PART THREE Assessment and Development of HRM

CHAPTER 8

Performance Management

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO 8-1 Identify the major determinants of effective performance management. page 348
LO 8-2 Discuss the three general purposes of performance management. page 350
LO 8-3 Identify the five criteria for effective performance management systems. page 352
LO 8-4 Discuss the four approaches to performance management, the specific techniques used in each approach, and the way these approaches compare with the criteria for effective performance management systems. page 357
LO 8-5 Choose the most effective approach to performance measurement for a given situation. page 376
LO 8-6 Discuss the advantages and disadvantages of the different sources of performance information. page 377
LO 8-7 Choose the most effective source(s) for performance information for any situation. page 377
LO 8-8 Distinguish types of rating errors, and explain how to minimize each in a performance evaluation. page 386
LO 8-9 Conduct an effective performance feedback session. page 388
LO 8-10 Identify the cause of a performance problem. page 391
ENTER THE WORLD OF BUSINESS

Performance Management Is About Work and How Work Gets Done

Most companies have a unique set of core values that they believe contribute to business success through distinguishing them from competitors and helping create a brand image in the eyes of customers, clients, employees, and the general public. For example, Heineken NV, one of the world’s brewing giants, with 85,000 employees and more than 250 brands operating in more than 140 breweries in 70-plus countries, has a distinguished set of core values. These values include ‘Enjoyment’ (bringing enjoyment to life), ‘Respect’ (respect for individuals, society and the planet) and ‘Passion’ (passion for quality). They represent what Heineken intends to stand for as a corporate citizen, a business partner and an employer.

Studies have shown that companies’ fixation on hitting financial targets often works against producing sustainable growth. One study found that the highest financial returns were achieved at companies whose CEOs had challenging financial goals and communicated a vision of the company beyond making profits, such as creating an innovative product, providing greater customer service, or improving the quality of life. Despite the importance of values it is challenging to define them in behavioural terms so they can be measured and included as part of a performance management system. Also, the results of a Society for Human Resource Management survey on performance management highlights the complexity of values for performance management. Survey results showed that over 85% of HR professionals agree it is more difficult to manage employee behaviours underlying values than it is to manage job performance. But it can be done.

Many companies are taking on the challenge of redesigning their performance management systems to ensure that they are evaluating not only what employees get accomplished but also how they get it accomplished. Van Lanschot Bankiers, the largest independent Dutch private bank, for example, stimulates both superiors and employees to provide feedback, based on the bank’s core values (‘we are Ambitious, Committed, Independent and Professional’). This feedback is then used by the employee as a basis for a discussion with colleagues and a manager for the performance review. Subsequently, a personal development plan is drawn up and personal targets are formulated.

Heineken improved its Performance Management process further in 2012 by more explicitly integrating performance with its core values and related behaviours. Before, a significant part of the appraisal was influenced solely by the company results (‘what’ was accomplished), limiting individual accountability. How these results were accomplished was not explicitly and consistently incorporated, but in fact decoupled from the ‘what’ objectives. Furthermore, a 3-point rating scale didn’t allow sufficient performance differentiation. In 2012 a new performance management structure was implemented for all senior managers. With this structure, Heineken has created a clear distinction between the short-term variable pay agreement for bonus calculation and an Annual Performance Agreement (APA) which rewards an employee based on how they achieve their objectives.

In the APA, an employee’s individual objectives (‘what’) are defined by using five categories...
(strategy, leadership, technical mastery, people & culture, and sustainability). Furthermore, a newly developed Leadership Competency model is introduced, consisting of six behaviours (drives to win, focuses externally, thinks globally, fosters collaboration, engages & inspires others, and develops people and teams) on which managers are rated using a five-point scale. This system provides behavioural anchors ('how' things are done) to support performance evaluation in the five objective categories ('what' was accomplished). This way, Heineken is able to include its core values and related behaviours into its performance management system and so encourage sustainable performance and growth of both its employees and organization. This system will be extended to lower levels within the organization in 2013–2015.


### Introduction

Companies that seek competitive advantage through employees must be able to manage the behavior and results of all employees. Traditionally, the formal performance appraisal system was viewed as the primary means for managing employee performance. Performance appraisal was an administrative duty performed by managers and was primarily the responsibility of the human resource function. Managers now view performance appraisal as an annual ritual—they quickly complete the form and use it to catalog all the negative information they have collected on an employee over the previous year. Because they may dislike confrontation and feel that they don’t know how to give effective evaluations, some managers spend as little time as possible giving employees feedback. Not surprisingly, most managers and employees dislike performance appraisals. “Time-consuming,” “frustrating,” “dread,” “burden,” and “pain” are some of the words that come to employees’ minds when giving or receiving performance reviews.¹ Some of the reasons include the lack of consistency of use of performance appraisals across the company; inability to differentiate among different performance levels; and the inability of the appraisal system to provide useful data for development, to help employees build their skills and competencies, or to build a high-performance culture.²

Some have argued that all performance appraisal systems are flawed to the point that they are manipulative, abusive, autocratic, and counterproductive. It is important to realize that the criticisms voiced about annual performance appraisals shown in Table 8.1 are not the result of evaluating employee performance. Rather, they result from how the performance management system is developed and used. If done correctly, performance appraisal can provide several valuable benefits to both employees and the company. An important part of appraising performance is to establish employee goals, which should be tied to the company’s strategic goals. As the chapter opener illustrates, both what gets accomplished and how it gets accomplished should be evaluated. The performance appraisal process tells top performers that they are valued by the company. It requires managers to at least annually communicate to employees their performance strengths and deficiencies. A good appraisal process ensures that all employees doing similar jobs are evaluated according to the same standards. The use of technology, such as the web, can reduce the administrative burden of performance appraisal and improve the accuracy of performance reviews. Also,
“Feedback needs to happen more than once or twice a year. We thought that the traditional annual review was a crutch for managers to do just that and no more.”
—Rebecca Henry, director of human resources at Zappos

The annual performance review is “… physical and mental turmoil. I don’t think that people realize when you’re about to go into one of these review sessions, the heart rate goes up, the palms get sweaty, it’s a physical reaction.”—Jacob Palmer, a recruiter for Zappos

“No one could convince me that there was any value to it. You’ve got to be able to explain the process to a 10-year-old. You want to talk to me once a year about what I did for the whole year? What if I told my kids that I was going to give them a once-a-year discussion on their behavior? Sometimes we do stupid things.”
—Dan Walker, former chief talent officer at Apple Inc.

“. . . mainstream management is embedded in, and relies on, a culture of domination . . . the performance review is the biggest hammer management has.”
—Samuel A. Culbert, author of Get Rid of the Performance Review

“Even surprise good reviews are bad because if employees don’t know they’re doing well, you are not reinforcing that behavior, or you run the risk of losing a real good employee.”—Cindy Gerathy, HR manager at Belimo Aircontrols Inc.


Table 8.1
Examples of Problems with Traditional Annual Performance Reviews

<table>
<thead>
<tr>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>A properly conducted appraisal can help the company identify the strongest and weakest employees. It can help legally justify many HRM decisions such as promotions, salary increases, discipline, and layoffs.</td>
</tr>
<tr>
<td>We believe that performance appraisal is only one part of the broader process of performance management. We define performance management as the process through which managers ensure that employees’ activities and outputs are congruent with the organization’s goals. Performance management is central to gaining competitive advantage.</td>
</tr>
<tr>
<td>Our performance management system has three parts: defining performance, measuring performance, and feeding back performance information. First, a performance management system specifies which aspects of performance are relevant to the organization, primarily through job analysis (discussed in Chapter 4). Second, it measures those aspects of performance through performance appraisal, which is only one method for managing employee performance. Third, it provides feedback to employees through performance feedback sessions so they can adjust their performance to the organization’s goals. Performance feedback is also fulfilled through tying rewards to performance via the compensation system (such as through merit increases or bonuses), a topic to be covered in Chapters 11 and 12.</td>
</tr>
<tr>
<td>In this chapter, we examine a variety of approaches to performance management. First we provide a brief summary of current performance management practices. Next, we present a model of performance that helps us examine the system’s purposes. Then we discuss specific approaches to performance management and the strengths and weaknesses of each. We also look at various sources of performance information. The errors resulting from subjective assessments of performance are presented, as well as the means for reducing those errors. Then we discuss some effective components to performance feedback. Finally, we address components of a legally defensible performance management system.</td>
</tr>
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</table>

Performance Management
The means through which managers ensure that employees’ activities and outputs are congruent with the organization’s goals.

Performance Appraisal
The process through which an organization gets information on how well an employee is doing his or her job.

Performance Feedback
The process of providing employees information regarding their performance effectiveness.
CHAPTER 8  Performance Management

The Practice of Performance Management

Several recent surveys of human resource professionals suggest that most companies’ performance management practices require annual paper-driven reviews that include both behaviors and business goals. While many companies use performance management to manage employee performance and make pay decisions, less than 25% of the companies use performance management to help manage talent through identifying training needs and developing leadership talent. Sixty-six percent of companies used the same performance management system across all levels of the organization. Unfortunately, more than 60% of employees say reviews don’t help their future performance. Eight in ten companies conduct performance appraisals and of those 72% report being only somewhat satisfied, not very satisfied, or extremely dissatisfied with the appraisal process. Forty-five percent of employees feel that their manager consistently communicates to them about their performance throughout the year and in between formally scheduled performance reviews. Only 28% of companies have automated their performance management system.

