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GORDON, HOWARD L.

RELATIONSHIP BETWEEN LENGTH OF SERVICE AND EMPLOYEE  
PERFORMANCE RATINGS IN LARGE INDUSTRIAL CORPORATIONS

*Pace University*

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PREVIEW

Sponsoring Committee:

Dr. Earl R. Zack, Chairman

*ER Zack*

Dr. William Freund

Dr. John Flaherty

RELATIONSHIP BETWEEN LENGTH OF SERVICE AND EMPLOYEE  
PERFORMANCE RATINGS IN LARGE INDUSTRIAL CORPORATIONS

Submitted in partial fulfillment of the requirements for  
the degree of Doctor of Professional Studies  
Pace University, New York City, New York

HOWARD L. GORDON

-1981-

Howard L. Gordon

Relationship Between Length of Service and  
Employee Performance Ratings in Large  
Industrial Corporations

Early investigation of the relationship between length of service and employee performance ratings -- in three separate studies -- indicated a direct, an inverse and no relationship between the variables. As a result of recent legislative changes to mandatory retirement ceilings, the need for a better understanding of this relationship has become extremely important to the corporate personnel function.

The current study was undertaken to explore what, if any, relationship exists between length of service and employee performance ratings in today's large industrial corporation. An intensive review of related research was undertaken prior to surveying leading U.S. companies. All subjects of this study were professional employees in the occupations of engineers, programmers and salesmen. Participating companies were chosen from the Fortune 500 industrial corporations and each had 40,000 or more employees and gross sales of at least two billion dollars.

Two instruments were used in the collection of data: an Appraisal Survey Data Sheet and a Background Questionnaire. Actual length of service and performance appraisal data was the primary data source; opinions of staff-head executives in the personnel function provided supplementary information. Both instruments yielded similar results regarding the relationship

between the variables. The Statistical Package for the Social Sciences (S.P.S.S.) was used to prepare detailed matrices, scattergrams, Pearson correlations, and related statistical reports.

Diametrically opposite conclusions were derived from quantitative and qualitative analysis of the data. The first conclusion was that no relationship of practical significance exists between length of service and employee performance ratings -- in the companies surveyed -- as a total group, by individual company or by occupational group. The second conclusion was that no valid determination of this relationship was possible because of the imprecise measurement of employee performance indicated by participating personnel executives.

Suggestions for future study include the need for developing valid appraisal systems better tailored to the specific company; focusing upon the relationship between length of service and productivity rather than performance ratings; separating performance appraisal from company compensation plans; and ensuring that current performance evaluation systems are reviewed to improve objectivity and to enhance employee career development.

### ACKNOWLEDGEMENTS

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The investigator is deeply indebted to a highly sensitive, deeply interested and demanding sponsoring committee. To the members of that committee, Dr. William Freund and Dr. John Flaherty, the investigator owes his thanks. Finally, I have been fortunate to have enjoyed the association of the outstanding chairman of my sponsoring committee in the person of Dr. Earl R. Zack who provided the classroom training, direction and overall supervision of this project, from original outline phase to final draft, and who is owed my sincere gratitude.

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HOWARD L. GORDON

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## CHAPTER I

### THE PROBLEM

#### Statement of the Problem

The problem is to investigate the relationship between length of service and appraised performance of exempt professional employees in large industrial organizations.

#### Specific Objectives

The first objective is to collect employee performance appraisal data within leading industrial corporations.

The second objective is to collect employee length of service data from the same institutions.

The third objective is to analyze the relationship of these two classes of data.

#### Definition of Terms

The following definitions will be used for the purpose of this study:

Length of service refers to the total time employed with a company, regardless of position.

Performance appraisal refers to the numeric rating, or alphabetical designation, given to an employee for differentiation of merit contribution.

Exempt professional employees refers to non-management employees exempt from the provisions of the Fair Labor

Standards Act.<sup>1</sup>

Performance evaluation will be used synonymously with performance appraisal unless otherwise indicated in this report.

#### Delimitations

The subjects of this research were exempt professional employees working in large United States industrial corporations. All companies selected for inclusion in this study were listed among the Fortune 500 industrial corporations and shared the following characteristics:

- at least two billion dollars in gross sales volume; and
- at least 40,000 employees.

