	48
Questionnaire .....	48
Data Analysis .....	50
Summary .....	50
4. RESULTS .....	52
Sample Demographic Characteristics .....	54
Hypotheses Findings .....	56
Performance Appraisal Acceptability ....	56
Trust in Supervisor .....	58
Supervisor Knowledge of Performance ....	58
Interview Information .....	59
Interview Atmosphere .....	60
Performance Standard Acceptability ....	61
Participation in Development .....	61



	<u>Page</u>
Performance Reward Link .....	62
Merit Pay Acceptability .....	63
Summary .....	64
5. DISCUSSION OF RESULTS .....	65
Fairness and Accuracy .....	65
Supervisor Trust .....	67
Supervisor Knowledge of Performance ....	69
Interview Information .....	70
Interview Atmosphere .....	71
Performance Standard Acceptability .....	72
Participation in Development .....	73
Performance Reward Link .....	75
Merit Pay Acceptability .....	76
Summary .....	78
Study Limitations .....	80
Suggestions for Further Research .....	82
REFERENCES .....	85
APPENDIX .....	93
VITA .....	94

**LIST OF TABLES**

<u>Table</u>	<u>Page</u>
1. Secunda's (1984) Appraisal System Studies .....	8-9
2. Secunda's (1984) Appraisal System Constructs .....	11
3. Means, Standard Deviations, and Coefficient Alphas of Study Variables .....	53
4. Sample Study Demographic Characteristics .....	55
5. Pearson Correlation Coefficients of Study Variables .....	57

**LIST OF FIGURES**

<u>Figure</u>	<u>Page</u>
1. Secunda's (1984) Model of Causal Determinants of Employees' Perceptions of Appraisal System Fairness, Accuracy and Acceptability .....	12
2. Barr, Brief and Fulk's (1981) Causal Model of Perceived Fairness/Accuracy .....	19

## CHAPTER I

### INTRODUCTION

Performance appraisal is one of the most important tasks any manager has, yet it is one that managers freely admit that they have difficulty in handling adequately. It is not easy to judge a subordinate's performance accurately, and it is often even more difficult to convey that judgement to a subordinate in a constructive and painless manner (Stoner & Wankel, 1986).

The purpose of a performance appraisal is to assure that both institutional goals and the professional goals of individuals are identified, evaluated, and harmonized. Through the identification of an individual's performance strengths and needs for growth and improvement, the required actions can be identified and planned for in order to further develop and broaden the individual's professional practice (Pelle & Greenhalgh, 1987).

Performance appraisal is not new, but until the past few years, the primary evaluation criteria were, more often than not, personal traits, such as attitude and dependability. While these are sometimes unavoidable valuative influences, the primary emphasis on performance appraisal is rapidly becoming based on specific,

quantitative criteria within the context of a formal objective-setting process (Browdy, 1989).

There has been a voluminous amount of research published relative to performance appraisal systems. As a whole, this literature has been unsystematic and, in many ways, related to the latest trend regarding personnel research and practice (DeCotiis and Petit, 1978).

Overall, the majority of research deals with psychometric aspects of appraisal with emphasis on improving the reliability and validity of performance ratings (Secunda, 1984). Studies by Landy and Farr (1980) point out numerous potential influences of performance ratings including rating formats, rating process variables, the determination and reduction of rating effects and rater and ratee characteristics such as sex, race, age and educational level.

Based on the published literature, one could concur that there would continue to be a movement to research mostly psychometric and individual differences line of research. The continued emphasis regarding performance appraisal research and publications for the development of new appraisal formats implies that the primary problems in performance appraisal could be solved simply by changing the appraisal format. Overall, performance appraisal research has focused on instrumentation, rather than focusing on

other non-format issues, and variables (DeCotiis and Petit, 1978).

As stated, the published literature regarding performance appraisal systems, including merit pay, concentrates on measurement strategies dealing with rating format and other psychometric variables, such as reliability and validity. According to Cascio (1978), and Bass and Barrett (1981), in order for a performance appraisal system to be used successfully, it must be acceptable and relevant to the employee. Furthermore, according to Secunda (1984), little empirical research has been published that deals with employee perception of performance appraisal as it relates to acceptability, accuracy and fairness.

Finally, more companies are embracing new performance appraisal systems, including merit pay as a means to enhance their organizations' performance. Once implemented, however, the programs are seldom audited to determine their overall success (Hills, Madigan, Scott and Markham, 1987).

#### PURPOSE OF THE STUDY

The purpose of this research is to audit employee perceptions of the Sentara Health System performance appraisal system, in a merit pay setting. To accomplish this, the study will investigate variables cited in the literature, most notably those included in a model proposed by Secunda (1984). The model explores employee perceptions

of performance appraisal systems within the context of acceptability, fairness and accuracy, linkages with rewards, supervisory trust, supervisory knowledge, participation in the program development, the interview atmosphere, the interview session, and the performance appraisal standards' acceptability. Added to the model will be merit pay acceptability. The model builds on studies which have investigated employee perceptions of performance appraisal systems and the causal determinants of fairness, accuracy and acceptability.

The major empirical research model that will be used in this study is based on the work of Michael Secunda (1984). His research built on the limited empirical studies of Landy, Barnes and Murphy (1978), Barr, Brief and Fulk (1981), Dipboye and de Pontbriand (1981), Vance, Winne and Wright (1982) and Kavanagh, Hedge and DeBiasi (1983). These studies document the employee perceptions of performance appraisal systems and the causal determinants of fairness, accuracy and acceptability.

#### SIGNIFICANCE OF THE STUDY

The future of performance appraisal systems, including merit pay, rests on management's ability and desire to understand its program's overall acceptability from an employee's perspective. The findings from this study will add to the overall body of knowledge relating to performance

appraisal systems, including merit pay, from the employee's viewpoint. This information could assist companies in understanding how to impact employee performance. In addition, it will add valuable information from an academic standpoint since it will build on and test the model of Secunda.



## CHAPTER II

### LITERATURE REVIEW

The purpose of this research is to audit employee perceptions of the Sentara Health System performance appraisal system, in a merit pay setting. The principle empirical research for this study is based on the work of Secunda (1984). In addition, the empirical research of Landy, Barnes and Murphy (1978), Barr, Brief and Fulk (1981), Dipboye and de Pontbriand (1981), Vance, Winne and Wright (1982), and Kavanagh, Hedge and DeBiasi (1983) will be discussed later in this chapter (see Table 1).

#### Performance Appraisal

As mentioned in Chapter I, the majority of the performance appraisal research has focused on rating format at the expense of other variables (DeCotiis and Petit, 1978). Also, researchers in performance appraisal have concentrated their efforts on the psychometric aspect, thus there exists a relative lack of research dealing with non-measurement aspects of appraisal (Kane and Lawler, 1979). Companies spend a tremendous amount of time and effort on the development and implementation of their performance appraisal systems. Since the performance appraisal is a major tool in influencing employee behavior, it would make

sense that research should be focused on the overall user acceptance of the appraisal system (Secunda, 1984). Cascio (1978) argues that for an appraisal system to be successful, it must be both relevant and acceptable. Other researchers suggest that employee opinions regarding the appraisal process are as crucial to effectiveness and acceptability as the reliability of the standards themselves (DeCotiis, 1977, Dipboye and de Pontbriand, 1981, Lawler, 1967, and Schneier, 1977). Furthermore, performance appraisal systems are at the center of many personnel functions, and it is paramount from the employees' perspective to perceive the system as acceptable. If not, then the overall organizational effectiveness could suffer from dissatisfied employees who perceive the system as unfair, inaccurate and unacceptable (Secunda, 1984). These reasons led to the generation of this study to focus on the front end, the employee perception of performance appraisal, including merit pay, to determine the program's overall acceptance.

The work of Secunda (1984) uses previous studies in the area of performance appraisal to develop a causal model of employee acceptance of their appraisal systems (See Table 1). The acceptance of the system was determined by employee perceptions of fairness, accuracy and acceptability. The data for his project was collected by using questionnaires sent to two organizations. One organization was a police department located in a large southeast metropolitan area,

Table 1

APPRAISAL SYSTEM STUDIES FROM SECUNDA 1984

Authors	Sample and size	Criteria	Significant predictors	R <sup>2</sup>
Landy, Barnes, & Murphy (1978)	Manufacturing (711)	Fairness/Accuracy	Formal Program Frequency of Evaluation Supervisor's Knowledge Opportunity to Express Feelings Action Plans made Goalsetting	.29
Barr, Brief, & Fulk (1981)	R & D Engineers (198)	Fairness/Accuracy	Trust in Supervisor Action Plans made	.00
Dipboye & de Pontbriand (1981)	R & D Engineers (474)	Action Plans made Trust in Supervisor Opinion of Appraisal Opinion of System	Supervisor's Knowledge Supervisor's Knowledge Supervisor's Knowledge Favorability of Rating (accuracy) Relevance of Dimensions Opportunity to Participate Favorability of Rating (accuracy) Goalsetting	.42 .13 .15 .31

Table 1 (continued)

APPRAISAL SYSTEM STUDIES FROM SECUNDA 1984

Authors	Sample and size	Criteria	Significant predictors	R <sup>2</sup>
Dipboye & de Pontbriand (1981) (continued)			Relevance of Dimensions Opportunity to Participate	.16
Vance, Winne, & Wright (1982)	Police (94)	Fairness/Accuracy <sup>(a)</sup>	Received Ratings Expected Supervisor's Knowledge	.66
		System Acceptability	Goalsetting Adequacy of Dimensions Received Ratings Expected	
			Job Provides Adequate Feedback	.48
Kavanagh, Hedge & DeBiasi (1983)	Health Care (323)	Acceptability of Form	Fair/Accurate Appraisal Satisfied with Feedback Understands Standards	.47

<sup>(a)</sup> Fairness/Accuracy and System Acceptability correlated .49.

and the other was a large university located in the same metropolitan area. The random sample of final respondents from the police department was  $n=156$ , and  $n=748$  for the university. A total of seven constructs (Table 2) were used in his study: supervisor's knowledge of performance, trust in supervisor, atmosphere of session, performance feedback, accuracy, fairness and acceptability. In addition, they were derived from the studies of Lawler (1967), Landy et al. (1978), Barr et al. (1981), Dipboye and de Pontbriand (1981), Vance et al. (1982) and Kavanagh et al. (1983).

Secunda's research was, in part, exploratory in the sense that his model built upon five empirical research studies to continue to develop constructs that would be relevant in auditing employee perceptions of performance appraisal systems.

The results from his research produced the model seen in Figure 1. This model indicates that perceived fairness can be accurately determined. The three constructs found to have an impact on fairness were supervisor, review and performance ratings. Perceptions of the supervisor had the largest impact, while perceptions of the performance review session was also found to impact perceived fairness. Performance ratings were found to have a smaller impact (Secunda, 1984).

**TABLE 2**  
**APPRAISAL SYSTEM CONSTRUCTS**

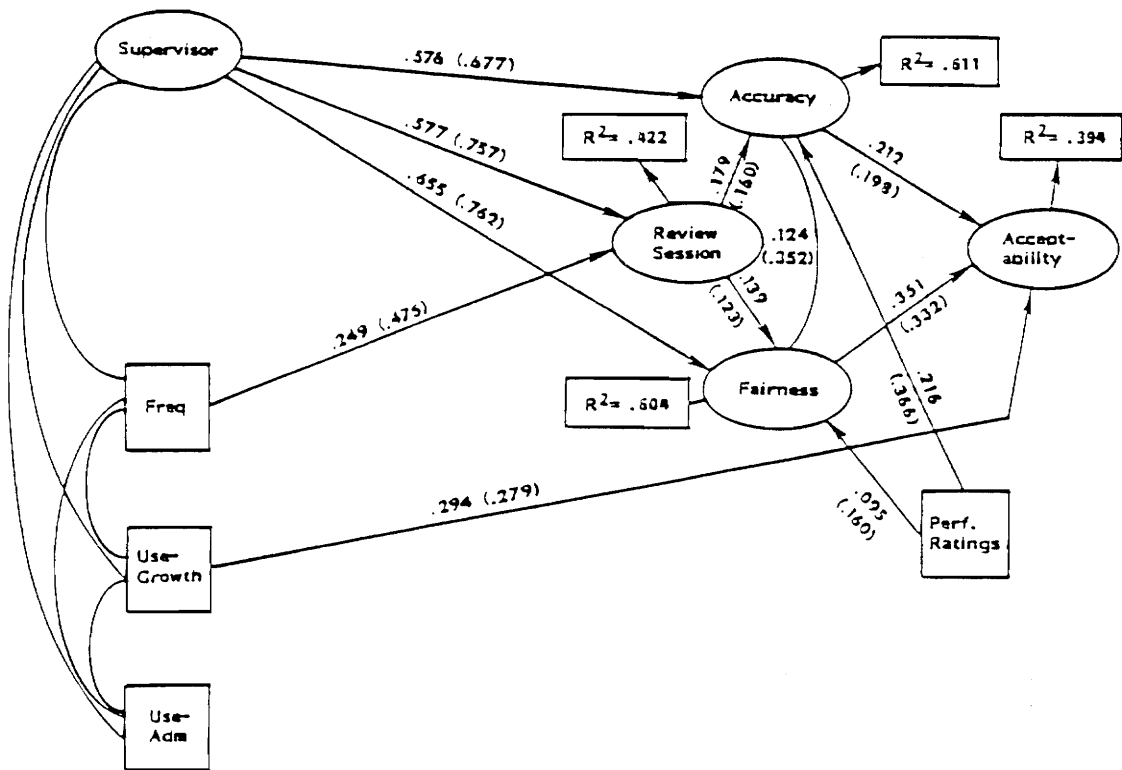
Construct	Definition
Knowledge	Perceptions of supervisor's awareness of job requirements and performance.
Trust	The quality of the interpersonal relationship between a subordinate and her supervisor.
Atmosphere	The quality of the interpersonal communications within the performance review session.
FBGS <sup>a</sup>	Extent to which a subordinate accepts as reasonable both performance feedback and future goals.
Accuracy	Discrepancy between performance rating received and performance rating expected.
Fairness	A belief that supervisors will rate job performance in an unbiased manner.
Acceptability	Satisfaction with appraisal system content, process, and outcomes.

