

## **Performance Management**

**Employees see performance evaluations as having a direct effect on their work lives**

**Questions regarding the performance management process:**

- **Why evaluate?**
- **Who benefits from the evaluation?**
- **What format should be used?**
- **What problems might arise?**

## **Performance Management Systems**

**Performance management systems involve numerous activities.**

### **Purposes of a Performance Management System**

**Performance management systems have three main purposes:**

**1.Two-way feedback** - Often the goals and performance measures are mutually set between the employee and the supervisor. Without the two-way feedback provided by the performance appraisal regarding an employee's effort and its effect on performance, we run the risk of decreasing his or her motivation.

**2.Development** - Employee development is an important part of the process as well. By development, we are referring to those areas in which an employee has a deficiency or weakness, or an area that simply could be improved through an effort to enhance performance.

**3.Documentation** - The performance appraisal process also provides documentation of an employee's performance. This becomes important to prove that discipline or dismissal were the result of documented performance issues that were communicated to the affected employee, and to meet legal requirements.

### **Difficulties in Performance Management Systems**

Performance management systems are not perfect. The two primary categories of difficulties: (1) focus on the individual and (2) focus on the process.

**Focus on the Individual:** discussions of performance may elicit strong emotions and may generate conflicts when subordinates and supervisors do not agree

**Focus on the Process:** company policies and procedures may present barriers to a properly functioning appraisal process

**Appraisers may be poorly trained.**

## Performance Management and EEO

Performance management systems are an integral part of most organizations. Properly developed and implemented, performance management processes can help an organization achieve its goals by developing productive employees without discrimination or bias.

EEO laws require organizations to have bias-free HRM practices. HRM performance management systems must be objective and job related.

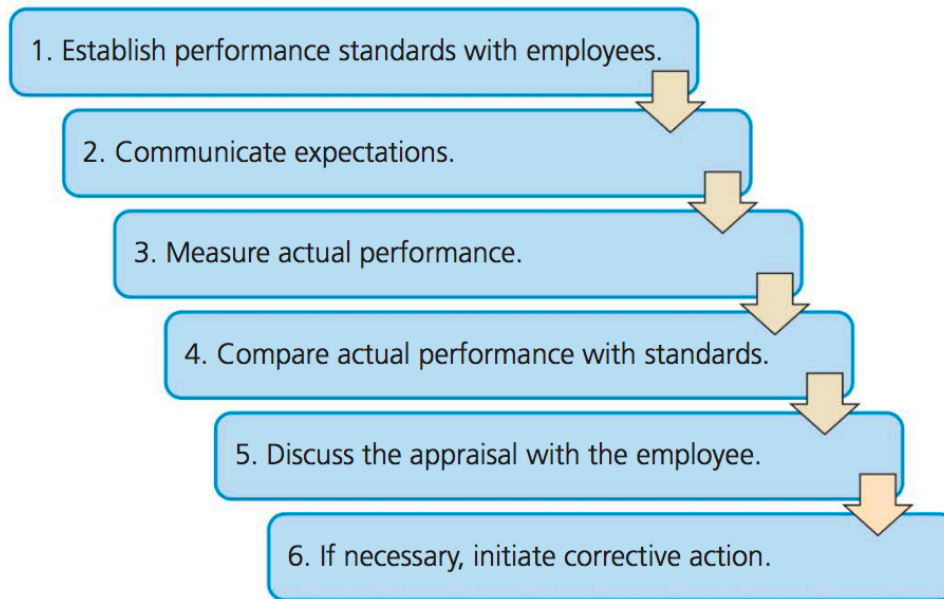
Under the Americans with Disabilities Act (ADA), performance management systems must also be able to measure “reasonable” performance success.

Two factors assist in these matters: (1) the performance appraisal must be conducted according to some established intervals, and (2) appraisers must be trained in the process.

valid performance appraisals are conducted at established intervals

evaluations done by trained appraisers

# The Appraisal Process



**Establish Performance Standards** The appraisal process begins with the establishment of performance standards in accordance with the organization's strategic goals. These should evolve out of the company's strategic direction—and, more specifically, the job analysis and the job description. These performance standards should also be clear and objective enough to be understood and measured.

**Communicate Expectations** It is necessary to communicate these expectations; employees should not have to guess what is expected of them. Goals must be articulated from supervisor to employee and from employee to supervisor.

**Measure Actual Performance** To determine what actual performance is, we need information about it. We should be concerned with how we measure and what we measure.

Four common sources of information frequently used by managers address how to measure actual performance: personal observation, statistical reports, oral reports, and written reports.

## Compare Actual Performance with Standards

This step notes deviations between standard performance and actual performance.

Explanation of different levels of performance and their degree of acceptability against the performance standard.