The following occupational groups, as defined in the Dictionary of Occupational Titles<sup>2</sup> of the U.S. Employment Service, were included: Engineers, Programmers and Salesmen.

No delimitation regarding minority group status was imposed because of their limited representation in the occupations chosen, especially in the long service category.

#### Basic Assumptions

It is assumed that the type of performance appraisal system used will not be a significant intervening variable.

It is also assumed that the voluntary or involuntary attrition of low performers will not significantly affect

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<sup>1</sup>The Fair Labor Standards Act of 1938 is the Federal law establishing minimum wages and overtime pay standards.

<sup>2</sup>Dictionary of Occupational Titles, U.S. Employment Service, Fourth Edition, 1977 contains term titles and definitions common to a number of jobs that may differ widely in job knowledge and tasks performed.

the outcome of this study because of the small representation.

### Basic Hypothesis

It is hypothesized that there is an inverse relationship between performance appraisal ratings and length of service.

### The Need for the Study

Government legislation of mandatory retirement ceilings has elevated employer concerns about the relationship of key variables to performance evaluation. In this environment, understanding the effect of length of service upon performance appraisal ratings may be specially significant.

With increased longevity and improved health, many employees are still highly productive in their sixties and seventies. Thus testing the basic hypothesis is needed to insure that these employees are being treated equitably.

The idea that length of service might be related to performance ratings is not of recent origin. During the late nineteen-forties, Joseph Tiffin, C.H. Lawshe and Harold Rothe - in separate studies - explored the relationship between these variables.<sup>3</sup>

Tiffin, describing the ratings of 9,000 men in a steel mill, found an inverse relationship between performance ratings and length of service in the present job.<sup>4</sup>

Lawshe also studied the relationship between length of service and merit ratings in a steel mill setting. In

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<sup>3</sup>Joseph Tiffin, Industrial Psychology (New Jersey: Prentice-Hall, Second Edition, 1947). Also referenced is C. H. Lawshe and Michael J. Balma. Principles of Personnel Testing (New York: McGraw-Hill, 1966) and Harold F. Rothe, Personnel Psychology, "The Relation of Merit Ratings to Length of Service" (Vol. 2, No. 2, Summer 1949, p. 237).

<sup>4</sup>Joseph Tiffin, Industrial Psychology.

contrast to Tiffin, Lawshe found a positive relationship between the variables.<sup>5</sup>

Rothe collected length of service and merit rating data from several laundries. In one plant, Rothe found no relationship; in two other plants he found a direct relationship between these variables.

Rundquist and Bittner, in an attempt to evaluate a battery of aptitude tests for hiring purposes also found a direct relationship between length of service and foremen ratings of "ability to do the job."<sup>6</sup> However, they are careful to point out the limitations of their findings and caution against generalization in other situations "until more is known regarding the subtle operation of the factors affecting ratings."<sup>7</sup>

Since early studies of the relationship between length of service and performance ratings were inconclusive (i.e. direct, inverse and no relationships found), it seemed reasonable that a current and more detailed study should be made.

Several factors other than the lifting of mandatory retirement ceilings point toward a growing need for a new study. These include changing demographics of the workforce and productivity implications if any concrete relationship should be found between length of service and performance appraisal ratings. Some examples of these concerns are provided in the Related Readings section of this report.

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<sup>5</sup>C. H. Lawshe, Principles of Personnel Testing (New York: McGraw-Hill, 1966, p. 219).

<sup>6</sup>Edward Rundquist and Reign Bittner, "Using Ratings to Validate Personnel Instruments: A Study In Method," Personnel Psychology (Vol. 1, 1948, p. 169).

<sup>7</sup>Ibid, p. 183.

Longer life spans, declining birth rates and a continued shift towards a service economy are the primary demographic projections for the United States in the 1980s. In 1977, University of Michigan economist William Haber stated that the United States was undergoing a job revolution that would require Americans to develop significantly different skills.<sup>8</sup> He saw white collar jobs replacing production work and felt that such skills would represent more than fifty per cent of the work force by 1985. Therefore, the concentration of this investigator's research on professional non-management employees is particularly important.

