Harvard Business Review

ASSESSING PERFORMANCE

People Don't Want to Be Compared with Others in Performance Reviews. They Want to Be Compared with Themselves

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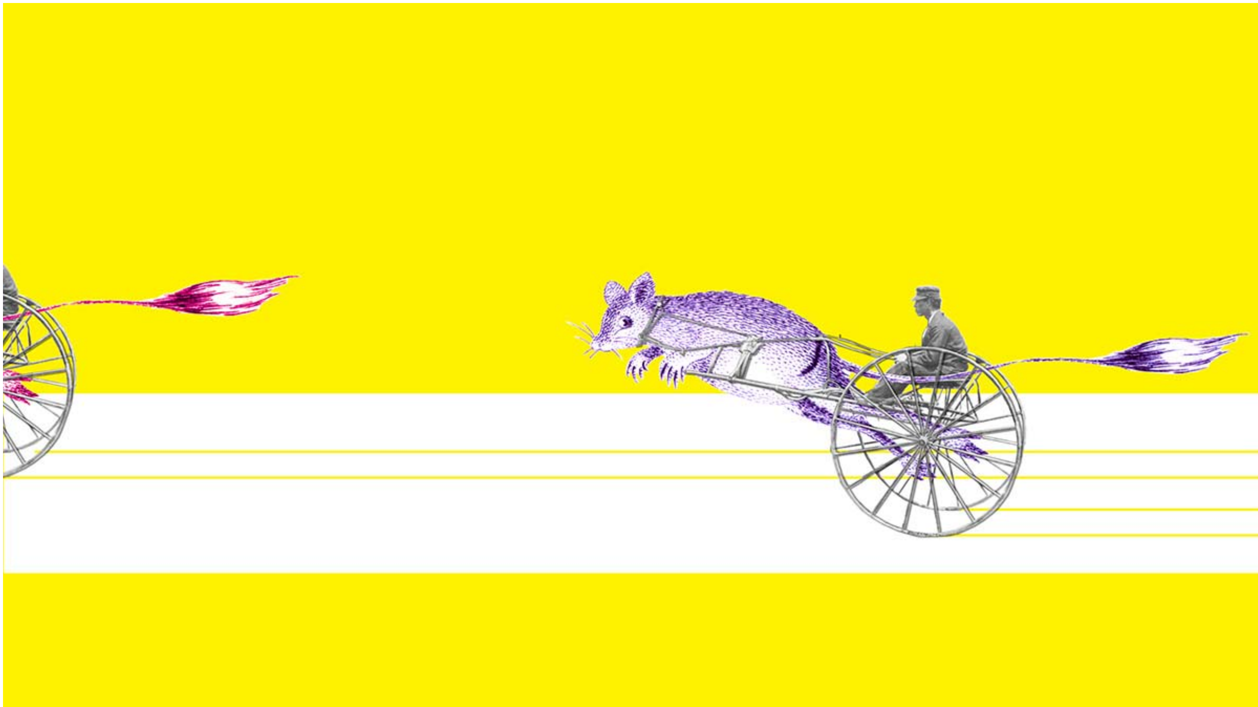
MARCH 22, 2018



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People hate performance evaluations. They really do. According to a survey of Fortune 1,000 companies done by the Corporate Executive Board (CEB), 66% of the employees were strongly dissatisfied with the performance evaluations they received in their organizations. More strikingly, 65% of the employees believed that performance evaluations were not even relevant to their jobs.

This is unfortunate considering the amount of resources that organizations devote to conducting performance evaluations. CEB research says that when we take into account how much money organizations are investing in their performance appraisal technology and how much time managers are spending to evaluate their employees, on average U.S. organizations spend $3,000 per year, per employee. This implies that billions of dollars are spent across the country because more than 90% of American companies provide performance evaluations at least once a year.

Why are employees so frustrated about the way they are evaluated, despite all the time and money being spent on these evaluations? What are organizations missing? We believe that one clue lies in the fact that 71% of the American employees thought that their evaluations had problems in the domain of fairness.