The Process of Performance Management

As you may have already figured out from the chapter introduction and your own experiences, many employees and managers dislike the annual performance review. Although performance management does include the once or twice a year formal appraisal or evaluation meeting, effective performance management is a process, not an event. Figure 8.1 shows the performance management process. As shown in the process model, providing feedback and the formal performance evaluation are important but they are not the only important parts of an effective performance management process that contributes to the company’s competitive advantage. Also, visible CEO and senior management support for the system are necessary. This ensures that the system is consistently used across the company, appraisals are completed on time, and giving and receiving performance feedback is an accepted part of the company culture.

The first two steps of the performance management process involve identifying what the company is trying to accomplish (goals or objectives), a set of key performance dimensions that represent critical factors or drivers that influence the goals or objectives, and then develop performance measures for the key performance dimensions. The first step in the performance management process starts with understanding and identifying important performance outcomes or results. Typically, these outcomes or results benefit customers, the employees’ peers or team, and the organization itself. The company’s and department or team’s strategy, mission, and values play an important part in determining these outcomes. Chapter 2 pointed out that most companies pursue some type of strategy to reach revenue, profit, and market share goals. Divisions, departments, teams, and employees must align their goals and behaviors, and choose to engage in activities that help achieve the organization’s strategy and goals. The second step of the process involves understanding the process (or how) to achieve the goals established in the first step. This includes identifying measurable goals, behaviors, and activities that will help the employee achieve the performance results. The goals, behaviors, and activities should be measurable so that the manager and employee can determine if they have been achieved. The
goals, activities, and behaviors should be part of the employee’s job description. Step three in the process, organizational support, involves providing employees with training, necessary resources and tools, and frequent feedback communication between the employee and manager focusing on accomplishments as well as issues and challenges influencing performance. For effective performance management managers and employees have to value feedback and regularly exchange it. Managers need to make time to provide feedback as well as train in how to give and receive it. Step four involves performance evaluation, that is, when the manager and employee discuss and compare the targeted performance goal and supporting behaviors with the actual results. This typically involves the annual or biannual formal performance review. As we will see later in the chapter there are many ways to help make this formal review more of a performance conversation designed to identify and discuss opportunities to improve and less of a one-way evaluation by the manager. One way to make the formal evaluation more effective is for managers to engage in frequent performance conversations with employees rather than wait for the formal annual review (step 3). The final steps of the performance management cycle involve the employee and manager identifying what the employee (with help from the
manager) can do to capitalize on performance strengths and address weaknesses (step 5) and providing consequences for achieving (or failing to achieve) performance outcomes (step 6). This includes identifying training needs, adjusting the type or frequency of feedback the managers provide to the employee, clarifying, adjusting, or modifying performance outcomes, and discussions of behaviors or activities that need improvement or relate to new priorities based on changes or new areas of emphasis in organizational or department goals. Achieving performance results may relate to compensation (salary increases, cash bonuses), recognition, promotion, development opportunities, and continued employment. This depends on the purposes the company decides on for the performance management system (see our discussion in the section “Purposes of Performance Management”). Finally, it is important to realize that what employees accomplish (or fail to accomplish) and their consequences help shape changes in the organizational business strategy and performance goals and the ongoing performance management process. Evaluating the effectiveness of the performance management system is necessary to determine needed changes. This could include gathering comments about the managers’ and employees’ concerns about the system, analyzing rating data to determine if they are being affected by rating errors, reviewing objectives for their quality, and studying the relationship between employees meeting objectives and department and organizational results.

For example, Hilton Worldwide decided to develop a new performance management system from scratch to create a consistent process for helping its employees improve. The new system is business-focused and easy to administer and use. The goal of the system is encouraging performance conversations between managers and employees outside of formal review meetings. The system focuses on what gets done and how it gets done by assessing behaviors and competencies. Managers set objectives at the beginning of the year and check in with employees at the middle of the year to discuss how they are performing. Managers enter comments on employees’ performance directly into the online performance management system. Managers and employees can enter more comments about performance between the mid-year and end-of-year review. This encourages continuous feedback between managers and employees outside of the formal midyear and end of year review meetings. A recent survey showed that employee satisfaction with the new performance management process increased by 37% compared to the prior system. The “Integrity in Action” box shows how company leaders’ behavior can help create a culture that encourages performance feedback and recognition.

**Purposes of Performance Management**

The purposes of performance management systems are of three kinds: strategic, administrative, and developmental.

**STRATEGIC PURPOSE**

First and foremost, a performance management system should link employee activities with the organization’s goals. One of the primary ways strategies are
This chapter emphasizes the role that managers play in reinforcing good employee performance, listening to their concerns and coaching them in order to maintain and improve this performance. It is often difficult to get managers to give employees recognition or listen to them because some don’t recognize the value of doing so or are unwilling to devote the necessary time and energy needed. Often, managers can be encouraged to give employees feedback and listen to their concerns if they see that company leaders model these behaviors.

Ina Kerkdijk, general manager of seven nursing homes, with 550 employees, does not just take the time to visit her employees, but also puts on her uniform every month. “I decided to make sure I would be easily accessible for the people working in this organisation. I want to be able to be in a position to understand the nature of their work and make sure people know me.” Participating in their daily work enables her to really get in touch, answer their questions, seek their feedback and collect employees’ suggestions on how to improve the organization: “It enables me to make better decisions.”

Capital One, a global financial services and insurance company, is ranked number one on the 2013 list of best workplaces in the UK. It has a number of formal employee programs aimed at creating a culture of recognition and gratitude. As part of one of these programs, Capital One encourages teamwork using lapel pins. Based on help and teamwork, employees can nominate each other. They are awarded a lapel pin and a fake dollar for each award. When they receive 10 nominations in one month, they get 10 dollars and a pin. Winning at least one in every category possible every quarter makes them an “all-star winner”. Furthermore, Capital One’s managing director personally thanks employees when they have gone the extra mile and they are rewarded in a departmental celebration. Initiatives like this make sure employees get the praise they deserve and need.

**DISCUSSION QUESTION**

What other things can company leaders do to create a culture that encourages feedback and recognition and reinforces the importance of performance management?


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**INTEGRITY IN ACTION**

**Listening and Recognizing a Good Job: Key Performance Management Practices Modelled by Company Leaders**

Performance management is critical for companies to execute their talent management strategy, that is, to identify employees’ strengths and weaknesses, link employees to appropriate training and development activity, and reward good performance with pay and other incentives.

**ADMINISTRATIVE PURPOSE**

Organizations use performance management information (performance appraisals, in particular) in many administrative decisions: salary administration (pay raises),
promotions, retention–termination, layoffs, and recognition of individual performance. Despite the importance of these decisions, however, many managers, who are the source of the information, see the performance appraisal process only as a necessary evil they must go through to fulfill their job requirements. They feel uncomfortable evaluating others and feeding those evaluations back to the employees. Thus, they tend to rate everyone high or at least rate them the same, making the performance appraisal information relatively useless. For example, one manager stated, “There is really no getting around the fact that whenever I evaluate one of my people, I stop and think about the impact—the ramifications of my decisions on my relationship with the guy and his future here. . . . Call it being politically minded, or using managerial discretion, or fine-tuning the guy’s ratings, but in the end, I’ve got to live with him, and I’m not going to rate a guy without thinking about the fallout.”

DEVELOPMENTAL PURPOSE

A third purpose of performance management is to develop employees who are effective at their jobs. When employees are not performing as well as they should, performance management seeks to improve their performance. The feedback given during a performance evaluation process often pinpoints the employee’s weaknesses. Ideally, however, the performance management system identifies not only any deficient aspects of the employee’s performance but also the causes of these deficiencies—for example, a skill deficiency, a motivational problem, or some obstacle holding the employee back.

Managers are often uncomfortable confronting employees with their performance weaknesses. Such confrontations, although necessary to the effectiveness of the work group, often strain everyday working relationships. Giving high ratings to all employees enables a manager to minimize such conflicts, but then the developmental purpose of the performance management system is not fully achieved.

An important step in performance management is to develop the measures by which performance will be evaluated. We next discuss the issues involved in developing and using different measures of performance.

Performance Measures Criteria

In Chapter 4 we discussed how, through job analysis, one can analyze a job to determine exactly what constitutes effective performance. Once the company has determined, through job analysis and design, what kind of performance it expects from its employees, it needs to develop ways to measure that performance. This section presents the criteria underlying job performance measures. Later sections discuss approaches to performance measurement, sources of information, and errors.

Although people differ about criteria to use to evaluate performance management systems, we believe that five stand out: strategic congruence, validity, reliability, acceptability, and specificity.
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STRATEGIC CONGRUENCE

Strategic congruence is the extent to which a performance management system elicits job performance that is congruent with the organization’s strategy, goals, and culture. If a company emphasizes customer service, then its performance management system should assess how well its employees are serving the company’s customers. Strategic congruence emphasizes the need for the performance management system to guide employees in contributing to the organization’s success. This requires systems flexible enough to adapt to changes in the company’s strategic posture. The “Competing through Globalization” box shows the important role of performance management in developing a global business.

Many companies such as Hewlett-Packard, Federal Express, and Coca-Cola have introduced measures of critical success factors (CSFs) into their performance management systems.\(^{10}\) CSFs are factors in a company’s business strategy that give it a competitive edge. Companies measure employee behavior that relates to attainment of CSFs, which increases the importance of these behaviors for employees. Employees can be held accountable and rewarded for behaviors that directly relate to the company attaining the CSFs.