<sup>a</sup>FBGS = Feedback - Goalsetting.

Source: Secunda, 1984

FIGURE 1

Model of Causal Determinants of Employees' Perceptions of Appraisal System Fairness, Accuracy and Acceptability



Source: Secunda, 1984, (unstandardized coefficients are in parentheses).

The results also indicated that employees' perceptions of the performance appraisal acceptability are caused by the employees' belief in the fairness of the ratings they received compared with those of other employees. This also has indirect effects on perceptions of the performance review session which influence the perceived accuracy of ratings and fairness of the system. These perceptions affect the acceptance of the overall system. The final factor that causally affects system acceptance is the extent to which employees believe that the rating they received is the one they deserved (Secunda, 1984).

The model suggests that performance ratings do not moderate perceived acceptability of appraisal systems, which extended previous findings that perceptions of fairness/accuracy are not affected by level of rating received (Landy et al., 1980, Vance et al., 1982). The model indicates that an employee's perception of the accuracy of ratings is related to the quality of the supervisor/subordinate relationship (Secunda, 1984).

In summary, Secunda's research demonstrated substantial support for the performance appraisal model with system acceptability as a function of the perceived fairness, accuracy and use of the appraisal system. In addition, perceived accuracy and fairness varied as a function of trust in supervisor, supervisor's knowledge of performance, satisfaction with both the content and atmosphere of the



performance review session and with the level of performance rating received (Secunda, 1984).

Lawler (1967) proposed a hypothetical model regarding the factors affecting the reliability and validity of performance appraisal systems. Lawler's model suggested that attitudes toward the fairness and acceptability of performance rating systems are a function not only of objective content characteristics but also of process and contextual characteristics. He further stated that the ultimate success of a performance appraisal system depends on the confidence factor of the person being evaluated in the process itself. This performance appraisal confidence or comfort level can be enhanced by such process factors as participation in the system and meaningful interaction with their supervisor.

Landy, Barnes and Murphy (1978) built upon Lawler's work and conducted a study to identify attitudinal correlations of perceived fairness and accuracy of performance evaluations. They were specifically interested in the perceptions of system fairness and accuracy. Data were collected for their study by means of a questionnaire administered to all managerial and professional employees (950) of a large manufacturing organization with a primary (n=355) and hold out (n=356) samples. The results from their multiple regression analysis indicated that the (1) frequency of evaluations, (2) the identification of goals to

eliminate weaknesses, (3) the supervisor's knowledge of a subordinate's level of performance and (4) job duties were significantly related to perceptions of fairness and accuracy of performance appraisal review sessions (Landy, Barnes and Murphy, 1978). The results also suggest that the process of goal setting and the supervisor/subordinate exchange during the performance evaluation have positive effects on the acceptability of the overall performance appraisal system.

Dipboye and de Pontbriand's (1981) research centered on employee perceptions and opinions of the performance appraisal process. Their reason for the research was that little attention on performance appraisal acceptability had been conducted. Their prediction was that employees would have positive attitudes toward their last appraisal and the system of appraisal to the extent that (1) they are allowed to participate in the appraisal and (2) the appraisals are goal oriented. As with other studies, these predictions were consistent with survey research on goal setting and participation during the performance appraisal sessions (Burke, Weitzel and Weir, 1978, Burke and Wilcox, 1969, Geller, 1975, 1978, and Landy, Barnes and Murphy, 1978).

Data for their research were obtained from a questionnaire administered to a sample of 474 scientists, engineers and technicians employed in a research and

development organization. Six items measuring perceived appraisal session participation, employees' perceptions of the job-relatedness of the rating factors, goal orientation of the appraisal process and perceived favorability of the appraisal were designed as the independent variables. A three-item composite relating to opinions of their latest appraisal and a four-item composite concerned with opinions of the appraisal system were designed as the dependent variables. By using multiple regression analysis, their findings indicated that employee opinions of the appraisal and the appraisal system were positive to the extent that (1) there was an opportunity to state their own side of the issues and (2) the factors on which they were evaluated were job relevant.

The results suggest that employees are more receptive to negative feedback if they are allowed to participate in the session and if the performance standards are relevant to their job. In addition, the actions of a supervisor during the review session play an important role in influencing employee acceptance of the performance appraisal system (Dipboye and de Pontbriand, 1981).

Barr, Brief and Fulk (1981) researched the correlates of perceived fairness and accuracy. Their project was an attempt to cross-validate Landy et al.'s (1978) results. They refined Landy et al.'s model in that relationships among variables were incorporated into a causal model. They

also included a variable called Trust in Supervisor since they hypothesized that trust would be an important source of perceived fairness and accuracy. In addition, the exchange of information during the review session and the goal setting process would enhance perceived fairness and accuracy. Also, if employees understood that the performance appraisal was for their development, then the overall acceptability of the system would be enhanced.

Their data were obtained from a questionnaire from 198 research and development engineers in a large electronics firm. The five variables that Landy et al.'s (1978) article reported were used in their study. These variables were supervisor's knowledge, formal program, evaluation frequency, plans related to performance and opportunity to express feelings. They also included Roberts and O'Reilly's (1974) trust in supervisor scale. Their findings demonstrated significant paths from the supervisor's knowledge of performance to the development of an action plan and then to perceived fairness and accuracy. In addition, significant paths existed between supervisor's knowledge, trust in supervisor and perceived fairness/accuracy.

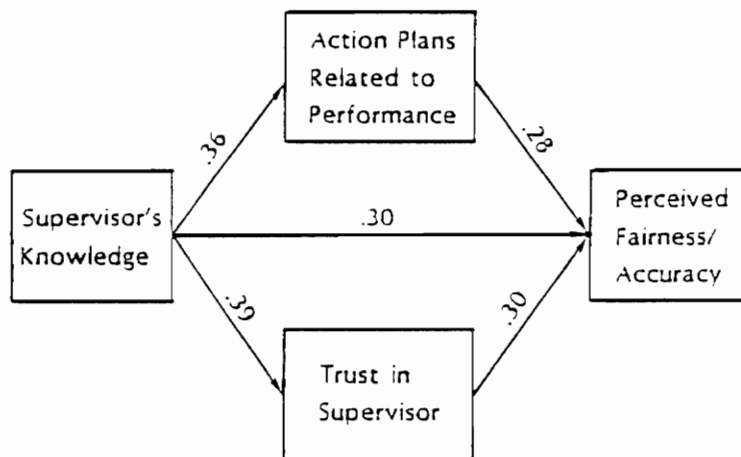
A significant path was found as well between trust and perceived fairness/accuracy. The inclusion of trust, along with Landy et al.'s research, suggests that the supervisor/subordinate agreement and understanding to

implement a fair performance appraisal system is very important in influencing employee perceptions of fairness and accuracy (Secunda, 1984). The model (Figure 2) demonstrates that supervisor knowledge seems to have numerous points of effect. The cross-validation of Landy et al.'s model resulted in nearly identical estimates of R. and, therefore, Secunda concluded that Landy's model was accurate.

Vance, Winne and Wright (1982) studied the rater and ratee reaction to a performance appraisal system. The data were obtained through use of a survey assessing perceptions of fairness/accuracy of ratings, goalsetting and feedback session atmosphere. The sample selected was a large metropolitan police department with a total of 94 officers responding. Their research indicated that perception of goalsetting was the most significant predictor of system acceptability, followed by rating factor adequacy and the degree of feedback provided. These findings support the Dipboye and de Pontbriand (1981) results that the importance and relevance of performance factors and discussing improvement plans of development were related to positive attitudes of appraisal systems. Also, the two dependent variables in this study, perceived fairness/accuracy and system acceptability, were highly correlated (.49,  $p < .005$ ).

FIGURE 2

Barr et al.'s (1981) Causal Model of Perceived Fairness/Accuracy



Source: Barr, Brief and Fulk, 1981, (figure represents coefficients).

Kavanagh, Hedge and DeBiasi (1983) researched process and content data pertaining to employee perceptions and attitudes towards fairness of the system, the frequency and accuracy of appraisal and the quantity and quality of feedback during the performance appraisal interview. They designated acceptability of the current appraisal form as the dependent variable. Their data was collected by using a questionnaire gathered from 323 administrative, professional and clerical employees of nursing departments in two hospitals. The decision for selecting the hospitals was that a new performance appraisal system was being developed and implemented. Through the use of multiple regression analysis, results indicated that perception of a fair/accurate appraisal was the leading predictor and that a thorough understanding of the performance standards related to the acceptability. (It needs to be pointed out that the two hospitals in this study were and still are part of the Sentara Health System.)

As previously mentioned, the primary empirical research for this study is based on Secunda (1984), Lawler (1967), Landy, Barnes and Murphy (1978), Barr, Brief and Fulk (1981), Dipboye and de Pontbriand (1981), Vance, Winne and Wright (1982) and Kavanagh, Hedge and DeBiasi (1983). There are some additional studies that further support Secunda's research that will be briefly discussed.

Fulk, Brief and Barr (1985) successfully cross-validated Landy et al.'s five variable model of employee perceptions of fairness and accuracy. Their study centered on 198 telecommunication engineers involved in research and development. Their study findings suggest that employee perceptions of performance appraisal fairness and accuracy could depend as much on the level of supervisor trust as the performance appraisal process characteristics. This positive relationship between a supervisor and subordinate is essential to performance appraisal acceptability.

Silverman and Wexley (1984) conducted a study to determine whether employee involvement in the development of rating scales used in the feedback interview process affected ratee's perception of the interview. Behaviorally anchored rating scales (BARS) were developed for five job families in a midwestern hospital. Their findings indicated that employees who were involved in the development of the rating scales had favorable perceptions regarding the performance appraisal interviews when compared to those who did not participate in scale development. According to Silverman and Wexley (1984), the involvement of employees in the development of performance standards serves as a positive motivator to enhance not only performance but also outcome measures.

Geller (1975) concluded in a study of 56 hourly employees and first-level managers that "the invitation to



participate was the most predictive of appraisal satisfaction" (Geller, 1975, p. 544). Geller's objective was to identify the relationship of the Wexley, Singh and Yukl (1973) measure of psychological participation with perceived helpfulness of the appraisal interview and satisfaction with supervisor. As mentioned throughout this literature review, the satisfaction with supervisor or trust in supervisor is important from an employee perception of fairness and accuracy. This study supports this notion.

Dickinson and Davis (1984) contend that unless performance appraisals consider constraints on performance, employees will perceive that appraisals have limited utility. They also contend that for performance appraisals to be viewed as important and meaningful and supported from all levels of the organization, then employees should evaluate the appraisal process for fairness and accuracy.

Kavanagh and Taber (1987) vigorously contend that in terms of the successful use of a performance appraisal system, employee acceptance of it is the critical criterion. They urge that researchers not abandon employee acceptability of performance appraisal as a dependent variable but provide additional new research on employee acceptability of performance appraisal.

This study will focus on the employee's perception of acceptability of their performance appraisal system, including merit pay. The decision for including merit pay

was made since it was believed that merit pay acceptance would have an overall impact on the performance appraisal system acceptability. Thus, merit pay acceptability was added to this study.

### MERIT PAY

Lawler (1988) comments that the primary reason for organizations implementing merit pay programs is to motivate employees to achieve the company's business objectives. He further suggests that the reasons most merit pay plans fail is that employees fail to trust the organization. He suggests that organizations need to involve employees in the design and that employees are most likely to trust management if they are included. In fact, Lawler concludes by stating that merit pay programs which are well designed and have a high level of employee trust and understanding are sometimes the most effective in meeting individual and company objectives. This suggestion is similar to Lawler's (1967) previous advice regarding performance appraisal systems in that attitudes towards the fairness and acceptability are a function of not only objective content characteristics, but also of process characteristics. Lawler also concluded that the ultimate success of performance appraisal depends on the confidence factor of the person being evaluated, the employee's participation in the design and interaction with their supervisor.

Wood and Baldwin (1988) note that one of the most frequent criticisms of the current educational reform movement is centered on the manner in which public school teachers are compensated. The reward system is based on formal training and tenure. Merit pay programs attempt to improve the situation. Although their discussion falls short of proposing an audit model, they do, however, cite the need for review of these programs in the face of legal changes from collective bargaining agreements. Wood and Baldwin (1988) argue: if teachers' perceptions of merit pay programs were known, the program would serve as a positive motivator for teachers and the overall educational system.

The tremendous number of articles in professional journals, such as Personnel, Public Personnel Management, Review of Public Personnel Management and Personnel Administrator, continue to address the topic of compensation programs. Gehrman (1984) conducted a survey of 250 executives of Fortune 500 companies. His suggestion is that more authority needs to be given to the first line supervisor to make merit pay decisions. One can argue that instead of concentrating on the amount of merit pay salary budgets or in the manner in which rewards are paid out, Fortune 500 companies should determine employee perceptions of these programs on the front end and not end up discouraged with the results.