We can turn to the practical value of understanding productivity as further justification for the need to conduct the present research. Walker and Lazer conclude that job requirements must be redefined to counter arguments that extending the length of service results in higher costs and lowered productivity because of increased vacations, a greater frequency of illness and diminished performance abilities. These costs are not universal, but they are often cited in arguments against later retirement ages.<sup>9</sup>

Richard S. Barrett, in his text on Performance Rating said:

Management has no choice as to whether it will have a program of performance evaluation. It has a program, whether formal or informal, and the results of the evaluations are continuously used. As an integral part of operations, employees are transferred, promoted, demoted, and fired on the

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<sup>8</sup>William Haber, American Banker (March 31, 1977, col. 1, p. 44).

<sup>9</sup>See James W. Walker and Harriet Lazer's treatment of performance appraisals and defining age-free job requirements in The End of Mandatory Retirement, Implications for Management (New York: John Wiley, 1978, p. 6).



basis of the opinions of management. An organization's continuous efforts to improve quality of the performance of its employees depend, in part, on some estimate of the current level of performance compared with the level desired.<sup>10</sup>

The current analysis of the relationship of length of service to performance appraisal should be undertaken for its potential advancement of management knowledge.

#### Chapter Summary

The objectives stated were threefold: 1) to collect employee performance appraisal data within leading industrial corporations, 2) to collect employee length of service data within the same companies, and 3) to analyze the relationship of these two classes of data.

The investigator was led into this line of research after reviewing three early studies which compared length of service with performance appraisal in industrial concerns. One of these showed a direct relationship; one showed an inverse relationship and one showed no relationship at all. The present research was an attempt to provide more current data to support or refute the earlier conclusions.

A key reason for embarking on this research now is recent government legislation to eliminate mandatory retirement ceilings. In this environment, the relationship of employee performance ratings to increased length of service takes a new significance.

In the next chapter, the investigator will describe the related readings which bear upon this study.

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<sup>10</sup>Richard S. Barrett, Performance Rating (Chicago: Science Research Associates, Inc., 1966, p.1).

## CHAPTER II

### RELATED READING

#### Introduction

A literature survey of performance evaluation and length of service revealed considerable information on each subject individually but very little about the relationship of these variables. Some related studies about age are included because of the concrete relationship between age and length of service, i.e. age must increase with length of service. Although there is some overlap, the readings are separated in the sections which follow, to help the reader focus upon the different issues addressed.

#### Performance Evaluation

There is a wide variety of performance appraisal methods in use today. McAfee states ten different methods which include: employee comparison, management by objectives, direct indexes, weighted checklist, forced choice checklist, essay, rating scale single word anchors, rating scale short phrase anchors, rating scale paragraph anchors, and rating scale behavior anchors.<sup>1</sup>

Performance appraisal has its roots in antiquity. It is reported that emperors of the Wei Dynasty (A.D. 221 - 265)

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<sup>1</sup>Bruce McAfee, "Selecting a Performance Appraisal Method," Personnel Administrator (Vol. 22, No. 5, June 1977, p. 62).

had an "imperial rater" whose task it was to evaluate the performance of the official family.<sup>2</sup>

The earliest rating scales were not developed until shortly before the twentieth century. Sir Francis Galton is generally credited with the design of the first contribution in this field.<sup>3</sup> Observation of performance was fine-tuned to precision under Frederick Taylor.<sup>4</sup> However, most modern approaches got their biggest boost from the needs of two world wars.<sup>5</sup> In 1954, Peter Drucker described a new approach to performance appraisal which was adopted by many leading corporations. "Management by Objectives" was first introduced in his classic work, The Practice of Management and is discussed in more detail later in this report.<sup>6</sup>

Some areas of management practices are under intense challenge today by the federal government. Presently, performance appraisals and employee training and development are significant areas of focus.<sup>7</sup> As the intricacies of the Age Discrimination in Employment Act of 1967, with

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<sup>2</sup>Pat Fairley, "Performance Appraisals - Key To Your Employee's Growth," Hospital Financial Management (Vol. 31, No. 9, September 1977, p. 32).