Sprint, the Overland, Kansas-based company that provides wireless services, has three pillars for its strategy.\(^ {11}\) The strategic pillars include improving the customer experience, strengthening the brand, and generating cash and increase profits. To support the strategy, the performance management system involves managers assessing employees on a pass–fail basis using three to five criteria, each of which is linked to a strategic objective. Sprint provides performance management tools that allow tracking of metrics such as what percent of employees receive coaching as part of their ongoing appraisal. Also, in Sprint’s call centers and retail stores where most employees work, employees can go online and see their individual performance objectives and their progress toward achieving them. Sprint’s managers set performance objectives based on changing internal company as well as market conditions. To motivate employees to achieve objectives (and the bonuses determined by reaching the objectives), achievement of objectives is based on two 6-month periods. This gives the company the flexibility to adjust performance objectives at least two times during the year, which is important when financial forecasts change or new products are introduced, such as being the first company to introduce a national 4G wireless network.

One challenge that companies face is how to measure customer loyalty, employee satisfaction, and other nonfinancial performance areas that affect profitability. To effectively use nonfinancial performance measures managers need to:\(^ {12}\)

- Develop a model of how nonfinancial performance measures link to the company’s strategic goals. Identify the performance areas that are critical to success.
- Using already existing databases, identify data that exists on key performance measures (e.g., customer satisfaction, employee satisfaction surveys). If data are not available, identify a performance area that affects the company’s strategy and performance. Develop measures for those performance areas.
- Use statistical and qualitative methods for testing the relationship between the performance measures and financial outcomes. Regression and correlation analysis as well as focus groups and interviews can be used. For example,
A Mix of Metrics Is Needed to Support Local and Company Performance

WD-40 Company's products are found under the sink, in the garage, and in toolboxes of consumers around the world. WD-40 Company produces lubricants, heavy-duty hand cleaners, toilet bowl cleaners, bathroom cleaners, and carpet stain and room odor eliminators. In 2012 the company created a new business unit, WD-40 BIKE, focused on cycling-specific maintenance products such as chain lubricants and frame protectant. It's most well-known product is the versatile lubricant WD-40 that can be used to help loosen rusty nuts and bolts and even as a stain and gum remover! Do you know what WD-40 stands for? WD-40 means Water Displacement, 40th attempt. That's the name from the lab book used by the chemist who developed WD-40 in 1953. The chemist was attempting to create a solution to prevent corrosion (which involves displacing water). The chemist's persistence paid off when he perfected the formula on his 40th try.

WD-40 is a global consumer products company, headquartered in San Diego, California, with operations in the Americas, Europe, and Asia Pacific. The majority of WD-40’s revenue comes from outside the United States. One of the company's strategic initiatives is to maximize the WD-40 brand in the global marketplace. As a result, WD-40 wanted to ensure that the metrics used to evaluate employees’ performance supported developing the brand in the company’s global markets. Until 2008, 80% of bonus payouts for employees in countries in North America, Europe, and Asia were determined by overall financial performance and 20% by financial performance within the employee's country. The results of an employee survey in 2008 showed that employees wanted more of their bonus to be linked to performance measures under their control, that is, country-specific performance. In response, HR at WD-40 created the Double Vision Program, which places a greater focus on country-specific performance while still rewarding global business results. Net invoiced sales and operating cash flow based on earnings before interest, taxes, depreciation, and amortization are the two performance metrics used in the program. Eighty percent of the bonus is now based on local performance, according to the achievement of sales and profit targets established by the CEO and board for the entire company. Of the 80%, 50% is determined by meeting sales targets and 30% by meeting profit goals, and 20% is determined by global, corporate earnings results. The HR team collaborates with the finance department to distribute quarterly earnings and sales reports to every employee. This helps employees understand how they are performing on the numbers and gives them time to try and positively influence the numbers before the year-end bonuses are determined. Also, employees have a clear vision of how their activities influence both the company’s country-specific performance and overall corporate performance.

DISCUSSION QUESTION
One of the criteria used to evaluate a performance management system is strategic congruence. How would you evaluate WD-40s Double Vision program according to this criteria? Explain your evaluation.

important to understand the drivers of financial performance and to ensure that the model is appropriate as the business strategy and economic conditions change.

• Act on conclusions that the model demonstrates. For example, Sears found that employee attitudes about the supervision they received and the work environment had a significant impact on customer satisfaction and shareholder results. As a result, Sears invested in managerial training to help managers do a better job of holding employees accountable for their jobs while giving them autonomy to perform their roles. 14

• Audit whether the actions taken and the investments made produced the desired result.

Most companies’ appraisal systems remain constant over a long time and through a variety of strategic emphases. However, when a company’s strategy changes, its employees’ behavior needs to change too. 15 The fact that appraisal systems often do not change may account for why many managers see performance appraisal systems as having little impact on a firm’s effectiveness.

VALIDITY

Validity is the extent to which a performance measure assesses all the relevant—and only the relevant—aspects of performance. This is often referred to as “content validity.” For a performance measure to be valid, it must not be deficient or contaminated. As you can see in Figure 8.2, one of the circles represents “true” job performance—all the aspects of performance relevant to success in the job. On the other hand, companies must use some measure of performance, such as a supervisory rating of performance on a set of dimensions or measures of the objective results on the job. Validity is concerned with maximizing the overlap between actual job performance and the measure of job performance (the green portion in the figure).

A performance measure is deficient if it does not measure all aspects of performance (the cranberry portion in the figure). An example is a system at a large university that assesses faculty members based more on research than teaching, thereby relatively ignoring a relevant aspect of performance.

A contaminated measure evaluates irrelevant aspects of performance or aspects that are not job related (the gold portion in the figure). The performance measure should seek to minimize contamination, but its complete elimination is seldom possible. An example of a contaminated measure is the use of actual sales figures for evaluating salespersons across very different regional territories. Often sales are highly dependent upon the territory (number of potential customers, number of competitors, economic conditions) rather than the actual performance of the salesperson. A salesperson who works harder and better than others might not have the highest sales totals because the territory simply does not have as much sales potential as others. Thus, these figures alone would be a measure that is strongly affected by things beyond the control of the individual employee.

RELIABILITY

Reliability refers to the consistency of a performance measure. One important type of reliability is interrater reliability: the consistency among the individuals who evaluate the employee’s performance. A performance measure has interrater reliability if two individuals give the same (or close to the same) evaluations
of a person’s job performance. Evidence seems to indicate that most subjective supervisory measures of job performance exhibit low reliability. With some measures, the extent to which all the items rated are internally consistent is important (internal consistency reliability).

In addition, the measure should be reliable over time (test–retest reliability). A measure that results in drastically different ratings depending on when the measures are taken lacks test–retest reliability. For example, if salespeople are evaluated based on their actual sales volume during a given month, it would be important to consider their consistency of monthly sales across time. What if an evaluator in a department store examined sales only during May? Employees in the lawn and garden department would have high sales volumes, but those in the men’s clothing department would have somewhat low sales volumes. Clothing sales in May are traditionally lower than other months. One needs to measure performance consistently across time.

**ACCEPTABILITY**

Acceptability refers to whether the people who use a performance measure accept it. Many elaborate performance measures are extremely valid and reliable, but they consume so much of managers’ time that they refuse to use it. Alternatively, those being evaluated by a measure may not accept it.

Acceptability is affected by the extent to which employees believe the performance management system is fair. As Table 8.2 shows, there are three categories of perceived fairness: procedural, interpersonal, and outcome fairness. The table also shows specifically how the performance management system’s development, use, and outcomes affect perceptions of fairness. In developing and using a performance management system, managers should take the steps shown in the column labeled “Implications” in Table 8.2 to ensure that the system is perceived as fair. Research suggests that performance management systems that are perceived as unfair are likely to be legally challenged, be used incorrectly, and decrease employee motivation to improve.

**SPECIFICITY**

Specificity is the extent to which a performance measure tells employees what is expected of them and how they can meet these expectations. Specificity is relevant to both the strategic and developmental purposes of performance management.
management. If a measure does not specify what an employee must do to help the company achieve its strategic goals, it does not achieve its strategic purpose. Additionally, if the measure fails to point out employees’ performance problems, it is almost impossible for the employees to correct their performance.

### Approaches to Measuring Performance

An important part of effective performance management is establishing how we evaluate performance. In this section we explore different ways to evaluate performance: the comparative approach, the attribute approach, the results approach, and the quality approach. We also evaluate these approaches against the criteria of strategic congruence, validity, reliability, acceptability, and specificity. As you will see, all of these approaches have strengths and weaknesses. As a result, many companies’ performance evaluations use a combination of approaches. To effectively contribute to organizational business strategy and goals, effective performance evaluation systems should measure both what gets accomplished (objectives) and how it gets accomplished (behaviors). Figure 8.3 shows an example of a performance management system that evaluates behavior and results. The results (project development) are linked to the goals of the business. The performance standards include behaviors that the employee must demonstrate to reach the results. The system provides feedback to the employee and holds both the employee and manager accountable for changing behavior.