Timmreck (1989) suggested that appraisal systems are most effective when they contain these elements: (1) a high level of trust on the part of employees, (2) viewed by employees as accurate and fair, (3) perceived by employees as being linked to salary, rewards, bonuses and promotions, (4) the form and assessment are made available to the employee and are perceived as fair and unbiased, (5) employees know they have some control over the results such as input or modifications and (6) the company develops and strongly supports an employee development and training program to improve areas of deficiency. Timmreck's advice is consistent to some degree with Secunda's (1984) research that employee acceptability of performance appraisal systems is based on perceived fairness and accuracy, performance standard importance and trust. Timmreck also recommends that merit pay needs a performance reward link. This performance reward link is one of the variables of employee acceptability that is discussed in this study.

Ohren and Reese (1990) comment on the use of merit pay plans in their literature review of case studies conducted by Lawler (1981, 1984), O'Toole and Churchill (1982), Nigro (1982), Brawn (1982), Pearce and Perry (1983), Gabris, Mitchell and McLemore (1985). Their studies indicate two broad areas of which the first one centered on the theory of merit pay and motivational assumption, and the second focus relates to implementation issues, such as how merit pay

plans are designed, introduced and managed. Ohren and Reese (1990) suggest that the key to merit pay lies in understanding the concerns of employees and that (1) fairness and equity be assured in implementation and (2) the performance criteria used as a basis for rewards accurately reflect the jobs employees perform. Their comments echo Secunda's work on performance appraisal in that employee perception of fairness, accuracy and job relevant performance standards are key in enhancing acceptability.

Hills, Madigan, Scott and Markham (1987) comment that merit pay plans can be a powerful motivating tool when they are properly audited to determine whether the proposed goals are being achieved. One of the audit strategies suggested is to track employee attitudes. This will assist companies in determining if there is a level of satisfaction with the program. Broad-based acceptance of the program is the most fundamental goal of merit pay programs. Hills et al., further state that "whether a merit pay system influences motivation or retention depends upon employees' perceptions of the system" (1987, p. 55).

Hills et al. (1987) conclude by suggesting that employee attitudes relating to merit pay programs need to be considered for the linkage to performance, the equity of the total system, the performance measurement procedure and that trust in management, good measurement systems, ability to pay and trained supervisors are critical to a program

meeting its goals. Companies need to audit merit pay programs; however, once implemented they are seldom audited.

Hills, Scott, Markham and Vest (1987) suggest that merit pay programs need to be audited to assess employee attitudes toward merit, since the effectiveness of merit programs rests with employee acceptance. They also state that dissatisfaction with merit programs is not necessarily bad if the high performers are satisfied and the poor performers are dissatisfied. If this exists, the system is working and low performers have a choice of improving their performance or leaving the organization.

Vest (1988) suggests that the larger the merit pay increase, the more likely an employee will be satisfied with merit pay. Organizations need to consider this when setting merit pay budgets to prevent their employees from perceiving that merit pay increases are not tied to performance. If the merit increase is perceived to be adequate, then employee perceptions will be strengthened that merit pay increases are tied to performance. On the other hand, if merit pay budgets do not allow for perceived adequate increases, then employees will perceive that the increases are not tied to performance.

Throughout this literature review, many researchers and authors have stressed the importance of determining employee perception of acceptability regarding performance appraisal and merit pay. Based on this, the researcher who was

involved in the design and implementation of the new performance appraisal system, which included merit pay, determined the need to audit the system.

The following section of this chapter is included to describe the Sentara Health System performance appraisal system. The program had two components: the first, performance appraisal, and the second, merit pay. The program was referred to within Sentara as the Performance Management Program (PMP).

#### SENTARA HEALTH SYSTEM

Due to the changing health care environment, the Sentara Health System (SHS) developed a new program for evaluating and rewarding employee performance. The program, called Performance Management Program (PMP), was implemented in 1988 and incorporates establishing job standards, performance evaluation and merit pay into a coordinated approach.

The goals of this program are:

- To establish a merit pay system for all SHS employees.
- To provide an improved performance evaluation system which is job specific.
- To establish a relationship between performance and reward for all SHS employees.

- To develop a program which would accomplish the following:
  - \* communicate SHS goals and priorities
  - \* incorporate good management practices
  - \* reward performance
- To develop a tool to assist managers and employees to be successful in their jobs.

### Overview of the Performance Management Program

Definition: Performance Management is a broad approach to performance evaluation which includes and emphasizes:

- Developing plans at the beginning of the cycle.
- Observing work progress during the cycle.
- Evaluating performance with the Plan at the end of the cycle.
- Making pay decisions based on performance.

While a performance appraisal is frequently a once-a-year evaluation of work performance, performance management is a continuing process throughout the cycle, and emphasizes those practices which are necessary for effective management. Performance management is a part of a manager's job and will enable the manager to be more successful. The programs objectives are to:

- Promote individual and organization success.
- Reflect Sentara's values.
- Clarify job expectations.
- Encourage individual productivity.
- Reward individual development.



- ✓● Enhance employee development.
- Identify training needs.
- ✓● Establish specific standards for individual performance.
- Provide for consistency in evaluation of performance for similar jobs throughout SHS.
- ✓● Encourage individual self-evaluation and accountability for performance.

### Performance Management Program Design

The process for evaluation of employees under the PMP is tied to the process for the evaluation of SHS as an organization. SHS management establishes goals for each fiscal year, based on an analysis of SHS's business plan and market conditions. Targets and indicators are selected to make evaluation decisions. Managers use fiscal, quality, customer service, market share and productivity reports to measure performance at regular intervals during the year and to make adjustments to achieve the year's goals. Success at the end of the year is determined by whether SHS met its goals and achieved the established targets, as documented by the Annual Report.

The PMP operates in a similar fashion for individual employees. The manager and employee mutually develop a plan for the year. The performance plan includes standards that specify measures of job success. The manager and the employee measure accomplishments according to the plan, and at the end of the fiscal year, job success is measured

according to the established standards. Each employee receives at least two performance appraisals per year.

Performance evaluation is based on performance plans written by managers. However, in order to provide for consistency across managers, and departments, there are three categories of performance standards included in each plan:

- **Organization Standards** -- agreed upon by SHS Vice-Presidents which reflect the values of SHS and which apply to all SHS employees.
- **Job Group Benchmark Standards** -- developed by committees of supervisors for a group of similar jobs which will apply to employees within that job family.
- **Individual Job Standards** -- written by the manager for a specific job to insure a good fit between the performance plan and each employee's job responsibility. Employees have an opportunity for input into their plans.

### Performance Cycle

All employees receive summary evaluations at the end of six months and formal written evaluations at the conclusion of the performance cycle. Merit adjustment amounts are contingent upon individual performance and the overall performance of SHS during the fiscal year.

### Elements of the PMP

**Job Analysis:** In order to develop accurate and fair performance plans, it was necessary to clearly define what responsibilities the job includes.

**Performance Plan:** This plan is the tool which ties together job expectations, performance evaluations, and merit pay in a coordinated approach. The plan consists of:

- Functions
- Standards
- Weights
- Performance Evaluation Summary

**Job Performance:** The PMP emphasizes the importance of good management practices throughout the year in monitoring employee's job performance, and providing feedback to employees regarding job accomplishments.

**Performance Evaluation:** The manager evaluates the employees' performance at the end of the cycle using standards set forth in the agreed upon plan. A review, summary and feedback occurs throughout the entire year.

**Merit Awards:** The final element of the PMP is to use performance evaluation ratings to reward effective performance.

## CHAPTER III

### METHODOLOGY

As previously stated, the purpose of this research is to audit employee perceptions of the Sentara Health System performance appraisal system in a merit pay setting.

The primary literature sources for determining the variables to be used in auditing such a system comes from the work of Secunda (1984), Landy, Barnes and Murphy (1978), Dipboye and de Pontbriand (1981), Kavanagh, Hedge and DeBiasi (1983), Vance, Winne and Wright (1982), Barr, Brief and Fulk (1981) and Fulk, Brief and Barr (1985).

#### HYPOTHESES

The literature suggest that the primary variable for measuring the success of a performance appraisal system, within the confines of merit pay, is performance appraisal acceptability. Employee acceptability of their performance appraisal system is extremely important in order to enhance individual performance and personal growth. Also, if employees do not perceive the system as acceptable, they will leave the organization thus leading to increased turnover. Finally, attainment of the organization's goals could suffer if employees view the system as unfair (Secunda, 1984, and Kavanagh, Hedge and DeBiasi, 1983).

This research goes on to suggest that perception of rating fairness and accuracy play important roles in influencing employee perceptions of acceptability. Therefore, it is hypothesized that:

**Hypothesis 1:**

Within a merit pay system, there will be a positive relationship between performance appraisal acceptability and performance appraisal rating fairness, and,

**Hypothesis 2:**

Within a merit pay system, there will be a positive relationship between performance appraisal acceptability and performance appraisal accuracy.

Possibly, of more importance to the study, since it is an application of academic research into the hospital setting, are the relationships of organizational variables controllable by the institution with employee perceptions of overall acceptability. The literature suggest that such variables affect acceptability indirectly through their link with fairness and accuracy and will be addressed within these relationships.

**VARIABLES**

The variables used in this study are based on sound psychometric principles. Their relationship to performance appraisal acceptability, fairness and accuracy are now discussed.

### Trust in Supervisor

Current research to date has demonstrated a significant path from trust in supervisor to perceived fairness and accuracy (Secunda, 1984, Silverman and Wexley, 1984, Barr, Brief and Fulk, 1981, and Landy, Barnes and Murphy, 1978). The relationship of a supervisor and subordinate is very important, since the supervisor is the focal point in conducting the performance appraisal. If the subordinate doesn't trust the supervisor, then the subordinate is also prone to not trust the organization. On the other hand, if an employee perceives there is a good working relationship with the supervisor, then perceptions of fairness will increase. The following hypotheses are therefore proposed:

#### **Hypothesis 3:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and supervisory trust, and,

#### **Hypothesis 4:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and supervisory trust.

### Supervisor Knowledge of Performance

Current research to date has demonstrated a significant path from supervisor knowledge of performance to perceived fairness and accuracy (Secunda, 1984, Vance et al. 1982, Barr et al., 1981, Dipboye and de Pontbriand, 1981 and Landy et al., 1978). If an employee perceives that their

supervisor has a clear understanding of their performance and knows the requirements of performing the job, then perceptions of fairness and accuracy will increase. The following hypotheses are therefore proposed:

**Hypothesis 5:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and supervisory knowledge of performance; and,

**Hypothesis 6:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and supervisory knowledge of performance.

Interview Information

Secunda (1984), Vance et al. (1983), Kavanagh et al. (1983), and Dipboye and de Pontbriand (1981) all emphasize the importance of employee satisfaction with the feedback obtained during the performance review session on overall acceptability. Also, Barr et al., and Landy et al. (1978), reported a significant path from this variable to perceived fairness/accuracy. The appraisal session needs to have an exchange of positive, as well as constructive, information for employees to perceive the session as meaningful. If an employee perceives that their supervisor understands their performance standards and job, then the interview information and goal getting will impact on performance. Therefore, it is hypothesized that:

**Hypothesis 7:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and interview information, and,

**Hypothesis 8:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and interview information.

Interview Atmosphere

Secunda (1984) extended the work of Landy et al. (1978) to focus on the atmosphere during the performance appraisal. The environment should be created to be as favorable as possible to carry out the review. A more relaxed atmosphere should be set up rather than a tense one. Landy et al. (1978), and Dipboye and de Pontbriand (1981) reported this variable to be a significant predictor of fairness/accuracy. Therefore, it is hypothesized that:

**Hypothesis 9:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and the interview atmosphere, and

**Hypothesis 10:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and the interview atmosphere.

Performance Standard Acceptability

Cascio (1978) argued that for an appraisal system to be successful, it must be relevant and acceptable. Lawler (1967) suggested that attitudes toward the fairness and



acceptability of performance ratings are a function of the content characteristics. Dipboye and de Pontbriand (1981), demonstrated that appraisals that are based on relevant and specific performance standards will lead to acceptability. Also, Kavanagh, Hedge and DeBiasi (1983) demonstrated that perception of accuracy/fairness could be predicted based on relevant job standards. Therefore, it is hypothesized that:

**Hypothesis 11:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and performance standards acceptability, and,

**Hypothesis 12:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and performance standards acceptability.

Participation in Development

Lawler (1978) suggested that attitudes towards the fairness and acceptability of performance systems depend on factors such as participation in the system and interaction with their supervisors. Dipboye and de Pontbriand (1981) suggest that employees are more inclined to be receptive to feedback if they are allowed to participate in the review session and in setting performance standards. This finding was also supported by Kavanagh, Hedge and DeBiasi (1983), who suggest that the leading indicator of fairness/accuracy was a thorough understanding of the performance standards. Silverman and Wexley (1984) demonstrated that employees

involved in the development of rating standards had favorable perceptions regarding performance appraisal as compared with those who did not participate in the development. Therefore, it is hypothesized that:

**Hypothesis 13:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and participation in development, and,

**Hypothesis 14:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and participation in development.

Performance Reward Link

This variable was included since the new performance appraisal system, including merit pay, based the pay increase on the rating received. Hills et al. (1987) suggest that employee attitudes toward the performance reward link is extremely important to measure. Timmreck (1989), Wood and Baldwin (1988), and Gehrman (1984), all suggest that the performance reward link in appraisal systems is key to acceptability. Employees need to perceive that rewards are meaningful and are based on their performance. Therefore, it is hypothesized that:

**Hypothesis 15:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and performance reward link, and

**Hypothesis 16:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and performance reward link.

**Merit Pay Acceptability**

This variable was added since the organization studied in this research project was in the process of implementing a new performance appraisal system, including merit pay. Lawler (1988) argued that merit pay programs need to involve employees in the design and in the program. Wood and Baldwin (1988) argue that if perceptions are known about merit pay, the program could serve as a positive motivator to the individual and company. Hills, Madigan, Scott and Markham (1987), commented that merit pay programs are seldom audited to determine employee perception of fairness and acceptability. The researcher, who was involved in the design and implementation of the organization's new appraisal system, determined, based on the literature, that it was necessary to audit merit pay acceptability. In addition, employees need to perceive the performance reward link of merit pay if the program has any chance of meeting individual and organizational goals. Therefore, it was hypothesized that:

**Hypothesis 17:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and merit pay acceptability, and

**Hypothesis 18:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and merit pay acceptability.

**DEVELOPMENT OF SURVEY**

This section will discuss the development of the questions included in the survey for each of the scales used in this research.