<sup>3</sup>Sir Francis Galton, Inquiry Into Human Faculty and its Development, (New York: Dutton, 1883). Also, a comparable rating scale was developed a bit later by Karl Pearson, "On the Relationship of Intelligence to Size and Shape of Head and to Other Physical and Mental Characters" in Biometrika (No. 5, 1906-1907).

<sup>4</sup>Frederick W. Taylor, Scientific Management, (New York: Harper & Brothers, 1911).

<sup>5</sup>Walter D. Scott, Personnel Management, co-authored by Clothier, Mathewsen and Spriegel (New York: McGraw-Hill, 1941, p. 56).

<sup>6</sup>Peter Drucker, The Practice of Management, (New York: Harper & Row, 1954, p. 121).

<sup>7</sup>David L. Austin, "The Pitfalls of Management by Inference," Personnel Journal (Vol. 57, No. 10, October 1978, p. 567).

amendments, become clearer, employment decisions may have to be defended with more precise standards. "The A.D.E.A. may become to the performance appraisal what Title VII has been to selection standards. Penalties under A.D.E.A., e.g., loss of government contracts, should be additional incentive to all employers to install valid systems or risk such serious consequences.<sup>8</sup>

An article in the Times of London in January 1975 described perceived lack of communication between management and workers as a major concern of employees.<sup>9</sup> It said that workers wanted to know what was happening and why; they wanted more say in how their work was planned, organized and evaluated.

If the leadership of an organization is in any way similar to that described by Michael Maccoby in his book, The Gamesman, performance appraisal is certain to be viewed with mistrust.<sup>10</sup>

An examination of employee perceptions of the fairness and accuracy of their performance evaluation system was conducted by Landy, Barnes and Murphy. They concluded that the aspects that were most related to perceptions of fairness and accuracy of ratings were frequency of evaluation, identification of goals to eliminate weaknesses, and the supervisor's knowledge of a subordinate's level of performance and job duties.<sup>11</sup>

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<sup>8</sup>William L. Kandel, "A.D.E.A. Comes of Age, " Employee Relations Law Journal (Vol. 3, No. 2, Autumn 1977, p. 281).

<sup>9</sup>The Opinion Research Center conducted the survey described in the Times of London (p. 14, col. 1, Jan. 14, 1975).

<sup>10</sup>The Gamesman approaches his career as though it were a game whose main goal is to be known as a winner, intellectually superior but with little emotional sensitivity. Fortune (p. 98, col. 1, December 1976).

<sup>11</sup>Frank J. Landy, Janet L. Barnes and Kevin R. Murphy, "Correlates of Perceived Fairness and Accuracy of Performance Evaluation," Journal of Applied Psychology (Vol. 63, No. 6, December 1978, p. 752).

It will be useful here to paraphrase the primary techniques of performance appraisal in more detail:

The "Checklist" approach generally employs a list of qualities or specific tasks to be performed. For example, the form used may indicate such characteristics as aggressive, dedicated, enthusiastic etc., where the qualities which apply are simply checked by the evaluator. Checklists are generally most applicable to clerical and other routine, task defined jobs.

Henderson and Wilson state that performance appraisal is a continuous process, but time-related activities necessary for its execution can, by their individual natures, be done daily or random, monthly or bimonthly, or semiannually or annually. They felt that performance appraisal must be done in a situation and atmosphere that is not threatening to the employee.<sup>12</sup>

Another simple technique is "Ranking." In this traditional system, the appraiser ranks subordinates by their relative performance, either by the individual manager or by a consensus of managers (usually in a hierarchy). For example, if ten people are performing the same job, the manager lists them in rank order of total contribution, one to ten. "Management judgement" is the general criterion, as in most other appraisal methods.

It should be apparent that ranking may be highly subjective. However, it does force relative evaluation of peers, not generally a specified part of other methods.

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<sup>12</sup>Henderson, Richard I. and Wilson, Robert O., "The Who, When and Where of Performance-Appraisal," The Magazine of Bank Administration (Vol. 52, No. 11, November 1976, p. 17).