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**Table 8.2**

<table>
<thead>
<tr>
<th>FAIRNESS CATEGORY</th>
<th>IMPORTANCE FOR PERFORMANCE MANAGEMENT SYSTEM</th>
<th>IMPLICATIONS</th>
</tr>
</thead>
</table>
| Procedural fairness | Development | • Give managers and employees opportunity to participate in development of system.  
• Ensure consistent standards when evaluating different employees.  
• Minimize rating errors and biases. |
| Interpersonal fairness | Use | • Give timely and complete feedback.  
• Allow employees to challenge the evaluation.  
• Provide feedback in an atmosphere of respect and courtesy. |
| Outcome fairness | Outcomes | • Communicate expectations regarding performance evaluations and standards.  
• Communicate expectations regarding rewards. |


**LO 8-4** Discuss the four approaches to performance management, the specific techniques used in each approach, and the way these approaches compare with the criteria for effective performance management systems.
**Figure 8.3**
Example of a Performance Management System That Includes Behavior and Results

<table>
<thead>
<tr>
<th>Accountabilities and Key Results</th>
<th>Performance Standards</th>
<th>Interim Feedback</th>
<th>Actual Results</th>
<th>Performance Rating</th>
<th>Areas for Development</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key result areas that the employee will accomplish during the review period. Should align with company values, business goals, and job description.</td>
<td>How the key result area will be measured (quality, cost, quantity). Focus on work methods and accomplishments.</td>
<td>Employee and manager discuss performance on an ongoing basis.</td>
<td>Review actual performance for each key result.</td>
<td>Evaluate performance on each key result. 1 = Outstanding 2 = Highly effective 3 = Acceptable 4 = Unsatisfactory</td>
<td>Specific knowledge, skills, and behaviors to be developed that will help employee achieve key results.</td>
<td>What employee and manager will do to address development needs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Development</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage the development of project scope, cost estimate studies, and schedules for approval.</td>
<td>Read articles, research, and meet with software vendors.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Development</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop preliminary project material for approval within four weeks after receiving project scope. Eighty percent of new projects receive approval. Initial cost estimates are within 5% of final estimates.</td>
<td>Increase knowledge of project management software.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actual Results</th>
<th>Performance Rating</th>
<th>Areas for Development</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary project materials are developed on time.</td>
<td>By end of year, approvals were at 75%, 5% less than standard.</td>
<td>Increase knowledge of project management software.</td>
<td>Read articles, research, and meet with software vendors.</td>
</tr>
</tbody>
</table>
THE COMPARATIVE APPROACH

The comparative approach to performance measurement requires the rater to compare an individual’s performance with that of others. This approach usually uses some overall assessment of an individual’s performance or worth and seeks to develop some ranking of the individuals within a work group. At least three techniques fall under the comparative approach: ranking, forced distribution, and paired comparison.

Ranking

Simple ranking requires managers to rank employees within their departments from highest performer to poorest performer (or best to worst). Alternation ranking, on the other hand, consists of a manager looking at a list of employees, deciding who is the best employee, and crossing that person’s name off the list. From the remaining names, the manager decides who the worst employee is and crosses that name off the list—and so forth.

Ranking has received specific attention in the courts. As discussed in Chapter 3, in the Albermarle v. Moody case the validation of the selection system was conducted using employee rankings as the measure of performance. The court actually stated, “There is no way of knowing precisely what criteria of job performance that supervisors were considering, whether each supervisor was considering the same criteria—or whether, indeed, any of the supervisors actually applied a focused and stable body of criteria of any kind.”

Forced Distribution

The forced distribution method also uses a ranking format, but employees are ranked in groups. This technique requires the manager to put certain percentages of employees into predetermined categories. Most commonly, employees are grouped into three, four, or five categories usually of unequal size indicating the best workers, the worst workers, and one or more categories in between. The insurance company American International Group (AIG), is using a forced distribution system in which AIG employees are ranked on a scale of 1 to 4. Using this system only 10% of employees receive the top ranking of “1,” 20% of employees receive a ranking of “2,” 50% of employees receive a ranking of “3,” and 20% receive the lowest ranking of “4.” Employees with higher rankings receive much more year-end incentive pay such as bonuses than those with lower rankings (employees ranked in the top 10% will get much greater bonuses compared to their peers). The CEO advocated the implementation of the forced distribution system to ensure that the company is paying the best people for their performance and to better differentiate poor from high performers. The company had previously used ranking systems but found that over half of employees were evaluated as high performers. Also, the CEO wants to send a message of accountability to the American taxpayers who helped bail out the company.

Advocates of these systems say that they are the best way to identify high-potential employees who should be given training, promotions, and financial rewards and to identify the poorest performers who should be helped or asked to leave. Top-level managers at many companies have observed that despite
Corporate performance and return to shareholders being flat or decreasing, compensation costs have continued to spiral upward and performance ratings continue to be high. They question how there can be such a disconnect between corporate performance and employees’ evaluations and compensation. Forced distribution systems provide a mechanism to help align company performance and employee performance and compensation. Employees in the bottom 10% cause performance standards to be lowered, influence good employees to leave, and keep good employees from joining the company.

A forced distribution system helps managers tailor development activities to employees based on their performance. For example, as shown in Table 8.3, poor performers are given specific feedback about what they need to improve in their job and a timetable is set for their improvement. If they do not improve their performance, they are dismissed. Top performers are encouraged to participate in development activities such as job experiences, mentoring, and completion of leadership programs which will help prepare them for top management positions. The use of a forced distribution system is seen as a way for companies to increase performance, motivate employees, and open the door for new talent to join the company to replace poor performers. Advocates say these systems force managers to make hard decisions about employee performance based on job-related criteria, rather than to be lenient in evaluating employees. Critics, on the other hand, say the systems in practice are arbitrary, may be illegal, and

<table>
<thead>
<tr>
<th>RANKING OR DISTRIBUTION CATEGORY</th>
<th>PERFORMANCE AND DEVELOPMENT PLAN</th>
</tr>
</thead>
</table>
| A Above average exceptional A1 performer | • Accelerate development through challenging job assignments  
• Provide mentor from leadership team  
• Recognize and reward contributions  
• Praise employees for strengths  
• Consider leadership potential  
• Nominate for leadership development programs |
| B Average meets expectations steady performer | • Offer feedback on how B can become a high performer  
• Encourage development of strengths and improvement of weaknesses  
• Recognize and reward employee contributions  
• Consider enlarging job |
| C Below expectations poor performance | • Give feedback and agree upon what specific skills, behavior, and/or results need to be improved with timetable for accomplishment  
• Move to job that better matches skills  
• Ask to leave the company |

cause poor morale. For example, one workgroup might have 20% poor performers while another might have only high performers, but the process mandates that 10% of employees be eliminated from both groups. Also, in many forced distribution systems an unintended consequence is the bottom category tends to consist of minorities, women, and people over 40 years of age, causing discrimination lawsuits (we discuss legal issues affecting performance management later in the chapter). Finally, it is difficult to rank employees into distinctive categories when criteria are subjective or when it is difficult to differentiate employees on the criteria (such as teamwork or communications skills).

Research simulating different features of a forced system and other factors that influence company performance (e.g., voluntary turnover rate, validity of selection methods) suggests that forced distribution rating systems can improve the potential performance of a company’s workforce. Companies that have clear goals and management criteria, train evaluators, use the rankings along with other HR metrics, and reward good performance may find them useful. The majority of improvement appears to occur during the first several years the system is used, mainly because of the large number of poorly performing employees who are identified and fired. Keep in mind that despite the potential advantages of forced choice systems for improving a company’s workforce performance, the potential negative side effects on morale, teamwork, recruiting, and shareholder perceptions should be considered before adopting such a system. Many companies have emphasized the linkage between employees’ performance and their development plan without using a forced distribution or ranking system. Forced ranking is ethical as long as the system is clearly communicated, the system is part of a positive dimension of the organization culture (innovation, continuous improvement), and the employees have the chance to appeal decisions.

**Paired Comparison**

The *paired comparison* method requires managers to compare every employee with every other employee in the work group, giving an employee a score of 1 every time he or she is considered the higher performer. Once all the pairs have been compared, the manager computes the number of times each employee received the favorable decision (i.e., counts up the points), and this becomes the employee’s performance score.

The paired comparison method tends to be time-consuming for managers and will become more so as organizations become flatter with an increased span of control. For example, a manager with 10 employees must make \(45 (10 \times \%)\) comparisons. However, if the group increases to 15 employees, 105 comparisons must be made.

**Evaluating the Comparative Approach**

The comparative approach to performance measurement is an effective tool in differentiating employee performance; it virtually eliminates problems of leniency, central tendency, and strictness. This is especially valuable if the results of the measures are to be used in making administrative decisions such as pay raises and promotions. In addition, such systems are relatively easy to develop and in most cases easy to use; thus, they are often accepted by users.
One problem with these techniques, however, is their common failure to be linked to the strategic goals of the organization. Although raters can evaluate the extent to which individuals’ performances support the strategy, this link is seldom made explicit. In addition, because of the subjective nature of the ratings, their actual validity and reliability depend on the raters themselves. Some firms use multiple evaluators to reduce the biases of any individual, but most do not. At best, we could conclude that their reliability and validity are modest. These techniques lack specificity for feedback purposes. Based only on their relative rankings, individuals are completely unaware of what they must do differently to improve their ranking. This puts a heavy burden on the manager to provide specific feedback beyond that of the rating instrument itself. Finally, many employees and managers are less likely to accept evaluations based on comparative approaches. Evaluations depend on how employees’ performance relates to other employees in a group, team, or department (normative standard) rather than on absolute standards of excellent, good, fair, and poor performance.

**THE ATTRIBUTE APPROACH**

The attribute approach to performance management focuses on the extent to which individuals have certain attributes (characteristics or traits) believed desirable for the company’s success. The techniques that use this approach define a set of traits—such as initiative, leadership, and competitiveness—and evaluate individuals on them.

**Graphic Rating Scales**

The most common form that the attribute approach to performance management takes is the graphic rating scale. Table 8.4 shows a graphic rating scale used in a manufacturing company. As you can see, a list of traits is evaluated by a five-point (or some other number of points) rating scale. The manager considers one employee at a time, circling the number that signifies how much of that trait the individual has. Graphic rating scales can provide a number of different points (a discrete scale) or a continuum along which the rater simply places a check mark (a continuous scale).