An employee evaluation questionnaire was developed to determine employees' perception of acceptability, fairness and accuracy regarding the performance appraisal system. (A copy of the questionnaire is provided in Appendix A.) Items on all scales, excluding that for participation in development had a five-point Likert response continuum (1 = Strongly Disagree/Not at All, 5 = Strongly Agree/To a Very Great Extent). "The most widely used scales range from three to seven points and it does not make much difference on the number used" (Emory, 1985, p. 244). Numbers preceding scale items refer to the placement of these items in the final survey.

**Acceptability**

The following items were included on the scale to measure performance appraisal acceptability:

- A1 I benefit from my performance evaluation.
- A2 The new Sentara Performance Management Program is acceptable to me.

- A3 Overall, I was satisfied with my last performance evaluation.
- A4 I feel that performance ratings, in general, accurately reflect how well an employee has performed his or her job.
- A5 My current Performance Plan is acceptable to me.

Items A1, A3 and A4 were taken directly from Secunda (1984), and A2 and A5 were modified and developed from Secunda (1984) and Kavanagh, Hedge and DeBiasi (1983).

### Fairness

The following items were included on the scale to measure rating fairness:

- A6 The PMP Performance Plans enable my supervisor to evaluate my performance fairly.
- A7 I have confidence that my ratings are made on a fair and equal basis with others being rated.
- A8 I feel my supervisor is as fair as other supervisors in providing ratings of job performance.
- A9 I feel that performance ratings provide a fair basis for transferring, promoting or demoting employees.
- A10 I feel that performance ratings provide a fair basis for determining salary adjustments.

Items A7, A8 and A9 were taken directly from Secunda (1984). Item A6 was modified from his work to better suit the organization studied in this research, and item A10 was developed by Greene (1988).

### Accuracy

The following items were included on the scale to measure accuracy:

- A11 My last appraisal represented my true performance.
- A12 My supervisor understands that many things that affect how well I do my job are beyond my control, and rates accordingly.
- A13 The new Performance Plans enable my supervisor to evaluate my performance accurately.
- A14 The new PMP appraisal system accurately distinguishes between good workers and poor workers.
- A15 My supervisor's evaluation of my performance was accurate.
- A16 In my last performance evaluation, I received the ratings I expected.
- A17 My performance evaluation score accurately reflects my performance for the ENTIRE performance period.

Items A12, A15 and A16 were taken directly from Secunda (1984), and A11, A13 and A14 were taken from the work of Kavanagh, Hedge and DeBiasi (1983), and A17 was developed and modified from the work of Secunda and Kavanagh by Greene (1988).

### Trust in Supervisor

The following items were included on the scale to measure trust in supervisor:

- C6 I am able to have frank and open communications with my supervisor.
- C7 I feel that my supervisor would be personally inclined to use his/her influence to help me solve a problem in my work.
- C8 My supervisor is very interested in my well-being.
- C9 My supervisor supports my decisions.
- C10 My supervisor is very honest in his/her dealings with me.

All of these items were taken directly from Secunda (1984).

Supervisor's Knowledge of Performance

The following items were included on the scale to measure supervisor's knowledge of performance:

- C1 I am satisfied with the amount of information I get from the person who evaluates me about how well I am performing my job.
- C2 My immediate supervisor, based on his/her judgment alone, should determine my annual performance rating.
- C3 My supervisor observes enough of my performance to rate me.
- C4 My supervisor knows how well I perform my job.
- C5 My supervisor knows what it takes to perform my job well.
- C11 My supervisor regularly observes my work performance.
- C12 My supervisor rarely provides me with feedback about how well I am performing my job.
- C13 My supervisor reviews my work products on a regular basis.
- C14 I do not know how my supervisor collects information about my job performance.
- C15 My supervisor observes all aspects of my job performance.
- C16 My supervisor's comments about my job performance are candid and specific.
- C17 My supervisor frequently praises my successes.
- C18 When my supervisor has negative feedback for me, that discussion occurs in private.
- C19 My supervisor collects performance information from several sources.

Item C1 and C2 were taken from the work of Kavanagh, Hedge, and DeBiasi (1983). Items C3, C4, and C5 were taken directly from the work of Secunda, and items C11 through C19 were developed based on the works of Secunda (1984) and Kavanagh et al. (1983) and were developed by Greene (1988).

### Interview Information

The following items were included on the scale to measure interview information:

- B1 My immediate supervisor does a good job in conducting an effective performance appraisal interview.
- B2 At the conclusion of my most recent performance review and discussion session, I knew what my supervisor expected in the way of specific future improvement.
- B3 I feel that the performance goals and development plan completed during the review session are reasonable (i.e., not too easy or too difficult).
- B4 After discussing the results of my evaluation with my supervisor, I felt I knew what action I could take to improve my performance.
- B5 I had ample opportunity to express my opinions during my review session with my supervisor.

Item B1 was taken directly from the work of Kavanagh, and items B2, B3, B4 and B5 were taken directly from the work of Secunda (1984), and item B1 was modified from his work to better suit the organization studied in this research.

### Interview Atmosphere

The following items were included on the scale to measure interview atmosphere:

- B6 The performance review and discussion session was conducted in a relaxed atmosphere, without interruptions or distractions.
- B7 My supervisor spent enough time discussing the results of my rating with me.
- B8 In my performance review and discussion session, I was encouraged to present my point of view.
- B9 My supervisor exhibited a helping attitude during the performance review and discussion session.



Items B6 and B9 were taken directly from Secunda (1984), and items B7 and B8 were modified from his work to better suit the organization studied in this research.

### Performance Standard Acceptability

The following items were included on the scale to measure performance standard acceptability:

- D9 To what extent do you know about the standards for your work performance.
- D10 To what extent are the standards for your work performance fair and equitable?
- D11 To what extent are the standards for your work performance clear and understandable?
- D12 To what extent do performance standards help clarify job expectations?
- D13 To what extent does the Performance Management Program improve your knowledge of departmental goals.
- D14 To what extent does the Performance Management Program improve your knowledge of organizational goals.

All of these items were developed and modified from the works of Dipboye and de Pontbriand (1981) and Kavanagh, Hedge and DeBiasi (1983) and were developed by Greene (1988).

### Participation In Development

The following items were included on the scale to measure participation in development:

- 18.0 The following is a list of activities related to the Performance Management process. Please check those activities in which you participated.
- 18.1 \_\_\_\_\_ job analysis (making a list of your tasks and duties or reviewing and commenting on a list of tasks and duties)

- 18.2 \_\_\_\_\_ writing performance standards for your job
- 18.3 \_\_\_\_\_ reviewing and commenting on performance standards written by your manager
- 18.4 \_\_\_\_\_ weighing performance standards
- 18.5 \_\_\_\_\_ collecting performance information and documentation
- 18.6 \_\_\_\_\_ providing information on the performance of co-workers
- 18.7 \_\_\_\_\_ receiving an interim performance evaluation
- 18.8 \_\_\_\_\_ no participation

All of these items were developed from the suggestions of Lawler (1978), Dipboye and de Pontbriand (1981), Kavanagh, Hedge and DeBiasi (1983) and Silverman and Wexley (1984) and were developed by Greene (1988).

#### Performance Reward Link

The following items were included on the scale to measure the performance reward link:

- D1 When people work hard, no one notices.
- D2 There is no link between the job I do and the recognition I get.
- D3 People are recognized for the job they do.
- D4 The way to get recognized is to make a good suggestion about how to do things better.
- D5 The way to get recognized is to take good care of patients/customers.
- D6 The better my performance is, the greater will be my opportunity for advancement.
- D7 The better my performance is, the greater will be my salary increase.
- D8 If I perform well, I know I will have opportunities for advancement.

All of these items were based upon the suggestions of Gehrman (1984), Hills et al. (1987) and Wood and Baldwin (1988) and were developed by Greene (1988).

### Merit Pay Acceptability

The following items were included on the scale to measure merit pay acceptability:

- D15 To what extent is merit pay fair and equitable?
- D16 To what extent does merit pay increase your productivity?
- D17 To what extent does merit pay improve Sentara's pay and benefit system?

All of these items were developed based on the suggestions of Lawler (1988), Wood and Baldwin (1988) and were developed by Greene (1988).

### QUESTIONNAIRE

The process for completing the questionnaire centered around three distinct periods when over 300 employees were randomly selected to complete the survey in each period. The first questionnaire was distributed after the employees received their mid-year performance evaluation. The second survey distribution coincided with each employee receiving their year-end written performance appraisal. The third and final survey was distributed after the employees received their merit increase based on their performance appraisal. This research will only use the third survey to test the study hypotheses. The data from the third survey will represent cleaner information regarding employee perceptions, since the survey was completed after they had received their merit increase based on their performance

appraisal. The third survey was sent to a total of 300 employees with a participation sample of n=198, or 66%.

The same occupational codes and different employees were randomly selected in each distribution. Each employee was informed that the surveys were for research and evaluation purposes, and therefore, responses would be confidential. An identifying code was marked on each survey; the purpose was to evaluate whether or not employees in different parts of the organization had different opinions about the performance management program. Employees were also informed that once the study was completed, the data would be shared with them and all of the employees of the organization.

Employees were allowed to complete the survey on company time and were instructed to return it in a self-addressed, stamped envelope to the researcher conducting the analysis. The questionnaire was divided into five sections that pertained to:

- Employee attitudes regarding the overall program.
- Employee attitudes regarding the performance appraisal interview.
- Employee attitudes regarding their supervisor's appraisal practices.
- Employee attitudes regarding the performance appraisal components.
- Employee background information.

## DATA ANALYSIS

Internal consistency reliabilities of the scale variables were evaluated by computing Chronbach alpha scores. In addition, means were computed to further aid in interpreting the data. Finally, Pearson product moment correlation coefficients were run to test the hypotheses. The 71 items were collapsed into scales using factor analysis and reliability analysis.

## SUMMARY

This chapter outlined the purpose of the study as well as the studied hypotheses. The variables used in this study and their relationship to performance appraisal acceptability, fairness and accuracy were discussed. Hypotheses statements for all of the variables were proposed. In addition, the development of the survey and the items that were included on the scale to measure each of the variables were outlined.

Internal consistency reliabilities of the scale variables will be evaluated by computing Chronbach alpha scores. In addition, means will be computed to further aid in interpreting the data font. Finally, Pearson product moment correlation coefficients will be run to test the study hypotheses. The questionnaire is a five-point Likert scale and was distributed to over 300 employees who were randomly selected from the organization. The data from the

last questionnaire was used in this study since the employees had received their merit pay, thus this information would be more directly related to employee perceptions of performance appraisal acceptability in a merit pay setting.

## CHAPTER IV

### RESULTS

As previously stated, the purpose of this research is to audit employee perceptions of the Sentara Health System performance appraisal system, in a merit pay setting. The findings presented in this chapter are based on data obtained from the final survey described in Chapter 3.

Chronbach alphas were computed to test the internal consistency reliability of the variables and ranged from .79 (performance reward link) to .93 (supervisor trust) (see Table 3). Overall, all the alphas indicate strong support for internal consistency reliability. Scale means and standard deviations were computed for the composite scores, and the findings indicate that on the average, employees responded favorably to the question items. The means ranged from 2.78 (participation in development) to 3.82 (interview atmosphere). The standard deviations ranged from .73 (performance standard acceptability) to 2.25 (participation in development). The summary statistics are presented in Table 3. Pearson product moment correlations were utilized to test the study hypotheses. All the correlation coefficients were significant at the  $p \leq .01$ . The correlation coefficients of the study variables are presented in Table 5.

**TABLE 3**  
**MEANS, STANDARD DEVIATIONS, AND**  
**COEFFICIENT ALPHAS OF STUDY VARIABLES**

Means, standard deviations, and coefficient alpha's of study variables presented. Reflects composite data for all respondents (n=198).

<u>Variable</u>	<u>n</u>	<u>Mean</u>	<u>SD</u>	<u>Alpha</u>
Acceptability	186	3.42	.90	.86
Fairness	193	3.23	.86	.84
Accuracy	183	3.12	.95	.91
Supervisor Trust	186	3.77	.87	.93
Supervisor Knowledge	183	3.13	.66	.92
Interview Information	184	3.82	.89	.88
Interview Atmosphere	191	3.64	.83	.88
Performance Standard Acceptability	186	3.15	.73	.85
Merit Pay Acceptability	180	2.91	1.06	.87
Performance Reward Link	183	3.25	.50	.79
Participation in Development	198	2.78	2.25	



SAMPLE DEMOGRAPHIC CHARACTERISTICS

Of the 300 employees randomly selected to participate in the study, 198 completed the survey instrument for a response rate of 66%. Summary statistics are presented in Table 4. Analysis of the sample demographic characteristics indicate that of those participating in the study, 16.9% were male and 83.1% were female. The ethnic mix was 69.4% white, 25.7% black, and 4.9% other. The job families represented in the study were 16.0% managers, 8.3% administrative, 17.1% clerical, 9.4% service, 24.9% clinical and 24.3% nursing. In addition, of those employees responding, 3.9% had a rating score below 185, 14.9% received 185 to 210, 46.1% scored between 211 to 240, 26.7% scored between 241 and 275 and 8.4% received a performance rating score above 275. Finally, 80.3% of the sample had been employed a minimum of three years, with the majority of employees' tenure (62.1%) had a minimum from six years to over 15 years of service. Employees intending to remain with the organization indicated 14.1% would stay less than one year, 25.8% from one to five years, 14.6% from six to ten years, 15.2% more than ten years, and 30.3% until retirement. The majority of those responding, 60.1%, intended to remain from a minimum of six years or until retirement.

