

# Chapter 10

## Performance Management



### Introduction

- 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?



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### Performance Management Systems

Performance management systems have three main purposes:

1. **two-way feedback** – **performance measures** mutually set between **employee and employer**
2. **development** – identify areas in which employees have deficiencies or weaknesses
3. **documentation** – to meet legal requirements



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### Performance Management Systems

Performance management systems aren't perfect.

- **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



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### Performance Management and EEO

- EEO laws require performance management systems to be **objective and job-related**
- Performance management systems must measure "reasonable" success.
- valid performance appraisals are conducted at established intervals
- evaluations done by trained appraisers



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### The Appraisal Process



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## The Appraisal Process

### 1. establish performance standards

- derived from company's strategic goals
- based on job analysis and job description

### 2. communicate expectations

- goals must be articulated from supervisor to employee and from employee to supervisor

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## The Appraisal Process

### 3. measure actual performance

- measurement of performance using information from:
  - personal observation
  - oral reports
  - written reports
  - statistical reports

### 4. compare performance with standards

- explanation of different levels of performance and their degree of acceptability against the performance standard

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## The Appraisal Process

### 5. discuss appraisal with employee

- feedback employees receive has strong impact on self-esteem and subsequent performance

### 6. initiate corrective action

- immediate action deals with symptoms
- basic corrective action deals with causes

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## The Appraisal Process

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

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## Appraisal Methods

### The Three Appraisal Approaches

absolute standards

relative standards

achieved outcomes

*no single approach is best; each has its strengths and weaknesses*

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## Appraisal Methods

absolute standards

- employee's performance is measured against **established standards**
- evaluation is independent of any other employee

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## Appraisal Methods

### absolute standards

- **critical incident appraisal:** based on key behavior anecdote 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

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## Appraisal Methods

### absolute standards

- **forced-choice appraisal:** appraisers consider 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

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## Appraisal Methods

### relative standards

- **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

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## Appraisal Methods

### achieved outcomes

#### 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

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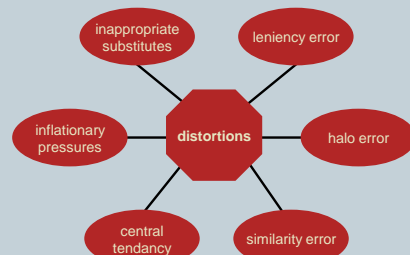
## Appraisal Methods

### achieved outcomes

- common elements in an MBO program are:
  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

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## Factors That Can Distort Appraisals



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## 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

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## Factors That Can Distort Appraisals



- **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

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## Factors That Can Distort Appraisals



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

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## Factors That Can Distort Appraisals



**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*

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## Factors That Can Distort Appraisals



To create better 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

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## Factors That Can Distort Appraisals



To create better performance management systems:

- **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 the individual being evaluated, and should be an effective rater
- **train appraisers** because poor appraisals can demoralize employees and increase legal liabilities

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## The Performance Appraisal Meeting



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## Creating More Effective Performance Management Systems

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

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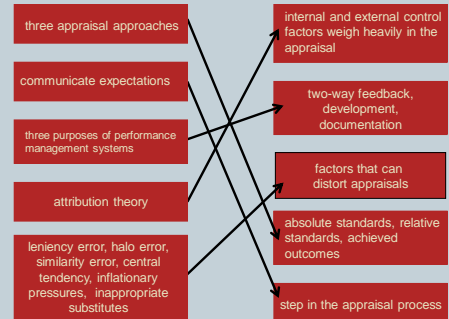
## International Performance Appraisal

### 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

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## Matching



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