The legal defensibility of graphic rating scales was questioned in the Brito v. Zia (1973) case. In this case, Spanish-speaking employees had been terminated as a result of their performance appraisals. These appraisals consisted of supervisors’ rating subordinates on a number of undefined dimensions such as volume of work, quantity of work, job knowledge, dependability, and cooperation. The court criticized the subjective appraisals and stated that the company should have presented empirical data demonstrating that the appraisal was significantly related to actual work behavior.

**Mixed-Standard Scales**

Mixed-standard scales were developed to get around some of the problems with graphic rating scales. To create a mixed-standard scale, we define the relevant performance dimensions and then develop statements representing good, average, and poor performance along each dimension. These statements are then mixed with the statements from other dimensions on the actual rating instrument. An example of a mixed-standard scale is presented in Table 8.5.
CHAPTER 8 Performance Management

The following areas of performance are significant to most positions. Indicate your assessment of performance on each dimension by circling the appropriate rating.

<table>
<thead>
<tr>
<th>PERFORMANCE DIMENSION</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DISTINGUISHED</td>
</tr>
<tr>
<td>Knowledge</td>
<td>5</td>
</tr>
<tr>
<td>Communication</td>
<td>5</td>
</tr>
<tr>
<td>Judgment</td>
<td>5</td>
</tr>
<tr>
<td>Managerial skill</td>
<td>5</td>
</tr>
<tr>
<td>Quality performance</td>
<td>5</td>
</tr>
<tr>
<td>Teamwork</td>
<td>5</td>
</tr>
<tr>
<td>Interpersonal skills</td>
<td>5</td>
</tr>
<tr>
<td>Initiative</td>
<td>5</td>
</tr>
<tr>
<td>Creativity</td>
<td>5</td>
</tr>
<tr>
<td>Problem solving</td>
<td>5</td>
</tr>
</tbody>
</table>

As we see in the table, the rater is asked to complete the rating instrument by indicating whether the employee’s performance is above (+), at (0), or below (−) the statement. A special scoring key is then used to score the employee’s performance for each dimension. Thus, for example, an employee performing above all three statements receives a 7. If the employee is below the good statement, at the average statement, and above the poor statement, a score of 4 is assessed. An employee below all three statements is given a rating of 1. This scoring is applied to all the dimensions to determine an overall performance score.

Note that mixed-standard scales were originally developed as trait-oriented scales. However, this same technique has been applied to instruments using behavioral rather than trait-oriented statements as a means of reducing rating errors in performance appraisal. 23

Evaluating the Attribute Approach

Attribute-based performance methods are the most popular methods in organizations. They are quite easy to develop and are generalizable across a variety of jobs, strategies, and organizations. In addition, if much attention is devoted to identifying those attributes relevant to job performance and carefully defining them on the rating instrument, they can be as reliable and valid as more elaborate measurement techniques.

However, these techniques fall short on several of the criteria for effective performance management. There is usually little congruence between the techniques and the company’s strategy. These methods are used because of the ease in developing them and because the same method (list of traits, comparisons) is generalizable across any organization and any strategy. In addition, these
Table 8.5  
An Example of a Mixed-Standard Scale  

<table>
<thead>
<tr>
<th>Three traits being assessed:</th>
<th>Levels of performance in statements:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative (INTV)</td>
<td>High (H)</td>
</tr>
<tr>
<td>Intelligence (INTG)</td>
<td>Medium (M)</td>
</tr>
<tr>
<td>Relations with others (RWO)</td>
<td>Low (L)</td>
</tr>
</tbody>
</table>

Instructions: Please indicate next to each statement whether the employee’s performance is above (+), equal to (0), or below (−) the statement.

| INTV  H | 1. This employee is a real self-starter. The employee always takes the initiative and his/her superior never has to prod this individual. (+) |
| INTG  M | 2. While perhaps this employee is not a genius, s/he is a lot more intelligent than many people I know. (+) |
| RWO  L | 3. This employee has a tendency to get into unnecessary conflicts with other people. (0) |
| INTV  M | 4. While generally this employee shows initiative, occasionally his/her superior must prod him/her to complete work. (+) |
| INTG  L | 5. Although this employee is slower than some in understanding things, and may take a bit longer in learning new things, s/he is of average intelligence. (+) |
| RWO  H | 6. This employee is on good terms with everyone. S/he can get along with people even when s/he does not agree with them. (−) |
| INTV  L | 7. This employee has a bit of a tendency to sit around and wait for directions. (+) |
| INTG  H | 8. This employee is extremely intelligent, and s/he learns very rapidly. (−) |
| RWO  M | 9. This employee gets along with most people. Only very occasionally does s/he have conflicts with others on the job, and these are likely to be minor. (−) |

Scoring Key:

<table>
<thead>
<tr>
<th>STATEMENTS</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>0</td>
<td>+</td>
</tr>
<tr>
<td>−</td>
<td>+</td>
</tr>
<tr>
<td>−</td>
<td>0</td>
</tr>
<tr>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>−</td>
<td>−</td>
</tr>
</tbody>
</table>

Example score from preceding ratings:

<table>
<thead>
<tr>
<th>STATEMENTS</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative</td>
<td>7</td>
</tr>
<tr>
<td>Intelligence</td>
<td>6</td>
</tr>
<tr>
<td>Relations with others</td>
<td>2</td>
</tr>
</tbody>
</table>
methods usually have very vague performance standards that are open to different interpretations by different raters. Because of this, different raters often provide extremely different ratings and rankings. The result is that both the validity and reliability of these methods are usually low.

Virtually none of these techniques provides any specific guidance on how an employee can support the company’s goals or correct performance deficiencies. In addition, when raters give feedback, these techniques tend to elicit defensiveness from employees. For example, how would you feel if you were told that on a five-point scale, you were rated a “2” in maturity? Certainly you might feel somewhat defensive and unwilling to accept that judgment, as well as any additional feedback. Also, being told you were rated a “2” in maturity doesn’t tell you how to improve your rating.

THE BEHAVIORAL APPROACH

The behavioral approach to performance management attempts to define the behaviors an employee must exhibit to be effective in the job. The various techniques define those behaviors and then require managers to assess the extent to which employees exhibit them. We discuss five techniques that rely on the behavioral approach.

Behaviorally Anchored Rating Scales

A behaviorally anchored rating scale (BARS) is designed to specifically define performance dimensions by developing behavioral anchors associated with different levels of performance. An example of a BARS is presented in Figure 8.4. As you can see, the performance dimension has a number of examples of behaviors that indicate specific levels of performance along the dimension.

To develop a BARS, we first gather a large number of critical incidents that represent effective and ineffective performance on the job. These incidents are classified into performance dimensions, and the ones that experts agree clearly represent a particular level of performance are used as behavioral examples (or anchors) to guide the rater. The manager’s task is to consider an employee’s performance along each dimension and determine where on the dimension the employee’s performance fits using the behavioral anchors as guides. This rating becomes the employee’s score for that dimension.

Behavioral anchors have advantages and disadvantages. They can increase interrater reliability by providing a precise and complete definition of the performance dimension. A disadvantage is that they can bias information recall—that is, behavior that closely approximates the anchor is more easily recalled than other behavior. Research has also demonstrated that managers and their subordinates do not make much of a distinction between BARS and trait scales.

Behavioral Observation Scales

A behavioral observation scale (BOS) is a variation of a BARS. Like a BARS, a BOS is developed from critical incidents. However, a BOS differs from a BARS in two basic ways. First, rather than discarding a large number of the behaviors
Preparing for Duty

7
Always early for work, gathers all necessary equipment to go to work, fully dressed, checks activity from previous shifts before going to roll call.

6
Early for work, has all necessary equipment to go to work, fully dressed.

5
On time, has all necessary equipment to go to work, fully dressed.

4
Not fully dressed for roll call, does not have all necessary equipment.

3
Late for roll call, does not check equipment or vehicle for damage or needed repairs, unable to go to work from roll call, has to go to locker, vehicle, or home to get necessary equipment.

2
Late for roll call majority of period, does not check equipment or vehicle, does not have necessary equipment to go to work.

1

that exemplify effective or ineffective performance, a BOS uses many of them to
more specifically define all the behaviors that are necessary for effective perfor-
ance (or that would be considered ineffective performance). Instead of using,
say, 4 behaviors to define 4 levels of performance on a particular dimension, a
BOS may use 15 behaviors. An example of a BOS is presented in Table 8.6.

A second difference is that rather than assessing which behavior best reflects
an individual’s performance, a BOS requires managers to rate the frequency
with which the employee has exhibited each behavior during the rating period.
These ratings are then averaged to compute an overall performance rating.

The major drawback of a BOS is that it may require more information than
most managers can process or remember. A BOS can have 80 or more behaviors,
and the manager must remember how frequently an employee exhibited each
of these behaviors over a 6- or 12-month rating period. This is taxing enough for
one employee, but managers often must rate 10 or more employees.

A direct comparison of BOS, BARS, and graphic rating scales found that both
managers and employees prefer BOS for differentiating good from poor per-
formers, maintaining objectivity, providing feedback, suggesting training needs,
and being easy to use among managers and subordinates.²⁸

### Competency Models

**Competencies** are sets of skills, knowledge, abilities, and personal characteris-
tics that enable employees to successfully perform their jobs.²⁹ A **competency model**
identifies and provides descriptions of competencies that are common
for an entire occupation, organization, job family, or a specific job. Competen-
cy models can be used for performance management. However, one of the

---

### Table 8.6

<table>
<thead>
<tr>
<th>Overcoming Resistance to Change</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Almost Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Describes the details of the change to subordinates.</td>
<td>Almost Never</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>(2) Explains why the change is necessary.</td>
<td>Almost Never</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>(3) Discusses how the change will affect the employee.</td>
<td>Almost Never</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>(4) Listens to the employee’s concerns.</td>
<td>Almost Never</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>(5) Asks the employee for help in making the change work.</td>
<td>Almost Never</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>(6) If necessary, specifies the date for a follow-up meeting to respond to the employee’s concerns.</td>
<td>Almost Never</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

| Total = | 5 |

<table>
<thead>
<tr>
<th>Scores are set by management.</th>
</tr>
</thead>
</table>

strengths of competency models is that they are useful for a variety of HR practices including recruiting, selection, training, and development. Competency models can be used to help identify the best employees to fill open positions, and as the foundation for development plans that allow the employee and manager to target specific strengths and development areas.