## Discuss the Appraisal with the Employee

Appraising performance may touch on one of the most emotionally charged activities — evaluation of another individual's contribution and ability. Feedback employees receive has strong impact on self-esteem and subsequent performance.

**Initiate Corrective Action if Necessary** Corrective action can be of two types: one is immediate and deals predominantly with symptoms, and the other is basic and delves into causes.

Five common *mistakes* managers can make in giving a performance review:

- 1 waiting for the performance appraisal to give feedback
- 2 overemphasizing recent performances
- 3 being too positive or negative
- 4 being critical without being constructive
- 5 talking not listening

## Appraisal Methods

Three approaches exist for doing appraisals: employees can be appraised against (1) absolute standards, (2) relative standards, or (3) outcomes. No one approach is always best; each has its strengths and weaknesses.

**Evaluating Absolute Standards** This means that employees are compared to a standard, and their evaluation is independent of any other employee in a work group. Included in this group are the following methods: the critical incident appraisal, the checklist, the graphic rating scale, forced choice, and behaviorally anchored rating scales.

**Critical Incident Appraisal:** based on key behavior anecdotes illustrating effective or ineffective job performance.

**Checklist Appraisal:** appraiser checks off behaviors that apply to the employee.

**Graphic Rating Scale Appraisal:** appraiser rates employee on a number of job-related factors; avoids abstract categories.

**Forced-Choice Appraisal:** appraisers ponder sets of statements that appear to be equally favorable, then choose the statement that best describes the employee.

**Behaviorally Anchored Rating Scales (BARS):** appraiser rates employee on factors that are defined by behavioral descriptions illustrating various dimensions along each rating scale.

**Relative Standards Methods** The most popular of the relative methods are group order ranking, individual ranking, and paired comparison.

**Group Order Ranking:** employees are placed in a classification reflecting their relative performance, such as “top one-fifth”

**Individual Ranking:** employees are ranked from highest to lowest

**Paired Comparison:** each individual is compared to every other final ranking is based on number of times the individual is preferred member in a pair

## Using Achieved Outcomes to Evaluate Employees

Employees are evaluated on how well they accomplished a specific set of objectives determined as critical in the successful completion of their job. This approach may be referred to as goal setting but is more commonly referred to as **management by objectives (MBO)**.

**Management by Objectives (MBO):** includes mutual objective-setting and evaluation based on the attainment of the specific objectives.

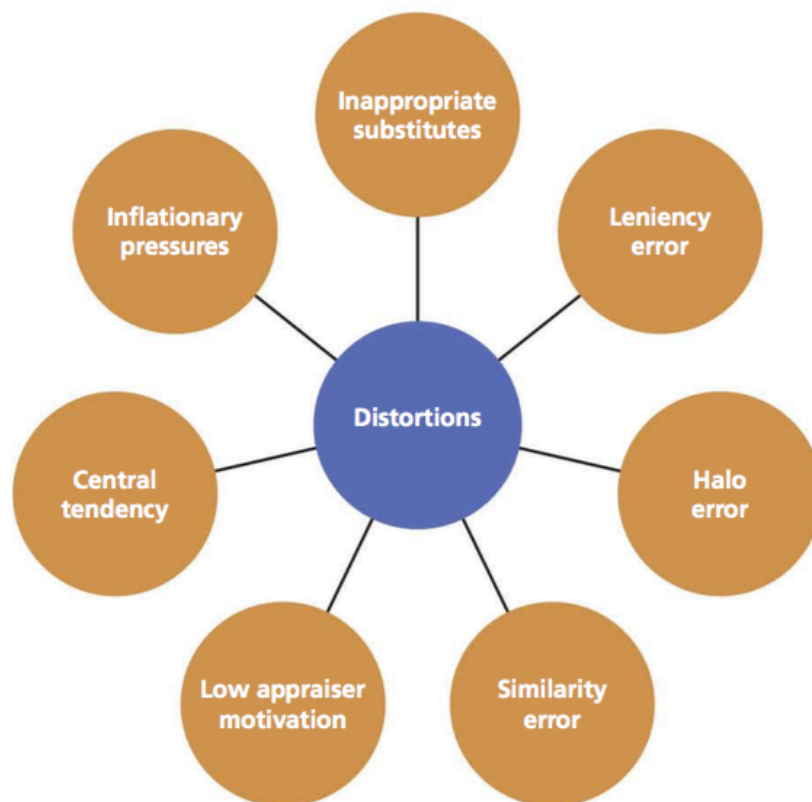
firms' overall objectives translate into specific objectives at the divisional/departmental/ individual levels

### **Common Elements in MBO Programs:**

1. goal specific
2. participative decision making
3. a specific time period
4. performance feedback

Effectively increases employee performance and organizational productivity, especially when goals are difficult enough to require stretching.