TABLE 4

## SAMPLE STUDY DEMOGRAPHIC CHARACTERISTICS

	<u>Frequency</u>	<u>Percent</u>
<u>Race:</u>		
White	127	69.4
Black	47	25.7
Other	9	4.9
<u>Sex:</u>		
Male	31	16.9
Female	152	83.1
<u>Job Families:</u>		
Managers	29	16.0
Administrative	15	8.3
Clerical	31	17.1
Service	17	9.4
Clinical	45	24.9
Nursing	44	24.3
<u>PMP Score Group:</u>		
Less than 185	6	3.9
185 to 210	23	14.9
211 to 240	71	46.1
241 to 275	41	26.7
More than 275	13	8.4
<u>Tenure:</u>		
Less than 1 year	17	8.6
1 to 2 years	22	11.1
3 to 5 years	36	18.2
6 to 10 years	71	35.8
11 to 15 years	38	19.2
more than 15 years	14	7.1
<u>Intent to Remain:</u>		
Less than 1 year	28	14.1
1 to 5 years	51	25.8
6 to 10 years	29	14.6
More than 10 years	30	15.2
Until retirement	60	30.3

## HYPOTHESES FINDINGS

Each hypothesis investigated in this study is presented.

### Performance Appraisal Acceptability

Operational hypotheses 1 and 2 test the relationship between performance appraisal acceptability to performance appraisal fairness and accuracy.

#### **Hypothesis 1:**

Within a merit pay system, there will be a positive relationship between performance appraisal acceptability and performance appraisal fairness, and

#### **Hypothesis 2:**

Within a merit pay system, there will be a positive relationship between performance appraisal acceptability and performance appraisal accuracy.

Hypothesis 1 is supported: As indicated in Table 5, a significant positive correlation ( $r = .83$ ),  $p \leq .01$ ,  $n = 193$ ) was found between performance appraisal acceptability and performance appraisal fairness, and,

Hypothesis 2 is supported: As indicated in Table 5, a significant positive correlation ( $r = .81$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance appraisal acceptability and performance appraisal accuracy.

**TABLE 5**  
**PEARSON CORRELATION COEFFICIENTS**  
**OF STUDY VARIABLES**

	1	2	3	4	5	6	7	8	9	10	11
1. ACC	1.00	.83	.81	.54	.56	.72	.65	.55	.22	.31	.59
2. FAIR	.83	1.00	.81	.59	.62	.73	.63	.58	.23	.42	.68
3. ACCR	.81	.81	1.00	.64	.68	.67	.61	.56	.26	.34	.56
4. TRUST	.54	.59	.64	1.00	.74	.70	.61	.56	.28	.33	.41
5. KNOW	.56	.62	.68	.74	1.00	.62	.54	.51	.28	.41	.52
6. INT INF	.71	.73	.67	.70	.62	1.00	.85	.59	.24	.39	.46
7. INT ATM	.65	.63	.61	.61	.54	.85	1.00	.45	.24	.31	.38
8. PER STD ACC	.55	.58	.56	.48	.51	.59	.44	1.00	.45	.43	.65
9. PART DEV	.21	.23	.26	.28	.29	.24	.24	.45	1.00	.36	.28
10. PER REW	.31	.42	.34	.33	.41	.39	.31	.43	.36	1.00	.51
11. MER PAY	.59	.67	.56	.41	.52	.46	.38	.65	.28	.51	1.00

\* All the correlation coefficients are significant at the  $p \leq .01$ .

\*\* Abbreviations: 1. ACC, Acceptability; 2. FAIR, Fairness; 3. ACCR, Accuracy; 5. KNOW, Knowledge; 6. INT INF, Interview Information; 7. INT ATM, Interview Atmosphere; 8. PER STD ACC, Performance Standard Acceptability; 9. PART DEV, Participation in Development; 10. PER REW, Performance Reward Link; 11. MER PAY, Merit Pay Acceptability.

### Trust in Supervisor

Hypotheses 3 and 4 test the relationship between supervisory trust to performance appraisal fairness and accuracy.

#### **Hypothesis 3:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and supervisory trust, and,

#### **Hypothesis 4:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and supervisory trust.

Hypothesis 3 is supported: As indicated in Table 5, a significant positive correlation ( $r = .59$ ),  $p \leq .01$ ,  $n = 186$ ) was found between performance appraisal fairness and supervisory trust.

Hypothesis 4 is supported: As indicated in Table 5, a significant positive correlation ( $r = .64$ ),  $p \leq .01$ ,  $n = 186$ ) was found between performance appraisal accuracy and supervisory trust.

### Supervisor Knowledge of Performance

Hypotheses 5 and 6 test the relationship between supervisor knowledge of performance to performance appraisal fairness and accuracy.

**Hypothesis 5:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and supervisory knowledge of performance, and,

**Hypothesis 6:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and supervisory knowledge of performance.

Hypothesis 5 is supported: As indicated in Table 5, a significant positive correlation ( $r = .62$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance appraisal fairness and supervisory knowledge of performance.

Hypothesis 6 is supported: As indicated in Table 5, a significant positive correlation ( $r = .68$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance appraisal accuracy and supervisory knowledge of performance.

**Interview Information**

Hypotheses 7 and 8 test the relationship between the interview information to performance appraisal fairness and accuracy.

**Hypothesis 7:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and interview information, and,

**Hypothesis 8:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and interview information.

Hypothesis 7 is supported: As indicated in Table 5, a significant positive correlation ( $r = .73$ ),  $p \leq .01$ ,  $n = 184$ ) was found between interview information and performance appraisal fairness.

Hypothesis 8 is supported: As indicated in Table 5, a significant positive correlation ( $r = .67$ ),  $p \leq .01$ ,  $n = 184$ ) was found between interview information and performance appraisal accuracy.

#### Interview Atmosphere

Hypotheses 9 and 10 test the relationship between the interview atmosphere to performance appraisal fairness and accuracy.

#### **Hypothesis 9:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and the interview atmosphere, and

#### **Hypothesis 10:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and the interview atmosphere.

Hypothesis 9 is supported: As indicated in Table 5, a significant positive correlation ( $r = .63$ ),  $p \leq .01$ ,  $n = 191$ ) was found between interview atmosphere and performance appraisal fairness.

Hypothesis 10 is supported: As indicated in Table 5, a significant positive correlation ( $r = .61$ ),  $p \leq .01$ ,  $n = 191$ )

was found between interview atmosphere and performance appraisal accuracy.

### Performance Standard Acceptability

Hypotheses 11 and 12 test the relationship between performance standard acceptability and performance appraisal fairness and accuracy.

#### **Hypothesis 11:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and performance standards acceptability, and,

#### **Hypothesis 12:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and performance standards acceptability.

Hypothesis 11 is supported: As indicated in Table 5, a significant positive correlation ( $r = .58$ ),  $p \leq .01$ ,  $n = 186$ ) was found between performance standard acceptability and performance appraisal fairness.

Hypothesis 12 is supported: As indicated in Table 5, a significant positive correlation ( $r = .56$ ),  $p \leq .01$ ,  $n = 186$ ) was found between performance standard acceptability and performance appraisal accuracy.

### Participation in Development

Hypotheses 13 and 14 test the relationship between participation in development and performance appraisal fairness and accuracy.



**Hypothesis 13:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and participation in development, and,

**Hypothesis 14:**

Within a merit pay system, there will be a positive relationship between performance accuracy and participation in development.

Hypothesis 13 is supported: As indicated in Table 5, a significant positive correlation ( $r = .23$ ),  $p \leq .01$ ,  $n = 180$ ) was found between participation in development and performance appraisal fairness.

Hypothesis 14 is supported: As indicated in Table 5, a significant positive correlation ( $r = .26$ ),  $p \leq .01$ ,  $n = 180$ ) was found between participation in development and performance appraisal accuracy.

**Performance Reward Link**

Hypothesis 15 and 16 test the relationship between performance reward link and performance appraisal fairness and accuracy.

**Hypothesis 15:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and performance reward link, and,

**Hypothesis 16:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and performance reward link.

Hypothesis 15 is supported: As indicated in Table 5, a significant positive correlation ( $r = .42$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance reward link and performance appraisal fairness.

Hypothesis 16 is supported: As indicated in Table 5, a significant positive correlation ( $r = .34$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance reward link and performance appraisal accuracy.

#### Merit Pay Acceptability

Hypotheses 17 and 18 test the relationship between merit pay acceptability and performance appraisal fairness and accuracy.

#### **Hypothesis 17:**

Within a merit pay system, there will be a positive relationship between performance appraisal fairness and merit pay acceptability, and,

#### **Hypothesis 18:**

Within a merit pay system, there will be a positive relationship between performance appraisal accuracy and merit pay acceptability.

Hypothesis 17 is supported: As indicated in Table 5, a significant positive correlation ( $r = .67$ ),  $p \leq .01$ ,  $n = 180$ ) was found between merit pay acceptability and performance appraisal fairness.

Hypothesis 18 is supported: As indicated in Table 5, a significant positive correlation ( $r = .57$ ),  $p \leq .01$ ,  $n = 180$ )

was found between merit pay acceptability and performance appraisal accuracy.

#### SUMMARY

In this chapter, the statistical analysis of the data was presented. Characteristics of the sample population were discussed. Statistical measures indicated strong support for internal consistency reliability. The scale means indicated that on the average, employees responded favorably to the questionnaire items. The Pearson product moment correlation coefficients were all significant at the  $p \leq .01$ , and all the hypotheses outlined in this study were supported.

## CHAPTER V

### DISCUSSION OF RESULTS

As previously stated, the purpose of this research is to audit employee perceptions of the Sentara Health System performance appraisal system, in a merit pay setting. This chapter will discuss the hypotheses results and conclusions will be stated. Study limitations will be presented as well as suggestions for future research. Results of the study hypotheses investigating the variable relationships are discussed below.

#### Fairness and Accuracy

The empirical literature mentioned in this research strongly argues that employee perceptions of performance appraisal acceptability are affected through the relationship to fairness and accuracy. Cascio (1978), Landy, Barnes and Murphy (1978), Barr, Brief and Fulk (1981), Secunda (1984), Kavanagh, Hedge and DeBiasi (1983) and Timmreck (1989). Results from this research indicates support for this argument. A significant positive correlation ( $r = .83$ ),  $p \leq .01$ ,  $n = 193$ ) was found between performance appraisal acceptability and performance appraisal fairness. Also, a significant positive

correlation ( $r = .81$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance appraisal acceptability and accuracy.

A total of 193 employees responded to the survey questions regarding fairness ( $\bar{x} = 3.23$ ,  $s = .86$ ) Of those responding, 40 disagreed, 68 were not sure, and 85 agreed that their appraisal was fair. Also, a total of 183 responded to the accuracy questions ( $\bar{x} = 3.12$ ,  $s = .95$ ). Of those responding, 47 disagreed, 61 were not sure, and 75 agreed their appraisal was accurate. These results suggest the following conclusion:

The more an employee perceives their performance appraisal to be fair and accurate, then the more likely they will be to perceive the performance appraisal system acceptable.

This finding supports the empirical studies of Secunda (1984), Barr et al. (1981), Vance et al. (1982) and Landy et al. (1978) to the extent that if employees perceive that appraisals are fair and accurate, then the tendency for employees to perceive the overall appraisal system to be acceptable is enhanced. Also, if employees perceive that appraisals are fair and accurate, then the opportunity to achieve both organization and personal goals is enhanced. Organizations planning on implementing a merit program need to audit their employees' perceptions to assess if the environment can support and accept the program. Finally, the other variables hypothesized in this study, supervisor

trust, supervisor knowledge of performance, interview information, interview atmosphere, performance standard acceptability, participation in development, performance reward link, and merit pay acceptability, all had a significant positive correlation with performance appraisal fairness and accuracy. This information, if properly designed into a program and communicated within an organization could serve as a checklist to audit employee perceptions.

#### Supervisor Trust

The empirical research to date demonstrates and argues that perceived performance appraisal fairness and accuracy have a relationship to the trust of a supervisor and subordinate (Lawler, 1988, Hills, Madigan, Scott and Markham, 1987, Secunda, 1984, Silverman and Wexley, 1984, Barr, Brief and Fulk, 1981, Landy, Barnes and Murphy, 1978). Results from this research indicates support for this argument. A significant positive correlation ( $r = .59$ ),  $p \leq .01$ ,  $n = 186$ ) was found between performance appraisal fairness and supervisory trust. Also, a significant positive correlation ( $r = .64$ ),  $p \leq .01$ ,  $n = 186$ ) was found between performance appraisal accuracy and supervisory trust.

A total of 186 employees responded to the survey

questions regarding supervisory trust ( $\bar{x} = 3.65$ ,  $s = 87$ ). Of those responding, 10 disagreed, 53 were not sure, and 123 agreed. These results suggest the following conclusion:

The more an employee trusts their supervisor, the more likely the employee is to perceive their performance appraisal to be fair and accurate.