Table 8.7 shows the competency model that Luxottica Retail, known for premium, luxury, and sports eyewear sold through LensCrafters, Sunglass Hut, and Pearle Vision, developed for its associates in field and store positions. The competency model includes leadership and managerial, functional, and foundational competencies. The goal was to define and identify competencies that managers could use for hiring, performance management, and training. Also, competencies would help associates identify and develop the skills they need to apply for different jobs. To effectively use competency models for performance evaluation they must be up-to-date, drive business performance, be job-related (valid), be relevant (or customized) for all of the company’s business units, and provide sufficient detail to make an accurate assessment of employees’ performance. At Luxottica Retail developing competencies started with meeting with business leaders to understand their current and future business strategies. Business drivers were identified and questionnaires, focus groups, and meetings with managers and associates were used to identify important competencies and examples of behaviors related to each. Competencies across business units and brands are reviewed every four or five years or whenever a major change in jobs or business strategy occurs to ensure they are relevant. Also, the weighting given to each set of competencies in the performance evaluation is reviewed to ensure that they are appropriate (e.g., what weights should be

<table>
<thead>
<tr>
<th>Leadership and Managerial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
</tr>
<tr>
<td>Coach and develop others</td>
</tr>
<tr>
<td>Motivate others</td>
</tr>
<tr>
<td>Foster teamwork</td>
</tr>
<tr>
<td>Think strategically</td>
</tr>
<tr>
<td><strong>Functional</strong></td>
</tr>
<tr>
<td>Global perspective</td>
</tr>
<tr>
<td>Financial acumen</td>
</tr>
<tr>
<td>Business key performance indicators</td>
</tr>
<tr>
<td><strong>Foundational</strong></td>
</tr>
<tr>
<td>Critical thinking</td>
</tr>
<tr>
<td>Foster open communications</td>
</tr>
<tr>
<td>Build relationships and interpersonal skills</td>
</tr>
<tr>
<td>Develop and manage oneself</td>
</tr>
<tr>
<td>Adaptability and flexibility</td>
</tr>
<tr>
<td>Customer focus</td>
</tr>
<tr>
<td>Act with integrity</td>
</tr>
<tr>
<td>Diversity and multiculturalism</td>
</tr>
<tr>
<td>Drive and commitment</td>
</tr>
</tbody>
</table>

given to the functional skills). Depending on their relevance for a specific job, various combinations of these competencies are used for evaluating associates’ performances. Associates are rated on a 1–5 scale for each competency with 5 meaning far exceeds expectations. HR, training and development, and operations teams worked together to define the levels of each competency, that is, what does it mean and what does the competency look like when an employee is rated “meets expectations” versus “below expectations”? This was necessary to ensure that managers are using a similar frame of reference when they evaluate associates using the competencies.

**Evaluation of the Behavioral Approach**
The behavioral approach can be very effective. It can link the company’s strategy to the specific behavior necessary for implementing that strategy. It provides specific guidance and feedback for employees about the performance expected of them. Most of the techniques rely on in-depth job analysis, so the behaviors that are identified and measured are valid. Because those who will use the system develop the measures, the acceptability is also often high. Finally, with a substantial investment in training raters, the techniques are reasonably reliable.

The major weaknesses have to do with the organizational context of the system. Although the behavioral approach can be closely tied to a company’s strategy, the behaviors and measures must be constantly monitored and revised to ensure that they are still linked to the strategic focus. This approach also assumes that there is “one best way” to do the job and that the behaviors that constitute this best way can be identified. One study found that managers seek to control behaviors when they perceive a clear relationship between behaviors and results. When this link is not clear, they tend to rely on managing results. The behavioral approach might be best suited to less complex jobs (where the best way to achieve results is somewhat clear) and least suited to complex jobs (where there are multiple ways, or behaviors, to achieve success).

**THE RESULTS APPROACH**
The results approach focuses on managing the objective, measurable results of a job or work group. This approach assumes that subjectivity can be eliminated from the measurement process and that results are the closest indicator of one’s contribution to organizational effectiveness. We examine two performance management systems that use results: the balanced scorecard and the productivity measurement and evaluation system.

**The Use of Objectives**
The use of objectives is popular in both private and public organizations. In a results-based system, the top management team first defines the company’s strategic goals for the coming year. These goals are passed on to the next layer of management, and these managers define the goals they must achieve for the company to reach its goals. This goal-setting process cascades down the organization so that all managers set goals that help the company achieve its goals. These goals are used as the standards by which an individual’s performance is evaluated.
Results-based systems have three common components. They require setting effective goals. The most effective goals are SMART goals. That is, the goals are specific (clearly stated, define the result to be achieved), measurable (compared to a standard), attainable (difficult but achievable), relevant (link to organizational success factors or goals), and timely (measured in deadline, due dates, cycles, or schedules). Different types of measurements can be used for goals or objectives including timeliness (e.g., responds to requests within 12 hours), quality (report provided clear information with no revisions necessary), quantity (increased sales 25%), or financial metrics (e.g., reduced purchasing costs 10%). (An example of objectives used in a financial service firm is presented in Table 8.8.) The goals are not usually set unilaterally by management but with the managers’ and subordinates’ participation. And the manager gives objective feedback throughout the rating period to monitor progress toward the goals.

Research on objectives has revealed two important findings regarding their effectiveness. Of 70 studies examined, 68 showed productivity gains, while only 2 showed productivity losses, suggesting that objectives usually increase productivity. Also, productivity gains tend to be highest when there is substantial commitment to the objectives program from top management: an average increase of 56% when commitment was high, 33% when commitment was moderate, and 6% when commitment was low.

Clearly, use of an objectives system can have a very positive effect on an organization’s performance. Considering the process through which goals are set (involvement of staff in setting objectives), it is also likely that use of an objectives system effectively links individual employee performance with the firm’s strategic goals. Evaluation of objectives, based on results or business-based metrics, removes the subjectivity from the evaluation process—employees either meet the objectives or they do not. For example, Long Island Jewish Medical Center implemented a computer-based performance management system that breaks the nurses’ job description into measurable goals in order to keep infection rates for the unit low and patient-satisfaction scores high.

**Table 8.8**

<table>
<thead>
<tr>
<th>KEY RESULT AREA</th>
<th>OBJECTIVE</th>
<th>% COMPLETE</th>
<th>ACTUAL PERFORMANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan portfolio management</td>
<td>Increase portfolio value by 10% over the next 12 months</td>
<td>90</td>
<td>Increased portfolio value by 9% over the past 12 months</td>
</tr>
<tr>
<td>Sales</td>
<td>Generate fee income of $30,000 over the next 12 months</td>
<td>150</td>
<td>Generated fee income of $45,000 over the past 12 months</td>
</tr>
</tbody>
</table>

**Balanced Scorecard**

Some companies use the balanced scorecard to measure performance (we discussed the use of the balanced scorecard in Chapter 1). The balanced scorecard includes four perspectives of performance including financial, customer, internal or operations, and learning and growth (see Table 1.9 in Chapter 1). The financial perspective focuses on creating sustainable growth in shareholder value.
value, the customer perspective defines value for customers (e.g., service, quality), the internal or operations perspective focuses on processes that influence customer satisfaction, and the learning and growth perspective focuses on the company’s capacity to innovate and continuously improve. Each of these perspectives are used to translate the business strategy into organizational, managerial, and employee objectives. Employee performance is linked with the business strategy through communicating and educating employees on the elements of the balanced scorecard, translating strategic objectives into measures for departments and employees, and linking rewards to performance measures. Employees need to know the corporate objectives, how they translate into objectives for each business unit, and develop their own and team objectives that are consistent with the business unit and company objectives. Effective balanced scorecards allow employees to understand the business strategy by looking only at the scorecard and the strategy map (the cause-and-effect relationships among the measures). For example, for the customer perspective of the balanced scorecard an airline might have on-time performance as a critical success factor. Gate agents, ground, maintenance, and scheduling represent groups of employees who impact on-time performance. Gate agents have four roles that can influence boarding speed including check-in timeliness, effectively dealing with connections, flight documentation, and the boarding process. Gate agents’ performance in these four roles should be evaluated because they impact key performance indicators related to on-time performance including cost savings, customer satisfaction, customer losses, and operational costs.

**Productivity Measurement and Evaluation System (ProMES)**

The main goal of ProMES is to motivate employees to improve team or company-level productivity. It is a means of measuring and feeding back productivity information to employees.

Team members try to map the relationship between specific outcomes and productivity and the relationships between effect and performance, performance and outcomes, and outcomes relationship to satisfaction of employee needs. ProMES consists of four steps. First, people in an organization identify the products, or the set of activities or objectives, the organization expects to accomplish. The organization’s productivity depends on how well it produces these products. At a repair shop, for example, a product might be something like “quality of repair.” Second, the staff defines indicators of the products. Indicators are measures of how well the products are being generated by the organization. Quality of repair could be indicated by (1) return rate (percentage of items returned that did not function immediately after repair) and (2) percentage of quality-control inspections passed. Third, the staff establishes the contingencies between the amount of the indicators and the level of evaluation associated with that amount. Fourth, a feedback system is developed that provides employees and work groups with information about their specific level of performance on each of the indicators. An overall productivity score can be computed by summing the effectiveness scores across the various indicators.