## **Factors That Can Distort Appraisals**



**leniency error:** each evaluator has his/her own value system; Some evaluate high (positive leniency) and others, low (negative leniency).

**halo error:** evaluator lets an assessment of an individual on one trait influence evaluation on all traits.

**similarity error:** evaluator rates others in the same way that the evaluator perceives him or herself.

**low appraiser motivation:** evaluators may be reluctant to be accurate if important rewards for the employee depend on the results.

**central tendency:** the reluctance to use the extremes of a rating scale and to adequately distinguish among employees being rated.

**inflationary pressures:** pressures for equality and fear of retribution for low ratings leads to less differentiation among rated employees.

**inappropriate substitutes for performance:** effort, enthusiasm, appearance, etc., are less relevant for some jobs than others.

**attribution theory:** evaluations are affected based on whether someone's performance is due to:

- internal factors they can control
- external factors they cannot control

*if poor performance is attributed to internal control, the judgment is harsher than when it is attributed to external control*

## Creating More Effective Performance Management Systems

- **use behavior-based measures:** which are more job-related and elicit more inter-rater agreement than traits such as “loyalty” or “friendliness”
- **combine absolute and relative standards:** absolute standards tend to be positively lenient; relative standards suffer when there is little variability
- **provide ongoing feedback:** expectations and disappointments should be shared with employees on a frequent basis

- **use multiple raters:** the more used, the more reliable and valid the results (peer evaluations, upward and 360-degree appraisals)
- **rate selectively:** appraisers should evaluate only in areas about which they have sufficient knowledge, they should be organizationally close to the individual being evaluated, and should be an effective rater
- **train appraisers:** because poor appraisals can demoralize employees and increase legal liabilities.

## The Performance Appraisal Meeting

For an effective performance appraisal meeting:

1. prepare/schedule meeting in advance
2. create supportive aura about meeting
3. describe appraisal's purpose
4. involve employee in appraisal discussion
5. focus on behaviors, not employee
6. cite specific examples
7. give positive and negative feedback
8. ensure employee understood appraisal
9. generate a development plan

### Challenges in evaluating overseas employees:

- different cultural perspectives and expectations between the parent and local country may make evaluation difficult



- evaluation forms may not be translated accurately
- quantitative measures may be misleading

## Summary

- 1. Identify the three purposes of performance management systems and who they serve.** The three purposes of performance management systems are feedback, development, and documentation. They are designed to support employees, appraisers, and organizations.
- 2. Explain the six steps in the appraisal process.** The six-step appraisal process is to (1) establish performance standards with employees, (2) set measurable goals (manager and employee), (3) measure actual performance, (4) compare actual performance with standards, (5) discuss the appraisal with the employee, and (6) if necessary, initiate corrective action.
- 3. Discuss absolute standards in performance management systems.** Absolute standards refer to a method in performance management systems whereby employees are measured against company-set performance requirements. Absolute standard evaluation methods involve the essay appraisal, the critical incident approach, the checklist rating, the graphic rating scale, the forced-choice inventory, and the behaviorally anchored rating scale (BARS).
- 4. Describe relative standards in performance management systems.** Relative standards refer to a method in performance management systems whereby an employee's performance is compared with that of other employees. Relative standard evaluation methods include group-order ranking, individual ranking, and paired comparisons.
- 5. Discuss how MBO can be an appraisal method.** MBO becomes an appraisal method by establishing a specific set of objectives for an employee to achieve and reviewing performance based on how well those objectives have been met.
- 6. Explain why performance appraisals might be distorted.** Performance appraisal might be distorted for several reasons, including leniency error, halo error, similarity error, central tendency, low appraiser motivation, inflationary pressures, and inappropriate substitutes for performance.
- 7. Identify ways to make performance management systems more effective.** More effective appraisals can be achieved with behavior-based measures, combined absolute and relative ratings, ongoing feedback, multiple raters, selective rating, trained appraisers, peer assessment, and rewards to accurate appraisers.
- 8. Describe the term 360-degree appraisal.** In 360-degree performance appraisals,

evaluations are made by the employee, supervisors, co-workers, team members, customers, suppliers, and the like. In doing so, a complete picture of an employee's performance can be assessed.

**9. Explain the criteria for a successful performance appraisal meeting.**

Performance appraisal meetings require manager preparation, a supportive environment, clear purpose, employee involvement, focus on work behaviors, specific work examples, positive and negative feedback, employee understanding, and an employee development plan.

**10. Discuss how performance appraisals may differ in a global environment.**

Performance management systems used away from the home country may differ in who performs the evaluation and the format used. Cultural differences may dictate that changes in the U.S. performance management system are needed.