This finding suggests that if there is a positive relationship between a subordinate and supervisor, then the employee is not only more prone to perceive the appraisal system to be fair and accurate but also acceptable. Organizations need to consider programs dealing with interpersonal relationships, teamwork, and group dynamics prior to implementing a merit pay program. Also, an organizational assessment should be considered to determine employee perceptions of supervisor trust that would provide valuable information to management. In this research, the employees perceived to have a positive working relationship with their supervisor, thus enhancing the overall acceptance of the performance appraisal system. Finally, this finding is similar to Fulk, Brief and Barr (1985) in that it suggests that employee perceptions of performance appraisal fairness and accuracy could depend as much on the level of supervisor trust as the performance appraisal process characteristics.

### Supervisor Knowledge of Performance

The empirical research mentioned in this study has discussed the relationship from supervisor knowledge of performance to perceived fairness and accuracy (Secunda, 1984, Vance et al., 1982, Barr et al., 1981, Dipboye and de Pontbriand, 1981, and Landy et al., 1978). Results from this research indicates support for this argument. A significant positive correlation ( $r = .62$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance appraisal fairness and supervisory knowledge of performance. Also, a significant positive correlation ( $r = .68$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance appraisal accuracy and supervisory knowledge of performance.

A total of 183 employees responded to the survey questions regarding supervisory knowledge of performance ( $\bar{x} = 3.13$ ,  $s = .66$ ). Of those responding, 42 disagreed, 64 were not sure, and 77 agreed their supervisor was knowledgeable about their performance. These results suggest the following conclusion:

The more an employee perceives that their supervisor has knowledge of their performance, the more likely the employee is to perceive their performance appraisal to be fair and accurate.

Employees perceiving that their supervisor has a clear understanding of their performance and understands the requirements of performing the job contributes to overall



appraisal system acceptance. In addition, this positive perception is important in a merit pay setting since the ultimate goal is to reward high performers and give low performers the proper feedback. Employees are more receptive to accepting their performance appraisal, if their relationship with their supervisor is built on trust and a mutual understanding of the job requirements.

### Interview Information

The empirical literature mentioned in this study strongly argues the importance of employee satisfaction with the feedback and discussion obtained during the performance review session. The quality of the interview information influences perceived fairness and accuracy that influences overall acceptability (Secunda, 1984, Vance et al., Kavanagh et al., 1983, Dipboye and de Pontbriand, 1981, Barr et al., 1978, and Landy et al., 1978). Results from this research indicates support for this argument. A significant positive correlation ( $r = .73$ ),  $p \leq .01$ ,  $n = 184$ ) was found between interview information and performance appraisal fairness. Also, a significant positive correlation ( $r = .67$ ),  $p \leq .01$ ,  $n = 184$ ) was found between interview information and performance appraisal accuracy.

A total of 184 employees responded to the survey questions regarding interview information ( $\bar{x} = 3.64$ ,  $s =$

.82). Of those responding, 16 disagreed, 43 were not sure, and 125 agreed the interview information was meaningful and relevant. These results suggest the following conclusion:

The more an employee views the interview information as pertinent, the more likely the employee is to perceive their performance appraisal to be fair and accurate.

The appraisal session needs to have an exchange of positive, as well as constructive, information for employees to perceive the session as meaningful. This interview information session enhances overall performance appraisal acceptability.

#### Interview Atmosphere

The empirical literature mentioned in this research strongly argues that perceived performance appraisal fairness and accuracy has a relationship with the performance appraisal interview atmosphere (Secunda, 1984, Silverman and Wexley, 1984, Kavanagh et al., 1983, Dipboye and de Pontbriand, 1981, Landy et al., 1978). Results from this research indicates support for this argument. A significant positive correlation ( $r = .63$ ,  $p \leq .01$ ,  $n = 191$ ) was found between interview atmosphere and performance appraisal fairness. Also, a significant positive correlation ( $r = .61$ ,  $p \leq .01$ ,  $n = 191$ ) was found between interview atmosphere and performance appraisal accuracy.

A total of 191 employees responded to the survey questions regarding interview atmosphere ( $\bar{x} = 3.64$ ,  $s = .83$ ). Of those responding, 24 disagreed, 37 were not sure, and 130 agreed that the atmosphere was positive and relaxed. These results suggest the following:

The more an employee perceives the interview atmosphere to be positive, the more likely the employee is to perceive their performance appraisal to be fair and accurate.

The performance appraisal environment should be created to be as favorable as possible to carry out the review. A relaxed, two-way dialogue should take place rather than a tense, one-way session. This positive setting enhances employee perceptions of fairness and accuracy and overall performance appraisal acceptability.

#### Performance Standard Acceptability

The empirical literature mentioned in this research strongly argues that perceived performance appraisal fairness and accuracy has a relationship with performance standard acceptability (Ohren and Reese, 1990, Kavanagh et al., 1983, Dipboye and de Pontbriand, 1981, Cascio, 1978, and Lawler, 1967). Results from this research indicates support for this argument. A significant positive correlation ( $r = .58$ ),  $p \leq .01$ ,  $n = 186$ ) was found between performance standard acceptability and performance appraisal

fairness. Also, a significant positive correlation ( $r = .56$ )  $p \leq .01$ ,  $n = 186$ ) was found between performance standard acceptability and performance appraisal accuracy.

A total of 186 employees responded to the survey questions regarding performance standard acceptability ( $\bar{x} = 3.15$ ,  $s = .73$ ). Of those responding, 41 disagreed, 76 were not sure, and 69 agreed that the performance standards were not acceptable. These results suggest the following:

The more an employee perceives the performance standards to be acceptable, the more likely the employee is to perceive their performance appraisal to be fair and accurate.

The suggestion is that employees are more inclined to be receptive to feedback if the standards are relevant to their job. Appraisals that are based on relevant and specific performance standards enhance the perception of fairness and accuracy, that enhance overall performance appraisal acceptability.

### Participation in Development

The empirical research to date demonstrates and argues that perceived performance appraisal fairness and accuracy have a relationship with participation in development (Silverman and Wexley, 1984, Kavanagh et al., 1983, Dipboye and de Pontbriand, 1981, and Lawler, 1978). Results from this research indicates support for this argument. A

significant positive correlation ( $r = .23$ ),  $p \leq .01$ ,  $n = 180$ ) was found between participation in development and performance appraisal fairness. Also, a significant positive correlation ( $r = .26$ ),  $p \leq .01$ ,  $n = 180$ ) was found between participation in development and performance appraisal accuracy. These results suggest the following conclusion:

The more an employee participates in the performance appraisal development, the more likely the employee is to perceive their performance appraisal to be fair and accurate.

The suggestion that employee involvement in the development of rating standards and performance standards is consistent with the other studies mentioned in this study that enhances acceptance of the overall system. Employees are more inclined to be receptive to feedback if they are allowed to participate in the performance appraisal process (Kavanagh et al., 1983). Also, the involvement of employees in the development of performance standards serves as a positive motivator to enhance not only performance but also outcome measures. Finally, through continued employee involvement and participation, the low correlations found in this study could improve with this variable.

### Performance Reward Link

The literature to date suggests that perceived performance appraisal fairness and accuracy has a relationship with the performance reward link (Timmreck, 1989, Wood and Baldwin, 1988, Hills et al., 1987, Hills, Scott, Markham and Vest, 1987, and Gehrman, 1984. Results from this research indicate support for the relationship. A significant positive correlation ( $r = .42$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance appraisal fairness and performance reward link. Also, a significant positive correlation ( $r = .34$ ),  $p \leq .01$ ,  $n = 183$ ) was found between performance reward link and performance appraisal accuracy.

A total of 183 employees responded to the survey questions regarding performance reward link ( $\bar{x} = 3.25$ ,  $s = .50$ ). Of those responding, 22 disagreed, 57 were not sure, and 104 agreed there was a link to performance. These results suggest the following:

The more an employee perceives a performance reward link, the more likely the employee is to perceive their performance appraisal to be fair and accurate.

Hills, Scott, Markham and Vest (1987), state that the purpose of merit programs is to reward the true performer. In addition, employees need to perceive a positive relationship with their performance and reward. One of the criticisms of merit pay programs is a lack of a merit pay

budget and supervisor bias. The fact that employees were involved in the program development, trusted the organization and their supervisor, and agreed that merit was linked to performance were key variables in influencing the overall performance appraisal fairness, accuracy and acceptability.

### Merit Pay Acceptability

The literature to date suggests that employee perceptions pertaining to merit pay acceptability are essential to meet individual and organizational goals. Employee involvement in the program design serves as a means to enhance understanding of the system. Also, employee attitudes need to be audited since the effectiveness of a merit pay system ultimately rests with the employees. As previously mentioned, there needs to be an adequate merit pay budget to reward the true performer (Lawler, 1988, Wood and Baldwin, 1988, Hills, Madigan, Scott and Markham, 1987, Hills, Scott, Markham and Vest, 1987). Results from this research indicate support for this suggestion. A significant positive correlation ( $r = .67$ ),  $p \leq .01$ ,  $n = 180$ ) was found between merit pay acceptability and performance appraisal. Also, a significant positive correlation ( $r = .57$ ),  $p \leq .01$ ,  $n = 180$ ) was found between merit pay acceptability and performance appraisal accuracy.

A total of 180 employees responded to the survey question regarding merit pay acceptability ( $\bar{x} = 2.91$ ,  $s = 1.06$ ). Of those responding, 60 disagreed, 67 were not sure, and 53 agreed that merit pay was acceptable. These results suggest the following:

The more an individual perceives merit pay to be acceptable, the more likely the individual is to perceive their performance appraisal to be fair and accurate.

The institution under study had just implemented a merit pay program. Overall responses regarding merit pay acceptability were mixed. Sixty (60) employees disagreed, 67 were not sure and 53 agreed that merit pay was acceptable. Employees responding to question D16 perceived that merit pay did increase their productivity; 67 agreed, 61 were not sure and 62 disagreed. However, in response to question D17, to what extent is merit pay fair and equitable, 70 disagreed, 62 were not sure and 58 agreed. These responses could be a result of employees expecting a larger merit increase than received from the organization. Also, this was the first year for the merit program and employees could be responding to the change away from automatic cost of living increases. As noted in the literature, companies seldom audit programs and experience problems in meeting both organization and employee expectations. Also, in this research, the significant



correlation of performance reward link suggests that merit pay acceptability was perceived to be related to performance. Studies suggest that employees are more likely to perceive merit pay increases to be below average. As Hills et al. (1987) state, the purpose of merit programs is to reward true performers, and perhaps during their first year the employees experienced this element. Nevertheless, this study's findings suggest that additional audits of employee perception pertaining to merit pay acceptance is needed.

#### SUMMARY

This study's findings support the suggestion of Secunda (1984) that performance appraisal acceptability has a relationship with employee perception of fairness and accuracy. Also, the indirect variables, trust in supervisor, supervisor knowledge of performance, interview atmosphere, interview information and performance standard acceptability, had significant positive correlations with fairness and accuracy. This study added to Secunda's (1984) research by suggesting that participation in development, performance reward link and merit pay acceptability have relationships between performance appraisal fairness, accuracy and acceptability. The relationship between merit pay acceptability and performance appraisal fairness and accuracy was positive, however, the responses were mixed.

Employees perceived that merit pay improved their productivity, yet more employees disagreed that merit pay was fair and equitable. The future of performance appraisal systems, including merit pay, rests on management's ability to understand its merit pay program's overall acceptance from an employee perspective. The significant findings from this study support the empirical research of Secunda (1984), Kavanagh et al. (1983), Vance et al. (1982), Barr et al. (1981), Dipboye and de Pontbriand (1981) and Landy et al. (1978). Also, this study supports the suggestions of Lawler (1988), Wood and Baldwin (1981), Timmreck (1981), and Hills et al. (1987), that the need to audit employee perceptions of merit pay programs is important, since the effectiveness of merit pay programs rest with employee acceptance.

Implications for the organization studied, as well as others with merit pay programs, are to continue using and refining the audit questions in order to determine employee perceptions. This study found positive relationships with all the variables, however, merit pay acceptability was mixed. Management should continue to foster positive relationships in order that supervisor trust and knowledge of performance will continue to have a positive impact on performance appraisal accuracy, fairness and acceptability. Also, continued training for supervisors to foster a relaxed performance review session with meaningful two-way communication is important. Employee involvement in the

program development and its refinement needs to be ongoing, and performance standards should be mutually agreed on and communicated in advance of the next review. These steps could improve the low correlations found between performance appraisal accuracy and fairness with participation in development. The organization studied needs to assess if the merit pay budget could be increased to truly reward performers. The study findings indicated employees perceived a link to performance, however, the merit pay acceptability responses need to be addressed. Management should discuss these results with the staff to determine if it was the merit increase amount that affected employee perceptions to be mixed. Once again, these suggestions could improve the low correlations between performance appraisal accuracy and fairness with the performance reward link. This study suggests the importance of auditing employee perception, since all relationships were positive and hypotheses supported, however employee acceptance of merit pay is still in question.

#### STUDY LIMITATIONS

The purpose of this discussion is to provide a context to interpret the study findings.

### External Validity

The organization studied is a large health care system on the East Coast and was in the process of implementing a new performance appraisal system that included merit pay. The generalizability of study results to other organizations is unknown. Additional empirical research will assist in making generalizations from this organization to others in the public and private sector.

### Longitudinal Data

Another limitation of this study is the lack of longitudinal data. This audit was performed after the initial year for the merit pay program and comparison to other years are not available. Once the program is audited several times, then the variable comparisons can be made to establish patterns.

### Survey

The questionnaire used in the research could be modified and enhanced to ask more questions specifically related to merit pay acceptability. A total of only three questions were asked on the questionnaire relating to merit pay. Employee perceptions of their merit increase size and its link to performance would provide valuable information and should be considered on the next questionnaire used to survey employees. Also, some of the questions combined

fairness and accuracy information and should be refined to measure these as separate items.