Research thus far strongly suggests this technique is effective in increasing productivity. (Figure 8.5 illustrates the productivity gains in the repair shop described previously.) The research also suggests the system is an effective feedback mechanism. However, users found it time-consuming to develop the initial system.
Evaluation of the Results Approach

The results approach minimizes subjectivity, relying on objective, quantifiable indicators of performance. Thus, it is usually highly acceptable to both managers and employees. Another advantage is that it links an individual’s results with the organization’s strategies and goals.

However, there are a number of challenges in using objective performance measures. Objective measurements can be both contaminated and deficient—contaminated because they are affected by things that are not under the employee’s control and deficient because not all the important aspects of job performance are amenable to objective measurement. For example, consider how an economic recession can influence sales goals or, for a teacher, parental support for studying can influence student’s achievement test scores. Another disadvantage is that individuals may focus only on aspects of their performance that are measured, neglecting those that are not. For example, if the large majority of employees’ goals relate to productivity, it is unlikely they will be concerned with customer service. One study found that objective performance goals led to higher performance but that they also led to helping co-workers less.42 It is important to identify if goals should be set at the individual, team, or department level. Setting employees’ objectives may not be appropriate if work is team-based. Individual objectives may undermine behaviors related to team success such as sharing information and collaboration. A final disadvantage is that, although results measures provide objective feedback, the feedback may
not help employees learn how they need to change their behavior to increase their performance. If baseball players are in a hitting slump, simply telling them that their batting average is .190 may not motivate them to raise it. Feedback focusing on the exact behavior that needs to be changed (like taking one’s eye off the ball or dropping one’s shoulder) would be more helpful.

John Deere takes specific actions to avoid these problems. At the start of each fiscal year, managers and employees meet to discuss objectives for the year. A midyear review is then conducted to check on the employees’ progress in meeting the goals. The year-end review meeting focuses on evaluating goal accomplishment. Goal achievement at the end of the year is linked to pay increases and other rewards. All company objectives are supported by division objectives that are available for employees to view online. Employees also have available a learning and activities courseware catalog they can use to help develop skills needed to achieve their performance objectives.

THE QUALITY APPROACH

Thus far we have examined the traditional approaches to measuring and evaluating employee performance. Fundamental characteristics of the quality approach include a customer orientation, a prevention approach to errors, and continuous improvement. Improving customer satisfaction is the primary goal of the quality approach. Customers can be internal or external to the organization. A performance management system designed with a strong quality orientation can be expected to

• Emphasize an assessment of both person and system factors in the measurement system.
• Emphasize that managers and employees work together to solve performance problems.
• Involve both internal and external customers in setting standards and measuring performance.
• Use multiple sources to evaluate person and system factors.

Based on this chapter’s earlier discussion of the characteristics of an effective performance management system, it should be apparent to you that these characteristics are not just unique to the quality approach but are characteristics of an effective appraisal system!

Advocates of the quality approach believe that most U.S. companies’ performance management systems are incompatible with the quality philosophy for a number of reasons:

1. Most existing systems measure performance in terms of quantity, not quality.
2. Employees are held accountable for good or bad results to which they contribute but do not completely control.
3. Companies do not share the financial rewards of successes with employees according to how much they have contributed to them.
4. Rewards are not connected to business results.

Sales, profit margins, and behavioral ratings are often collected by managers to evaluate employees’ performance. These are person-based outcomes. An assumption of using these types of outcomes is that the employee completely controls them. However, according to the quality approach, these types of
outcomes should not be used to evaluate employees’ performance because they do not have complete control over them (i.e., they are contaminated). For example, for salespersons, performance evaluations (and salary increases) are often based on attainment of a sales quota. Salespersons’ abilities and motivation are assumed to be directly responsible for their performance. However, quality approach advocates argue that better determinants of whether a salesperson reaches the quota are “systems factors” (such as competitors’ product price changes) and economic conditions (which are not under the salesperson’s control). Holding employees accountable for outcomes affected by systems factors is believed to result in dysfunctional behavior, such as falsifying sales reports, budgets, expense accounts, and other performance measures, as well as lowering employees’ motivation for continuous improvement.

Quality advocates suggest that the major focus of performance evaluations should be to provide employees with feedback about areas in which they can improve. Two types of feedback are necessary: (1) subjective feedback from managers, peers, and customers about the personal qualities of the employee and (2) objective feedback based on the work process itself using statistical quality control methods.

At Just Born, the company that makes Peeps and Mike and Ike candy, the performance management process is designed with a strong quality orientation. The performance management system is designed to facilitate employee improvement (a forward-looking approach) rather than focus entirely on what the employee has accomplished during the past year. Also, managers and employees are encouraged to work together to solve performance problems.

The performance management system is part of the company’s broader people development system (PDS) which is designed to ensure that learning and development align with business strategy and drive business results while ensuring employees have the skills to succeed in their current and future jobs. The PDS includes the performance management process, learning and career development processes, and succession planning process. Information from each of these systems is shared to ensure that employees are developing the skills through training and on-the-job experiences needed for their current jobs as well as preparing for their future career interests. Just Born’s performance management system starts with a planning meeting between the employee and their manager. At this meeting the employee’s role and strategic goals of the department are discussed. The manager and employee agree on up to four personal objectives that will help the department meet its objectives and the employee achieve the specific deliverables described in the job description. Two competencies that the employee needs to deliver or improve on are identified. The manager and employee work together to develop a learning plan to help the employee gain the competencies. During the year, the employee and manager meet to discuss the progress in meeting the deliverables and improving the competencies. Pay decisions made at the end of each fiscal year are based on the achievement of performance objectives and learning goals.

Just Born also uses the Wow . . . Now improvement process, a customized Kaizen process to improve business processes and results. The Wow . . . Now improvement process includes teaching employees how to identify improvement opportunities, collect data, make improvements, measure results, and, based on the results, refine practices. Kaizen, the Japanese word for improvement, is one of the underlying principles of lean manufacturing and total
quality management (we discussed lean manufacturing in Chapter 1). **Kaizen** refers to practices participated in by employees from all levels of the company that focus on continuous improvement of business processes.

Now improvement process illustrates, Kaizen involves considering a continuous cycle of activities including planning, doing, checking, and acting (PDCA). Statistical process control techniques are used by employees to identify causes of problems and potential solutions. They include process-flow analysis, cause-and-effect diagrams, control charts, histograms, and scattergrams.

Statistical process control techniques are very important in the quality approach. These techniques provide employees with an objective tool to identify causes of problems and potential solutions. These techniques include process-flow analysis, cause-and-effect diagrams, Pareto charts, control charts, histograms, and scattergrams. **Process-flow analysis** identifies each action and decision necessary to complete work, such as waiting on a customer or assembling a television set. Process-flow analysis is useful for identifying redundancy in processes that increase manufacturing or service time. In **cause-and-effect diagrams**, events or causes that result in undesirable outcomes are identified. Employees try to identify all possible causes of a problem. The feasibility of the causes is not evaluated, and as a result, cause-and-effect diagrams produce a large list of possible causes. A **Pareto chart** highlights the most important cause of a problem. In a Pareto chart, causes are listed in decreasing order of importance, where **importance** is usually defined as the frequency with which that cause resulted in a problem. The assumption of Pareto analysis is that the majority of problems are the result of a small number of causes. Figure 8.6 shows a Pareto chart listing the reasons managers give for not selecting current employees for a job vacancy. **Control charts** involve collecting data at multiple points in time. By collecting data at different times, employees can identify what factors contribute to an outcome and when they tend to occur. Figure 8.7 shows the percentage of employees hired internally for a company for each quarter between 1993 and 1995.

**Figure 8.6**
Pareto Chart

<table>
<thead>
<tr>
<th>Cause</th>
<th>Number of times cited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer time too long</td>
<td>70</td>
</tr>
<tr>
<td>Lack timing</td>
<td>60</td>
</tr>
<tr>
<td>Management discretion</td>
<td>50</td>
</tr>
<tr>
<td>Prefer outside candidates</td>
<td>40</td>
</tr>
<tr>
<td>Lack development plan</td>
<td>30</td>
</tr>
</tbody>
</table>

**Reasons given for not selecting employees**

Internal hiring increased dramatically during the third quarter of 1994. The use of control charts helps employees understand the number of internal candidates who can be expected to be hired each year. Also, the control chart shows that the amount of internal hiring conducted during the third quarter of 1994 was much larger than normal. Histograms display distributions of large sets of data. Data are grouped into a smaller number of categories or classes. Histograms are useful for understanding the amount of variance between an outcome and the expected value or average outcome.

Scattergrams show the relationship between two variables, events, or different pieces of data. Scattergrams help employees determine whether the relationship between two variables or events is positive, negative, or zero.

**Evaluation of the Quality Approach**

The quality approach relies primarily on a combination of the attribute and results approaches to performance measurement. However, traditional performance appraisal systems focus more on individual employee performance, while the quality approach adopts a systems-oriented focus. Many companies may be unwilling to completely abandon their traditional performance management system because it serves as the basis for personnel selection validation, identification of training needs, or compensation decisions. Also, the quality approach advocates evaluation of personal traits (such as cooperation), which are difficult to relate to job performance unless the company has been structured into work teams.