Fairness is at the heart of enhancing employees' work experiences. It begets numerous benefits such as employees' satisfaction with their jobs and commitment to their companies. In the context of performance evaluations, when people believe that the *outcomes* of their evaluations are commensurate with how well they performed, they are likely to consider the evaluations as fair. But there is so much more that goes into people's perceptions of fairness. Specifically, employees perceive the fairness of evaluation *processes* when they feel included and respected. They also consider it fair when their evaluations are accurate and are conducted based on ethical and moral principles. When employees perceive fairness in the evaluation processes, they are more likely to accept their evaluations, in which case they will digest the information contained in the evaluations and motivate themselves accordingly.

Then, the remaining question is this: what are the specific things that organizations can do to increase perceptions of fairness during the process of performance evaluations? Our research, recently accepted for publication in *Organizational Behavior and Human Decision Processes*, suggests that an important driver of the fairness in performance evaluations is the reference point managers use to appraise their employees' performance. Specifically, in four studies based on the data collected from 1,024 American and Dutch employees, we compared two types of reference points.

One reference point is the focal employees' own past performance. When employees' current performance is compared with their past performance, managers evaluate the temporal trajectory of the employees' achievement, thereby providing feedback on how much employees have (or have not) made progress over time. We call those temporal comparison evaluations.

Another reference point is other employees' performance during the same period. When employees' performance is compared with how others have done, managers evaluate how much employees have (or have not) demonstrated superiority over others. We call those social comparison evaluations.

Our findings demonstrate that employees consider temporal comparison evaluations to be fairer than social comparison evaluations. For example, in one of our studies we had participants work on a task for two rounds. The task consisted of asking participants to make HR-related predictions. After they finished their task, in one condition their manager provided evaluations that compared their performance from round two to their performance from round one; temporal comparison evaluations. In the other condition, their manager provided evaluations that compared their performance from both rounds to another person's performance; social comparison evaluations. Then, we measured their perceptions of the fairness in the evaluation process. Participants who received temporal comparison evaluations perceived significantly higher levels of fairness than those who received social comparison evaluations. When their current performance was discussed relative to their own past performance, participants believed that the evaluations were more individualized, believing that the manager incorporated specific information about them. Thus, they considered that the evaluations were more discerning and accurate, and that they had been treated in a more respectful way.

The experience of receiving individualized evaluations was significantly weaker in the case of social comparison evaluations. Employees whose performance was compared with another person's performance believed that while delivering such evaluations, their manager failed to account for specific details of their performance. Thus, they considered the evaluations to be less accurate. They thought that their evaluations were less respectful, perhaps because they felt like they were being treated like *another face in the crowd*. Importantly, these differences in the perceived fairness between temporal and social comparison evaluations were independent of the favorability of the evaluations: even when the evaluations were positive, employees perceived the process of their performance evaluations to be fairer when they received temporal comparison evaluations ("You did better than before") rather than social comparison evaluations ("You did better than other people").

If performance evaluations that compare employees' performance to those of others sound unfamiliar, let us give you an example. Under the leadership of Jack Welch, General Electric ranked their employees' performance from top to bottom, giving additional rewards to the top 20% while laying off the bottom 10%. Such evaluations might have increased the employees' concentration and led them to exert more energy at work. However, there may have been negative repercussions, too. The employees—*both* at the top and the bottom—might have perceived the evaluation processes as less fair. Past research on fairness suggests that such consequences can be very costly to organizations, especially in the long run.

A counterexample comes from Huawei, the Chinese telecom giant, which is famous for evaluating their employees' performance in terms of its temporal trajectory. The philosophy of the company is to see employees improve capabilities over time. Even though social comparisons can be used, the main focus of evaluations in Huawei is on building a culture in which each employee manages to grow and develop. Less focus on social comparisons and more on development over time is clearly articulated by their founder, Ren Zhengfei, when he noted, "I will not judge whether each team has done a good job or not, because all of you are moving forward. If you run faster than others and achieve more, you are heroes. But, if you run slowly, I won't view you as underperformers."

Our research provides guidance on how organizations can provide performance evaluations that seem fair. Here, managers should remember that employees have individual identities, and they want those identities to be recognized at work. By emphasizing how their performance has changed over time instead of how it fares against other people's performance, organizations can offer what the employees want—individualized treatment—and thus achieve the goal of offering fair evaluations, which are much more likely to be embraced rather than met with scorn.

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