WHEN ACCURACY IS NOT ENOUGH:  
THE MODERATING EFFECT OF 
PERCEIVED APPRAISAL USE

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ABSTRACT: It is hypothesized that perceived appraisal use in making pay related decisions will moderate the relationship between instrumentality beliefs and appraisal accuracy related variables. Perceived appraisal use was found to moderate the relationship between instrumentality beliefs and perceived appraisal accuracy, supervisor appraisal behavior, and supervisor knowledge of performance.

Merit pay programs attempt to improve performance by making pay increases contingent upon performance. These programs typically consist of a formal performance appraisal system that yields a performance appraisal rating and some mechanism for allocating pay increases based on performance. Pay increases are generally allocated as a percentage of pay level based on performance appraisal rating and sometimes position in pay range. Consequently, the ability to accurately measure performance is a key requirement for successful merit pay programs (e.g., Lawler, 1981; Winstanley, 1975).

While organizations attempt to develop and implement appraisal systems that accurately evaluate performance, there is no guarantee employees will perceive appraisal ratings to be accurate. As noted by Dreher (1981) in a discussion of pay system administration, there may be little or no relationship between actual treatment and employee perceptions of treatment. Employee perceptions influence employee behav-
ior and as a result, perceptions concerning appraisal accuracy are critical to successful merit pay programs.

The conceptual merit pay literature suggests individuals who believe appraisals are inaccurate are less likely to believe pay is tied to performance (Lawler, 1981; Winstanley, 1975). The belief that pay is tied to performance, commonly known as instrumentality beliefs, has its origin in expectancy theory and is frequently cited as an essential requirement for successful merit pay programs (e.g., Lawler, 1971; Vroom, 1964). In other words, individuals must believe pay is tied to performance if merit pay is to elicit improved job performance.

Limited and mixed empirical support is present for a relationship between perceived appraisal accuracy and instrumentality beliefs. Vest, Hills, and Scott (1989) found a significant positive relationship between perceived appraisal accuracy and instrumentality beliefs. However, Micieli, Jung, Near, and Greenberger (1991) found no significant relationship between effort-reward consonance (instrumentality beliefs) and rating inadequacy. One possible explanation for the inconsistent findings with respect to the relationship between perceived appraisal accuracy and instrumentality beliefs is that in some circumstances, employees may not believe appraisal ratings are used to make pay related decisions.

It is suggested here that while employees must perceive their appraisal rating to be accurate, they must also believe appraisal ratings are used in making pay related decisions if perceived appraisal accuracy is to have a significant influence on instrumentality beliefs. The relationship of perceived appraisal accuracy to instrumentality beliefs should be stronger among individuals who believe appraisal ratings are used in making pay related decisions than among individuals who believe appraisal ratings are not used in making such decisions. If individuals do not believe appraisal ratings are used, they will not attribute their merit pay increase to the appraisal system. As a consequence, they will be less likely to associate appraisal accuracy with instrumentality beliefs.

Stone (1978, p. 26) defines a moderator variable as, "...any variable which when systematically varied causes the relationship between two other variables to change." As defined by Stone (1978) and suggested above, perceived appraisal use (either high or low) should moderate the relationship between perceived appraisal accuracy and instrumentality beliefs. A similar argument can be made with respect to the role of perceived appraisal use in moderating the relationship between instrumentality beliefs and other appraisal accuracy related variables.

A review of the performance appraisal literature suggests numerous variables that may influence employee perceptions that appraisals are accurate. Two of these variables are supervisor appraisal behavior and