### Scope of Variables

Not all the variables identified in the literature were used in this research. Although there were several used, the merit pay increase and merit increase satisfaction relationship would provide valuable information to the organization studied in further auditing employee perception of merit pay.

### Causality

This study did not attempt to show a causal link among the variables as proposed by Secunda. Since path analysis was not performed on the data, it was not possible to make causal link predictions.

### SUGGESTIONS FOR FURTHER RESEARCH

This study has implications for the need to conduct empirical research in auditing employee perceptions of performance appraisal acceptability in merit pay programs. The empirical research to date is limited and only through additional studies can meaningful application of the findings be applied. The need for this research should be longitudinal and be conducted on similar organizations. The

variables studied could be standardized to provide information for use in the private and public sector.

Hills et al. (1987) suggest a number of auditing strategies to consider and some of these include audits of pay patterns for identifying possible legal complications, and audit the relationship between merit increases and turnover. Also, Vest (1988) suggests that future research is needed in investigating the relationships between merit increase satisfaction and perceptions of meaningful pay increases. More research, as suggested from this study, is needed to determine merit pay acceptability. Future research should focus on determining if employees perceive that merit pay indeed is tied to performance. Also, research is needed to determine if a certain level or merit increase size is needed to meaningfully influence acceptability, fairness and accuracy.

Another area to investigate is the relationship between performance reward link, merit pay acceptability, and performance appraisal acceptability. For example, employees may perceive a link to performance, however perceive that merit pay increases are set in advance at a fixed amount. Employees could perceive that the merit pay increase between high, medium and low performance is insignificant in terms of the merit increase. If merit programs are to be successful, then employees need to perceive that there is a meaningful difference between high, medium and low

performance and that high performance is meaningfully rewarded. This link to performance and merit increase satisfaction research is needed.

Research into these areas could provide additional information for organizations to foster positive employee perception of acceptability regarding merit pay programs. The momentum for organizations to implement merit programs continues to increase. The likelihood of merit programs succeeding to accomplish both institutions and personal goals depends on employee acceptance. This study suggests that organizations should not proceed ahead with merit programs, without considering employee perceptions. The refinement to merit programs will not come easy, however, the refinement must be investigated for the concept to be accepted and meaningful to both the employee and the organization.

## REFERENCES

- Adams, J. "Toward and Understanding of Equity." Journal of Abnormal and Social Psychology, November 1963. 442-436.
- Asher, H. Causal Modeling. Beverly Hills, CA: Sage Publications, 1976.
- Barr, S.H., Brief, A.P. and Fulk, J.L. "Correlates of Perceived Fairness and Accuracy of Performance." Academy of Management Proceedings, 1981. 156-160.
- Bass, B.M. and Barrett, G.V. People, Work and Organizations (Second Edition). Boston: Allyn and Bacon, 1981.
- Beer, M., Ruh, R., Dawson, J.A., McCaa, B.B. and Kavanagh, M.J. "A Performance Measurement System: Research, Design, Introduction and Evaluation." Personnel Psychology, 62, 1978. 422-427.
- Brinks, J. "Is There Merit in Merit Increases?" Personnel Administrator, May 1980. 59-64.
- Browdy, J.D. "Performance Appraisal and Pay-For-Performance Start at the Top." Health Care Supervisor, 7(3), 1989. 31-41.
- Browdy, J.D. "Characteristics of Viable Incentive Plans." Topics in Health Care Financing, 16(2), 1989. 19-24
- Brown, R. "Performance Appraisal: A Policy Implementation Analysis." Review of Public Personnel Administration, 2, Spring. 69-85.
- Buford, J.A., Burkhalter, B.B., and Jacobs, G.T. "Link Job Descriptions to Performance Appraisals." Personnel Journal, June 1988. 132-140.
- Burke, R.J., Weitzel, W. and Weir, T. "Characteristics of Effective Employee Performance Review and Development Interviews: Replication and Extension." Personnel Psychology, 31, 1978. 903-919.
- Burke, R.J. and Wilcox, D.S. "Characteristics of Effective Employee Performance Reviews and Developmental Interviews." Personnel Psychology, 2, 1969. 291-305.



- Camp, R.C., Gibbs, Manton C., Jr. and Masters, R.J. II. "The Finite Increment Faculty Merit Pay Allocation Model." Journal of Higher Education, 59(6), November/December 1988. 652.
- Cascio, W.F. Applied Psychology in Personnel Management. Reston, VA: Reston Publishing, 1978.
- Cissell, M.J. "Designing Effective Reward Systems." Compensation and Benefits Review. 49-55.
- Cumming, C. "Linking Pay to Performance." Personnel Administrator, May 1988. 47-52.
- DeCotiis, T.A. and Petit, A. "The Performance Appraisal Process: A Model and Some Testable Propositions." Academy of Management Review, July 1978. 635-646.
- Dickinson, T.L. and Davis, D.D. The Perceived Utility of Performance Appraisals: A Structural Model and Organizational Analysis. Presentation at the Annual Convention of the Southeastern Psychological Association in New Orleans, March 1984.
- Dipboye, R.L. and de Pontbriand, R. "Correlates of Employee Reactions to Performance Appraisal and Appraisal Systems." Journal of Applied Psychology, 66(2), 1981. 248-251.
- Dyer, L. and Theriault, R. "The Determinants of Pay Satisfaction." Journal of Applied Psychology, 34, 1976. 596-604.
- Emory, C. William. Business Research Methods, Homewood, IL: Richard D. Irwin, Inc., 1985.
- Farmer, R. "Merit Pay Viable?" Personnel, September/October 1979. 57-63.
- Festinger, L. A Theory of Cognitive Dissonance, Stanford, CA: Stanford University Press, 1957.
- Freundt, J.F. and Krotzer, Marion E. "A Comparison of Executive Incentive Compensation in Health Care and General Industry." Topics in Health Care Financing, 16(2), 1989. 7-18.
- Fulk, J., Brief A.P. and Barr, S.H. "Trust in Supervisor and Perceived Accuracy and Fairness of Performance Evaluation." Journal of Business Research, 13(4), 1985. 301-313.

- Gabris, G.T. and Mitchell, K. "The Impact of Merit Raise Scores on Employee Attitudes: The Matthew Effect of Performance Appraisal." Public Personnel Management, 17(4), Winter 1988. 369-386.
- Gabris, G., Mitchell, K., and McLemore, R. "Rewarding Individual and Team Productivity: The Biloxi Merit Bonus Plan." Public Personnel Management, 11, Fall 1985. 231-244.
- Gabris, G.T. (ed.) "Why Merit Pay Plans in the Public Sector Are Not Working: A Search for Alternative Pay Plans in the Public Sector -- A Symposium." Review of Public Personnel Administration, 7, Fall.
- Gehrman, D.B. "Beyond Today's Compensation and Performance Appraisal Systems." Personnel Administrator, 29. 21-33.
- Goodale, J. "Developing and Auditing a Merit Pay System." Personnel Journal, May 1981. 391-394, 397.
- Greene, V.J., Director of Organizational Development and Training, Sentara Health System. Unpublished, 1988.
- Greller, M.M. "Subordinate Participation and Reactions to the Appraisal Interview." Journal of Applied Psychology, 60(5). 544-549.
- Greller, M.M. "The Nature of Subordinate Participation in the Appraisal Interview." Academy of Management Journal, 21, 1978. 646-658.
- Harris, C. "A Comparison of Employee Attitudes Toward Two Performance Appraisal Systems." Public Personnel Management, 17(4), Winter 1988.
- Heneman, H.G. III. "Pay Satisfaction." In Rowland, K.M. and Ferris, G.R. (Eds.), Research in Personnel and Human Resource Management, 3. London: JAI Press Inc., 1984. 115-139.
- Heneman, H.G. III and Ellis, R.A. "Correlates of Just Noticeable Differences in Pay Increases." In Proceedings of the Spring Meeting, Industrial Relations Research Association, Session VI. Madison, WI: Industrial Relations Research Association, 1982. 533-538.

- Heneman, H.G. III and Schwab, D.P. "Pay Satisfaction: Its Multidimensional Nature and Measurement." International Journal of Psychology, 20, 1985. 129-141.
- Heneman, R.L. "Pay for Performance: Exploring the Merit System." (Work in America Institute Studies in Productivity, No. 38). New York: Pergamon Press, 1984.
- Hewett Associates. "On Compensation." September 1990. 3-5.
- Hills, F.S., Madigan, R.M., Scott, K.D. and Markham, S.E. "Tracking the Merit of Merit Pay." Personnel Administrator, March 1987. 50-57.
- Hills, F.S., Scott, K.D., Markham, S.E. and Vest, M.J. "Merit Pay: Just or Unjust Desserts." Personnel Administrator, 32(9), 1987. 52-59.
- Ilgen, D.R., Fisher, C.D. and Taylor, M.S. "Consequences of Individual Feedback on Behavior in Organizations." Journal of applied Psychology, 64, 1979. 349-371.
- Ilgen, D.R., Peterson, R.B., Martin, B.A. and Boeschen, D.A. "Supervisor and Subordinate Reactions to Performance Appraisal Sessions." Organizational Behavior and Human Performance, 28, 1981. 311-300.
- Jacobs, R., Kafry, D. and Zedeck, S. "Expectations of Behaviorally Anchored Rating Scales." Personnel Psychology, 33, 1980. 595-640.
- James, L.R., Mulaik, S.A. and Brett, J.M. Causal Analysis: Assumptions, Models, and Data. Beverly Hills, CA: Sage Publications, 1982.
- Joreskog, K.G and Sorbom, D. "LISREL: Analysis of Linear Structural Relationships by the Method of Maximum Likelihood, Version V." Chicago: National Education Resources, Inc., 1981.
- Kane, J.S. and Lawler, E.E. "Performance Appraisal Effectiveness: Its Assessment and Determinants. In B. Staw (Ed.), Research in Organizational Behavior, 1. Greenwich, CN: JAI Press, 1979.

- Kavanagh, M.J., Hedge, J. and DeBiasi, G. A Closer Look at the Correlates of Performance Appraisal System Acceptability. Paper presented at the meetings of the Eastern Academy of Management, Pittsburgh, PA, May 1983.
- Kavanagh, M.J. and Taber, T. Employee Acceptability and Rights in Performance Appraisal: Directions for Research. Paper given at the annual meetings of the American Psychological Association, August 1987, New York, NY.
- Kim, J.S. and Hammer, W.C. "Effect of Performance Feedback and Goal Setting on Productivity and Satisfaction in an Organizational Setting." Journal of Applied Psychology, 61, 1976. 48-57.
- Kopelman, R.E. Managing Productivity in Organizations: A Practical, People-Oriented Perspective. New York: McGraw-Hill, 1986. 35-65.
- Landy, F.J., Barnes, J.L. and Murphy, K.R. "Correlates of Perceived Fairness and Accuracy of Performance Evaluation." Journal of Applied Psychology, 63(6), 1978. 751-754.
- Landy, F.J., Barnes-Farrell, J. and Cleveland, J.N. "Perceived Fairness and Accuracy of Performance Evaluation: A Follow-Up." Journal of Applied Psychology, 65(3), 1980. 355-356.
- Landy, F.J. and Farr, J.L. "Performance Rating." Psychology Bulletin, 87(1), 1980. 72-107.
- Lawler, E.E. "Merit Pay: Fact or Fiction?" Pay and Organization Development. Reading, Mass.: Addison-Wesley, 1981.
- Lawler, E.E. "Merit pay: Fact or Fiction." Management Review, April 1981. 50-53.
- Lawler, E.E. Pay and Organizational Effectiveness. New York: McGraw-Hill, 1971. 15-204.
- Lawler, E.E. "The Multitrait-Multirater Approach to Measuring Managerial Job Performance." Journal of Applied Psychology, 51(5), 1967. 369-381.
- Lawler, E.E. "Transformations from Control to Involvement." Quality and Productivity Management, 7(3), 1989. 14-22.

- Lawler, E.E. III. "Pay for Performance: Making it Work." Personnel, October 1988. 55-60.
- Lawler, E. Pay and Organization Development. Reading, MA: Addison-Wesley, 1981.
- Lawther, W.C., Bernardin, H.J., Traynham, E. and Jennings, K. "Implications of Salary Structure and Merit Pay in the Fifty American States." Review of Public Personnel Administration, 9(2), Spring 1989. 1-14.
- Locke, E.A. "Toward a Theory of Task Motivation and Incentives." Organizational Behavior and Human Performance, 3, 1968. 157-184.
- McGregor, D. "An Uneasy Look at Performance Appraisal." Harvard Business Review, May/June 1957. 89-94.
- Medoff, J.L. and Abraham, K.G. "Are Those Paid More Really More Productive? The Case of Experience." Journal of Human Resources, 16(2), 1981. 186-216.
- Miller, R., Campbell, J. and Sherman, T. 1983. "Allocating Your Merit Increases the Smart Way." Journal of Nursing Administration, March 1983. 32-34.
- Nigro, L. "CSRA Performance Appraisals and Merit Pay: Growing Uncertainty in the Federal Workplace." Public Administration Review, 42, July, August 1982. 371-375.
- Ohren, J. and Reese, L. "Collective Bargaining and Merit Pay: A Case Study." Public Administration Quarterly, 14(2), Summer 1990. 230-244.
- O'Toole, D. and Churchill, J. "Implementing Pay-for-Performance." Review of Public Personnel Administration, 2, Summer. 13-28.
- Pearce, J. and Perry, J. "Federal Merit Pay: A Longitudinal Analysis." Public Administration Review, 43, July-August. 315-325.
- Pelle, D. and Greenhalgh, L. "Developing the Performance Appraisal System." Nursing Management, 18, December 1988.
- Printz, R., and Waldman, D. "The Merit of Merit Pay." Personnel Administrator, January 1985. 84-90.

