Organizational Behavior and Human Decision Processes xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Organizational Behavior and Human Decision Processes

journal homepage: www.elsevier.com/locate/obhdp

The illusion of transparency in performance appraisals: When and why accuracy motivation explains unintentional feedback inflation

Michael Schaerer[a,*], Mary Kern[b], Gail Berger[c], Victoria Medvec[c], Roderick I. Swaab[d]

[a] Singapore Management University, Singapore
[b] Baruch College, United States
[c] Northwestern University, United States
[d] INSEAD, Singapore

ABSTRACT

The present research shows that managers communicate negative feedback ineffectively because they suffer from transparency illusions that cause them to overestimate how accurately employees perceive their feedback. We propose that these illusions emerge because managers are insufficiently motivated to engage in effortful thinking, which reduces the accuracy with which they communicate negative feedback to employees. Six studies (N = 1883) using actual performance appraisals within an organization and role plays with MBA students, undergraduates, and online participants show that transparency illusions are stronger when feedback is negative (Studies 1–2), that they are not driven by employee bias (Study 3), and occur because managers are insufficiently motivated to be accurate (Studies 4a–c). In addition, these studies demonstrate that transparency illusions are driven by more indirect communication by the manager and how different interventions can be used to mitigate these effects (Studies 4a–c). An internal meta-analysis including 11 studies from the file drawer (N = 1887) revealed a moderate effect size (d = 0.43) free of publication bias.

Leaders in organizations need to manage the performance of their employees effectively so that employees can learn, develop, and meet organizational objectives. A recent survey of randomly selected HR professionals based in the United States indicated that almost all managers (95%) are actively engaged in employee performance management activities, and that nearly a third (30%) reported that employee performance management was the single most important priority within their organization (SHRM, 2014). Performance appraisals are a key mechanism for managing employee performance, a process in which managers discuss the performance of their employees (Aguinis, 2013; Cederblom, 1982; DeNisi & Smith, 2014).

A particularly difficult aspect of performance appraisals is the delivery of negative feedback (Bies, 2013). We define the delivery of feedback as a communication process in which a feedback provider (e.g., manager) conveys information to a recipient (e.g., employee; Ilgen, Fisher, & Taylor, 1979). Negative feedback in performance appraisals constitutes the communication of negative information about an employee's behavior, performance, or productivity. A common criticism of performance feedback is that managers do not communicate such information effectively. For example, a recent performance management survey conducted in 53 countries showed that only 5% of employees believed that their managers were skilled in having a candid dialogue about their performance (Mercer., 2013). These views were shared by HR professionals – only 2% gave the managers in their company an "A" grade for their performance management skills (SHRM, 2014). Finally, several reports have shown that younger generations tend to expect – and thrive on – more frequent and honest feedback (Economist, 2015; Finn & Donovan, 2013; Rainer & Rainer, 2011). Jointly, these observations suggest that it has become increasingly important to understand how negative performance feedback can be delivered more accurately and effectively.

Failing to deliver performance feedback accurately can be extremely costly for employees, managers, as well as the organizations they work for, and inaccurate feedback delivery is unlikely to change employee behavior in ways that are desired by managers (Mercer, 2013; SHRM, 2014). Moreover, inaccurate feedback delivery can lead to misunderstandings that undermine perceptions of fairness, motivation, and a willingness to engage in career development (e.g., Bass & Yammarino, 1991; Brett & Atwater, 2001; Heidemeier & Moser, 2009; Wohlers, Hall, & London, 1993; for a recent review see also DeNisi & Smith, 2014).

Prior research has found that managers often fail to deliver feedback accurately because they "inflate" their feedback by presenting subpar performance more positively than it should be communicated (Fisher,

* Corresponding author.
E-mail address: schaerer@smu.edu.sg (M. Schaerer).

http://dx.doi.org/10.1016/j.obhdp.2017.09.002
Received 28 March 2016; Received in revised form 9 August 2017; Accepted 5 September 2017

Please cite this article as: Schaerer, M., Organizational Behavior and Human Decision Processes (2017), http://dx.doi.org/10.1016/j.obhdp.2017.09.002

1979; Ilgen & Knowlton, 1980; Larson, 1986). To understand why managers engage in feedback inflation, scholars have advanced explanations which argue that managers *intentionally* suppress unfavorable information to protect themselves from retaliation and shield their employees from emotional harm (e.g., Fisher, 1979; Waung & Highhouse, 1997). However, prior research has not considered the possibility that inflation may also be *unintentional,* such that managers fail to deliver feedback accurately because they unconsciously overestimate the clarity and transparency with which they communicate. This is a critical void in the literature and suggests that existing interventions that aim to reduce feedback inflation may not be fully effective unless they also take into account such unintentional bias. Thus, the present research examines *whether, when,* and *why* feedback inflation is driven by an unintentional bias whereby managers overestimate the extent to which they communicate negative feedback accurately.

We propose that feedback inflation can be unintentional because managers suffer from transparency illusions (Gilovich, Savitsky, & Medvec, 1998; Vorauer & Claude, 1998) that cause them to overestimate the extent to which their evaluations and feedback are discernible by their employees. We argue that this occurs because managers anchor on the message in their own heads and fail to adjust for how this message is understood by others. This illusion of transparency causes managers to overestimate the extent to which the employee understands the message they intended to convey. This is a serious issue for managers; in order to drive performance, they need to provide feedback to employees and to be accurate in assessing the employee's understanding of the feedback provided. They need to ensure that the message they thought they conveyed is actually the message received by the employee. Our prediction is that there is a disconnect in this exchange and that managers overestimate the extent to which their feedback is received by employees. Moreover, we predict that these transparency illusions are stronger as the feedback becomes more negative because anchoring effects are stronger under emotionally unpleasant conditions (Bodenhausen, Gabriel, & Lineberger, 2000; Englich & Soder, 2009).