"Rating Scales" are quite commonly used to compare performance. Performance is generally evaluated against several predetermined factors often described in a range from "outstanding" to "unsatisfactory." These scales are generally numbered; e.g., "1" is outstanding, "2" - exceeds requirements in all key areas, "3" - exceeds requirements in most key areas, "4" - satisfactory performance expected of a trained employee, "5" - unsatisfactory (or sometimes meets minimum requirements), etc. Occasionally, letter grades are substituted, i.e.: A, B, C, D, E, but the numerical rating provides easier data analysis by computer (e.g., distributions of performance ratings by function, etc.).

Rating scales are administratively convenient; however, they are relatively inflexible, with the quality dependent upon the amount of work invested in building the scale. In addition, employees may be given little explanation about the basis for their ratings.

William Sauser felt that the argument "that supervisors, managers and personnel specialists often make unfair decisions about employees . . . based on hearsay and reputation" was unfounded. He states that the employee rating process offers four possible solutions for dealing with the problems of ratings: restructuring the rating context; restructuring the rating scale; training the raters; and allowing rater participation in the development of the employee performance appraisal system.<sup>13</sup>

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<sup>13</sup>Sauser, William I., Jr., "Evaluating Employee Performance: Needs, Problems and Possible Solutions", Public Personnel Management (Vol. 9, No. 1, January/February 1980, p. 13).

Performance appraisal is a method of attempting to measure observable task performance in achievement of results expected by the organization. If a performance appraisal system is to be effective, employees should feel that they know the standards by which their supervisors evaluate their performance and the expected results and that their contribution and performance are measured fairly.

"Behaviorally anchored rating scales" became popular in the last few years. Kearney states, "behavioral job descriptions and behaviorally anchored rating scales aid the managers in improving employee performance."<sup>14</sup> Performance improvement is accomplished through emphasis on specific, measurable goals, by identifying more effective observable behaviors for adoption, and by providing feedback on performance that will maximize the chances for change.

Kearney points out that when performance improvement occurs:

it is not because it just happens by itself, but because someone, most often a manager, makes it happen. The task is not an easy one and some minimum levels of motivation, ability, and role clarity must be established before-hand, since these are the major inputs that managers must grapple with. Because these conditions have many important internal elements, they are themselves complicated. Yet, the manager must have a fundamental understanding of each, as well as an understanding of their relationship to one another. Techniques for performance improvement that draw upon and contribute to these conditions should be selected.<sup>15</sup>

Behaviorally anchored rating scales, with its acronym

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<sup>14</sup>Kearney, William J. "Improving Work Performance Through Appraisal" in Human Resource Management (Vol. 17, No. 2, Summer 1978, p. 18).

<sup>15</sup>Ibid, p. 23.

BARS, attempts to measure on-the-job behaviors - activities - necessary for successful performance. These focus upon observable behavior and the nature of the results created.

Pitts and Thompson felt that difficulties exist with most employee evaluation methods that can hurt the positive work climate that supervisors try to create.<sup>16</sup> Behaviorally anchored rating scales are suggested as a preferable alternative to translate a job into specific behaviors. Benefits they ascribe to its use include: managerial expectations of performance are more clearly defined and much is learned by the supervisor as to his expectations of a certain task in the process of developing the rating scale instrument.

Barden found that behaviorally based performance appraisals had value for a group of internal auditors.<sup>17</sup> This technique was found superior to other appraisal instruments because:

1. it gave concrete example of behaviors dealing with performance;
2. it emphasized development goals;
3. it was tailored to jobs;
4. it was relatively unbiased;
5. it identified measurable behavior;
6. it emphasized employee performance.

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<sup>16</sup>Pitts, Robert E. and Thompson, Ken, "The Supervisor's Survival Guide: Using Job Behavior to Measure Employee Performance," Supervisory Management (Vol. 24, No. 1, January 1979, p. 25).

<sup>17</sup>Barden, Ronald, "Behaviorally Based Performance Appraisals," in Internal Auditor (Vol. 37, No. 1, February 1980, p. 36).