- Reese, L. and Ohren, J. "The Impact of Collective Bargaining in Four Cities: The Diversity Thesis Revisited." Review of Public Personnel Administration, 1987.
- Reitz, H.J. "Managerial Attitudes and Perceived Contingencies Between Performance and Organizational Responses." In Higgins, R.B., Croke, P.V., and VCiega, J.F. (Eds.) Proceedings of the 31st Annual Meeting of the Academy of Management, 1981. 227-238.
- Roberts, K.H. and O'Reilly, C.A. "Measuring Organizational Communication." Journal of Applied Psychology, 59, 1974. 321-326.
- Ronan, W.W., Latham, G.P. and Kinne, S.B. "Effects of Goal Setting and Supervision on Worker Behavior in a Industrial Situation." Journal of Applied Psychology, 58, 1973. 302-307.
- Schneier, C.E. "The Operational Utility and Psychometric Characteristics of Behavioral Expectation Scales: A Cognitive Reinterpretation." Journal of Applied Psychology, 62, 1977. 541-548.
- Schwab, D.P. "Predicting Salary Levels and Salary Increments: An Examination of Merit System Equities." Paper delivered at the National Academy Meetings, Anaheim, Calif., 1988.
- Schwab, D.P., Fossum, J.A., Barber, A.L., Parker, D.F., Kahn, L., Scherer, P., Heneman, H.G. III, Young, I.P. and Berger, C.J. "Determinants and Consequences of Merit Pay Programs: Interorganizational Illustrations." Presented at the National Academy of Management Meetings, Anaheim, Calif., 1988.
- Schwab, D.P. and Olson, C.A. "Merit Pay Practices: Implications for Pay-Performance Relationships." Industrial and Labor Relations Review, 43, February 1990. 237S - 255S.
- Secunda, M.D. Employee Perceptions of Performance Appraisal Systems: Causal Determinants of Fairness, Accuracy, and Acceptability. Unpublished manuscript, Old Dominion University, 1984.

- Silverman, S.B. and Wexley, K.N. "Reaction of Employees to Performance Appraisal Interviews as a Function of the Participation in Rating Scale Development." Personnel Psychology, 37, 1984. 703-710.
- Stoner, J. and Wankel, C. "Management", 3rd Ed. NJ: Prentice-Hall, Inc., 1986.
- Sullivan, J.F. "The Future of Merit Pay Programs," American Compensation Association Conference Highlights, 1988. 23-30.
- Timmreck, T.C. "Performance Appraisal Systems in Rural Western Hospitals." Health Care Management Review, 14(2), 1989. 31-43.
- Timmreck, T.C. "Dictionary of Health Services Management." Owings Mills, MD: National Health, 1987.
- Vance, R.J., Winne, P.S. and Wright, E.S. Correlates of Rater and Ratee Reactions to a Performance Appraisal System. Unpublished manuscript, Old Dominion University, 1982.
- Vest, M. Factors Influencing Instrumentality Beliefs in a Merit Pay Environment. Dissertation, 1988.
- Weiner, N. "Determinants and Behavioral Consequences of Pay Satisfaction: A Comparison of Two Models." Personnel Psychology, 33, 1980. 741-757.
- Wexley, K.N. "Performance Appraisal and Feedback. In S. Kerr (Ed.), Organizational Behavior. Columbus, Ohio: Grid Publishing. 241-259.
- Wexley, K.N., Singh, J.P. and Yukl, G.A. "Subordinate Personality as a Moderator of the Effects of Participation in Three Types of Appraisal Interviews." Journal of Applied Psychology, 58, 1973. 54-59.
- Winstanley, N.B. "Are Merit Increases Really Effective?" Personnel Administrator, April 1982. 37-41.
- Wisdom, B.L. "Before Implementing a Merit System..." Personnel Administrator, 34(10), October 1989. 46-49.
- Wood, R.C. and Baldwin, G.H. "Legal Challenges to Merit Pay Programs." Journal of Education Finance, 14, Summer 1988. 135-155.

**APPENDIX**  
**EMPLOYEE QUESTIONNAIRE**



PERFORMANCE MANAGEMENT PROGRAM EVALUATION SURVEY

INSTRUCTIONS:

Read each item and decide if you agree or disagree with that statement. Then circle the number (1 - 5) to the right of each statement that best describes your opinion. Place your completed survey in the attached envelope and return it through the hospital mail to Corporate Human Resources, Suite 314.

A. This section asks you about your attitudes about the Performance Management Program (PMP):

	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Not Sure</i>	<i>Agree</i>	<i>Strongly Agree</i>
1. I benefit from my performance evaluation.	1	2	3	4	5
2. The new Sentara Performance Management Program is acceptable to me?	1	2	3	4	5
3. Overall, I was satisfied with my last performance evaluation.	1	2	3	4	5
4. I feel that performance ratings, in general, accurately reflect how well an employee has performed his or her job?	1	2	3	4	5
5. My current Performance Plan is acceptable to me.	1	2	3	4	5
6. The PMP Performance Plans enable my supervisor to evaluate my performance fairly.	1	2	3	4	5
7. I have confidence that my ratings are made on a fair and equal basis with others being rated.	1	2	3	4	5
8. I feel my supervisor is as fair as other supervisors in providing ratings of job performance.	1	2	3	4	5

	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Not Sure</i>	<i>Agree</i>	<i>Strongly Agree</i>
9. I feel that performance ratings provide a fair basis for transferring, promoting or demoting employees.	1	2	3	4	5
10. I feel that performance ratings provide a fair basis for determining salary adjustments.	1	2	3	4	5
11. My last appraisal represented my true performance.	1	2	3	4	5
12. My supervisor understands that many things that affect how well I do my job are beyond my control, and rates accordingly.	1	2	3	4	5
13. The new Performance Plans enable my supervisor to evaluate my performance accurately.	1	2	3	4	5
14. The new PMP appraisal system accurately distinguishes between good workers and and poor workers.	1	2	3	4	5
15. My supervisor's evaluation of my performance was accurate.	1	2	3	4	5
16. In my last performance evaluation, I received the ratings I expected.	1	2	3	4	5
17. My performance evaluation score accurately reflects my performance for the ENTIRE performance period.	1	2	3	4	5

B. This section asks you about your attitudes regarding the performance appraisal interview.

	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Not Sure</i>	<i>Agree</i>	<i>Strongly Agree</i>
1. My immediate supervisor does a good job in conducting an effective performance appraisal interview.	1	2	3	4	5
2. At the conclusion of my most recent performance review and discussion session, I knew what my supervisor expected in the way of specific future improvement.	1	2	3	4	5
3. I feel that the performance goals and development plan completed during the review session are reasonable (i.e., not too easy or too difficult).	1	2	3	4	5
4. After discussing the results of my evaluation with my supervisor, I felt I knew what action I could take to improve my performance	1	2	3	4	5
5. I had ample opportunity to express my opinions during my review session with my supervisor.	1	2	3	4	5
6. The performance review and discussion session was conducted in a relaxed atmosphere, without interruptions or distractions.	1	2	3	4	5
7. My supervisor spent enough time discussing the results of my rating with me.	1	2	3	4	5
8. In my performance review and discussion session, I was encouraged to present my point of view.	1	2	3	4	5
9. My supervisor exhibited a helping attitude during the performance review and discussion session.	1	2	3	4	5

---

C. This section asks you about your attitudes regarding your supervisor's appraisal practices.

---

	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Not Sure</i>	<i>Agree</i>	<i>Strongly Agree</i>
1. I am satisfied with the amount of information I get from the person who evaluates me about how well I am performing my job.	1	2	3	4	5
2. My immediate supervisor, based on his/her judgment alone, should determine my annual performance rating.	1	2	3	4	5
3. My supervisor observes enough of my performance to rate me.	1	2	3	4	5
4. My supervisor knows how well I am perform my job?	1	2	3	4	5
5. My supervisor knows what it takes to perform my job well.	1	2	3	4	5
6. I am able to have frank and open communications with my supervisor.	1	2	3	4	5
7. I feel that my supervisor would be personally inclined to use his/her influence to help me solve a problem in my work	1	2	3	4	5
8. My supervisor is very interested in my well-being.	1	2	3	4	5
9. My supervisor supports my decisions.	1	2	3	4	5
10. My supervisor is very honest in his/her dealings with me.	1	2	3	4	5
11. My supervisor regularly observes my work performance.	1	2	3	4	5
12. My supervisor rarely provides me with feedback about how well I am performing my job.	1	2	3	4	5

	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Not Sure</i>	<i>Agree</i>	<i>Strongly Agree</i>
13. My supervisor reviews my work products on a regular basis.	1	2	3	4	5
14. I do not know how my supervisor collects information about my job performance.	1	2	3	4	5
15. My supervisor observes all aspects of my job performance.	1	2	3	4	5
16. My supervisor's comments about my job performance are candid and specific.	1	2	3	4	5
17. My supervisor frequently praises my successes.	1	2	3	4	5
18. When my supervisor has negative feedback for me, that discussion occurs in private.	1	2	3	4	5
19. My supervisor collects performance information from several sources.	1	2	3	4	5

---

D. This section asks you about your attitudes about PMP components.

---

	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Not Sure</i>	<i>Agree</i>	<i>Strongly Agree</i>
1. When people work hard, no one notices.	1	2	3	4	5
2. There is no link between the job I do and the recognition I get.	1	2	3	4	5
3. People are recognized for the job they do.	1	2	3	4	5
4. The way to get recognized is to make a good suggestion about how to do things better.	1	2	3	4	5
5. The way to get recognized is to take good care of patients/customers.	1	2	3	4	5
6. The better my performance is, the greater will be my opportunity for advancement.	1	2	3	4	5
7. The better my performance is, the greater will be my salary increase.	1	2	3	4	5
8. If I perform well, I know I will have opportunities for advancement.	1	2	3	4	5
	<i>Not at All</i>	<i>To a Small Extent</i>	<i>To a Moderate Extent</i>	<i>To a Great Extent</i>	<i>To a Very Great Extent</i>
9. To what extent do you know about the standards for your work performance	1	2	3	4	5
10. To what extent are the standards for your work performance fair and equitable?	1	2	3	4	5
11. To what extent are the standards for your work performance clear and understandable?	1	2	3	4	5

	<i>Not at All</i>	<i>To a Small Extent</i>	<i>To a Moderate Extent</i>	<i>To a Great Extent</i>	<i>To a Very Great Extent</i>
12. To what extent do performance standards help clarify job expectations?	1	2	3	4	5
13. To what extent does the Performance Management program improve your knowledge of departmental goals.	1	2	3	4	5
14. To what extent does the Performance Management program improve your knowledge of organizational goals.	1	2	3	4	5
15. To what extent is merit pay fair and equitable?	1	2	3	4	5
16. To what extent does merit pay increase your productivity?	1	2	3	4	5
17. To what extent does merit pay improve Sentara's pay and benefit system?	1	2	3	4	5
18. The following is a list of activities related to the Performance Management process. Please check those activities in which you participated.					
18.1	___ job analysis (making a list of your tasks and duties or reviewing and commenting on a list of tasks and duties).				
18.2	___ writing performance standards for your job.				
18.3	___ reviewing and commenting on performance standards written by your manager.				
18.4	___ weighting performance standards				
18.5	___ collecting performance information and documentation				
18.6	___ providing information on the performance of co-workers				
18.7	___ receiving an interim performance evaluation				
18.8	___ no participation				
19. During the past 6 months, how often have you and your supervisor discussed plans for achieving or maintaining high levels of performance?					
___ Daily    ___ Weekly    ___ Monthly    ___ Once    ___ Never					

During the past 6 months, how often have you received performance feedback from your supervisor?

Daily  Weekly  Monthly  Once  Never

E. This section asks for background information.

1. How long do you expect to remain with Sentara?

Less than one year  More than 10 years  
 1 - 5 years  Until I retire  
 5 - 10 years

2. What was the date of your last performance evaluation?

    /    /    

3. What performance evaluation system was used for your last evaluation?

Sentara Performance Management Program             
 Former Alliance Performance Appraisal System           

4. How many months have you been employed by Sentara in your current position?

           Years            Months

5. How many months have you worked with your current supervisor?

           Years            Months

6. There are three levels of performance on the performance appraisal form (fails to meet the effective standard, meets the effective standars, meets the highly effective standards). If you could change the number of levels of performance, what would you change it to?

           Levels

7. On the Performance Plan, how easy was it for you to distinguish between different levels of performance (e.g., between 1 and 2 or 2 and 3?).

Very easy  Difficult  
 Easy  Very Difficult  
 Moderate



**TIMOTHY P. GIBSON**

1232 Heathcliff Drive  
Virginia Beach, VA 23464  
(804) 495-7467 (Residence)  
(804) 628-3545 (Office)

**EDUCATION**

**Master of Science in Hotel, Restaurant and Institutional Management**, Virginia Polytechnic Institute and State University, Blacksburg, VA, Degree to be awarded August, 1991

**Bachelor of Science in Hotel and Restaurant Administration**, Pennsylvania State University, University Park, PA, 1974

**Associate of Science in Business Administration**, Pennsylvania State University, University Park, PA, 1971

**CURRENT POSITION**

**Vice President, Sentara Hospitals-Norfolk - 1988 to Present**

**PROFESSIONAL AFFILIATIONS**

Board Officer (Vice President) - Big Brothers, Big Sisters of Tidewater

Member, Pennsylvania State University Alumni

Member, Pennsylvania State University, Hotel & Restaurant Society

**PERSONAL DATA**

Date of Birth: November 5, 1951      Marital Status: Married  
Children: two      Health: Excellent  
Height: 5'11"