Across six studies, we test whether managers overestimate employees' understanding of the feedback provided, whether the valence of the feedback impacts this bias, and whether this bias can be mitigated by increasing managers' motivation to be accurate (e.g., by making them aware of potential bias, or by incentivizing them for the accuracy of their feedback). We test our prediction through a moderation-by-process approach (Spencer, Zanna, & Fong, 2005) using accuracy motivation interventions at the intrapersonal, interpersonal, and organizational levels. To demonstrate the robustness of our prediction, we use data from real performance appraisals as well as simulated and interactive feedback contexts with samples of experienced managers, undergraduate students, MBA students, and online participants, and rule out alternative explanations. We also conduct an internal meta-analysis of our file drawer to obtain a conservative estimate of the effect size of the illusion of transparency.

Our studies offer important theoretical and empirical contributions. First, we show that managers unintentionally overestimate the extent to which they communicate negative feedback accurately to their employees. This finding extends the feedback literature which assumes that managers have full control over what they communicate and that feedback inflation is thus intentional. Second, we demonstrate that managers are not only biased at the evaluation and rating stage of the performance appraisal process (e.g., DeNisi & Smith, 2014; Feldman, 1981; Landy & Farr, 1980), but also at estimating the clarity with which they communicate their feedback. Third, we provide a parsimonious explanation for this effect, showing that transparency illusions emerge because managers anchor on their own thoughts and insufficiently adjust from their own perspective. This insufficient adjustment prevents managers from accurately assessing the message understood by employees and, therefore, from clearly communicating feedback to employees. Finally, we demonstrate that accuracy motivation can be triggered directly by personal reflection, specific employee requests, and financial incentives. In doing so, our studies extend prior research on accuracy motivation that has primarily relied on generic, experimenter-induced manipulations disconnected from the task at hand and with little ecological validity (e.g., Lerner & Tetlock, 1999; Simmons, LeBoeuf, & Nelson, 2010; Thompson, Roman, Moskowitz, Chaiken, & Bargh, 1994).

1. The illusion of transparency in performance feedback

The point of departure for our research is the context of performance appraisals, which is defined as "the process by which we evaluate the individual performance of an employee over some period of time" (DeNisi & Smith, 2014, p.131) and may or may not involve the assignment and communication of a score or rating (Aguinis, 2013; Cederblom, 1982). An important feature of performance appraisals is the delivery of feedback. Performance feedback aims to develop, direct, and reinforce effective behavior in organizations (e.g., Ilgen et al., 1979; Kluger & DeNisi, 1996). Employees who have an accurate understanding of how managers perceive their performance or their likelihood of achieving desired outcomes are more likely to respond appropriately (Ashford & Cummings, 1983).

However, managers often fail to deliver negative feedback accurately because they find these discussions uncomfortable and fear that they adversely affect the well-being of an employee (Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001; Bies, 2013). Indeed, the prospect of these potential negative consequences makes the delivery of negative feedback an extremely distressing act for managers (Bies, 2013; Harris & Sutton, 1986). To fulfill their responsibilities and simultaneously cope with the taxing act of giving negative feedback, managers often inflate their feedback by presenting subpar performance more positively than they should (Fisher, 1979; Ilgen & Knowlton, 1980; Larson, 1986). Such feedback inflation is pervasive and rooted in the fact that people find it more difficult to communicate negative rather than positive information to others (Rosen & Tesser, 1970; Tesser & Rosen, 1975).

The predominant assumption of past research has been that the inflation of negative feedback is *intentional,* such that it requires an individual's conscious awareness and deliberate desire (Malle & Knobe, 1997). As a consequence, many feedback interventions have focused on reducing feedback inflation by alleviating managers' discomforts by having them communicate negative feedback more indirectly. For example, Waung and Highhouse (1997) instructed managers to provide feedback to poorly performing confederates using either a direct (face-to-face) or indirect (tape-recorded) feedback medium, and found that the indirect feedback channel resulted in less inflation of feedback than the direct feedback medium (Waung & Highhouse, 1997). Likewise, Sussman and Sproull (1999) instructed people to provide feedback using computer-mediated communication, telephone, or face-to-face conversation, and found that feedback providers were more accurate, honest, and comfortable when they used more indirect computer-mediated communication to deliver the negative feedback than when they used face-to-face or telephone communication.

We extend this research by proposing that feedback inflation also has an *unintentional* component. Specifically, we suggest that even if managers intentionally communicate feedback more positively than they should, they still suffer from an unintentional bias that leads them to overestimate how accurately their feedback is communicated to employees. The idea that managers unintentionally overestimate how accurately their feedback is understood by employees is based on the illusion of transparency literature, which suggests that people anchor on their own internal thoughts and insufficiently adjust from them. As a result, people systematically overestimate the extent to which their thoughts and intentions leak out and are discernible by others (Gilovich & Savitsky, 1999; Gilovich et al., 1998). For example,