In summary, organizations can take five approaches to measuring performance: comparative, attribute, behavioral, results, and quality. Table 8.9 summarizes the various approaches to measuring performance based on the criteria we set forth earlier and illustrates that each approach has strengths and weaknesses. As a result, effective performance evaluations involve a combination of approaches including assessment of objectives and behaviors.
Choosing a Source for Performance Information

Whatever approach to performance management is used, it is necessary to decide whom to use as the source of the performance measures. Each source has specific strengths and weaknesses. We discuss five primary sources: managers, peers, subordinates, self, and customers. To increase the effect of performance management systems include many companies both managers and self-assessment of performance. This helps facilitate a conversation about performance during the appraisal meeting and on a more frequent basis. The “Competing through Sustainability” box illustrates the importance of using multiple sources of performance information to ensure that the needs of all stakeholders are being met.

**MANAGERS**

Managers are the most frequently used source of performance information. It is usually safe to assume that supervisors have extensive knowledge of the job requirements and that they have had adequate opportunity to observe their

<table>
<thead>
<tr>
<th>APPROACH</th>
<th>CRITERIA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRATEGIC CONGRUENCE</strong></td>
<td><strong>VALIDITY</strong></td>
</tr>
<tr>
<td>Comparative</td>
<td>Poor, unless manager takes time to make link</td>
</tr>
<tr>
<td>Attribute</td>
<td>Usually low; requires manager to make link</td>
</tr>
<tr>
<td>Behavioral</td>
<td>Can be quite high</td>
</tr>
<tr>
<td>Results</td>
<td>Very high</td>
</tr>
<tr>
<td>Quality</td>
<td>Very high</td>
</tr>
</tbody>
</table>

**Table 8.9**

Evaluation of Approaches to Performance Measurement

LO 8-6 Discuss the advantages and disadvantages of the different sources of performance information.

LO 8-7 Choose the most effective source(s) for performance information for any situation.
Performance management can help create and reinforce the skills, motivation, values, and culture that help organizations achieve economic, social, and environmental benefits. Also, performance management can help insure the long-term benefits for the organization’s stakeholders including employees, customers, and the community. The Health Foundation in the United Kingdom is a non-profit organization with a mission to insure that groups and individuals are not cut off from access to health care. It provides funding for programs to improve health systems in the UK and helps UK inhabitants make informed decisions about healthcare and advocate for their health.

It focuses on two needs it has defined as priorities: patient safety and person-centered care. For each need, the organization establishes yearly objectives the agency should attain to fulfill its mission. The Health Foundation cherishes the idea of continuous learning and development. Keeping track of individual’s achievements and providing reflection upon this is an important aspect of work. Therefore, at the Health Foundation, each employee collaborates with his or her supervisor to define the employee’s performance objectives. Because the organization has already established and published yearly organization-level objectives, the supervisor has a sense of what his or her group needs to accomplish to support those objectives. This information enables the manager to support the employee in identifying goals that will contribute to achieving the group’s effort. In practice, meeting these ideals can be challenging.

Some accomplishments are difficult to measure, and some appear unrelated to the Health Foundation’s overall goals and mission related to promoting health. However, the Health Foundation aims to engage all staff with a challenging and exciting learning culture and encourage openness, discussion and feedback so the Foundation can develop and continuously improve. Also this culture advocates that diversity is important and people are valued, respected and know that they matter. The Health Foundation addresses this by gathering performance information from an employee’s peers, customers, and subordinates. They can indicate whether, for example, they feel that the employee has treated them with respect. Likewise, measurements of an employee group’s morale gauge whether the group’s manager is leading effectively.

DISCUSSION QUESTIONS
1. What source(s) for performance information do you think it is best to use to determine whether employees are working toward the organization’s long-term goals and mission, and ultimately its future?
2. What performance outcomes (attributes, behaviors, competencies, objective results) would you assess?

to performance and to employee perceptions of the accuracy of the appraisal if managers attempt to observe employee behavior or discuss performance issues in the feedback session.

Burlington Northern Santa Fe Corporation of Fort Worth, Texas, improved its performance management process by holding leaders accountable in setting annual goals, creating individual development plans, providing feedback and coaching to employees, and self-evaluation. An online performance management system supports the process. The company’s executive team creates the overall company objectives, which cascade down to each department and individual employees who can now see how they contribute to the company’s success. The online system allows managers and employees to see how they and the department are progressing on the objectives. Required to be engaged in the performance management process, managers are more focused on the necessary communications, coaching, and giving feedback, and they are more inclined to seek out training to be sure that they have the necessary communications, feedback, and coaching skills. Managers’ effectiveness is monitored by periodic employee surveys that ask questions about whether the manager discusses performance, whether the dialogue with the manager is two-way, and whether the employee receives ongoing feedback.

Problems with using supervisors as the source of performance information can occur in particular situations. In some jobs, for example, the supervisor does not have an adequate opportunity to observe the employee performing his job duties. For example, in outside sales jobs, the supervisor does not have the opportunity to see the salesperson at work most of the time. This usually requires that the manager occasionally spend a day accompanying the salesperson on sales calls. However, on those occasions the employee will be on best behavior, so there is no assurance that performance that day accurately reflects performance when the manager is not around.

Also, some supervisors may be so biased against a particular employee that to use the supervisor as the sole source of information would result in less-than-accurate measures for that individual. Favoritism is a fact of organizational life, but it is one that must be minimized as much as possible in performance management. Thus, the performance evaluation system should seek to minimize the opportunities for favoritism to affect ratings. One way to do this is not to rely on only a supervisor’s evaluation of an employee’s performance.

PEERS

Another source of performance information is the employee’s co-workers. Peers are an excellent source of information in a job such as law enforcement, where the supervisor does not always observe the employee. Peers have expert knowledge of job requirements, and they often have the most opportunity to observe the employee in day-to-day activities. Also, peers are often in the best position to praise and recognize each other’s performance on a daily basis. International Fitness Holdings, a Canada-based health care group, uses peer-to-peer feedback to recognize employees day-to-day behaviors that often go unnoticed such as helping out with a challenging task, yet exemplify the company’s core values. A pencil-and-paper version of the peer-to-peer feedback system requiring employees to write thank-you notes generated little excitement. So the company created a Facebook-like application which employees can use to recognize peers...
publicly by posting messages to a “team wall” as well as privately using e-mail. Each employee receives 300 points each year that they can allocate as they like to acknowledge their peers’ behaviors. The points can be traded for awards such as paid time-off, gas cards, or gift certificates. Peers also bring a different perspective to the evaluation process, which can be valuable in gaining an overall picture of the individual’s performance. In fact, peers have been found to provide extremely valid assessments of performance in several different settings.\(^{56}\)

One disadvantage of using peer ratings is the potential for friendship to bias ratings.\(^ {57}\) Little empirical evidence suggests that this is often a problem, however. Another disadvantage is that when the evaluations are made for administrative decisions, peers often find the situation of being both rater and ratee uncomfortable. When these ratings are used only for developmental purposes, however, peers react favorably.\(^ {58}\)

### SUBORDINATES

Subordinates are an especially valuable source of performance information when managers are evaluated. Subordinates often have the best opportunity to evaluate how well a manager treats employees. **Upward feedback** refers to appraisals that involve collecting subordinates’ evaluations of manager’s behavior or skills. Dell Inc., the Texas-based computer company, recently took steps to focus not only on financial goals but also on making the company a great place to work to attract and keep talented employees.\(^ {59}\) To help develop what Dell calls a “winning culture,” Dell added a people management component to its results-oriented performance management system. Managers are now rated by their employees on semiannual “Tell Dell” surveys. Managers who receive less than 50% favorable scores on five questions receive less favorable compensation, bonus, and promotion opportunities and are required to take additional training. Table 8.10 shows the five questions. Managers are expected to work continuously to improve their scores. Their goal is to receive at least 75% favorable ratings from employees on the five questions. One study found that managers viewed receiving upward feedback more positively when receiving feedback from subordinates who were identified, but subordinates preferred to provide anonymous feedback. When subordinates were identified, they inflated their ratings of the manager.\(^ {60}\)

One problem with subordinate evaluations is that they give subordinates power over their managers, thus putting the manager in a difficult situation.\(^ {61}\) This can lead to managers’ emphasizing employee satisfaction over productivity. However, this happens only when administrative decisions are made from

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**Table 8.10**

<table>
<thead>
<tr>
<th>Example of Upward Feedback Survey Questions from “Tell Dell” Surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Even if I were offered a comparable position with similar pay and benefits at another company, I would stay at Dell.</td>
</tr>
<tr>
<td>• I receive ongoing feedback that helps me to improve my performance.</td>
</tr>
<tr>
<td>• My manager/supervisor supports my efforts to balance my work and personal life.</td>
</tr>
<tr>
<td>• My manager/supervisor is effective at managing people.</td>
</tr>
<tr>
<td>• I can be successful at Dell and still retain my individuality.</td>
</tr>
</tbody>
</table>

these evaluations. As with peer evaluations, it is a good idea to use subordinate evaluations only for developmental purposes. To assure subordinates that they need not fear retribution from their managers, it is necessary to use anonymous evaluations and at least three subordinates for each manager.

**SELF**

Although self-ratings are not often used as the sole source of performance information, they can still be valuable.62 Obviously, individuals have extensive opportunities to observe their own behavior, and they usually have access to information regarding their results on the job. The YMCA of Greater Rochester, New York, added employee self-evaluation as part of its performance review process to address concerns that employees had little input into the appraisal process. It didn’t help facilitate conversation between employees and managers, and both parties dreaded formal appraisal meetings.63 In the revamped process, self-evaluation allows employees to give examples of good performance and to request training to improve their weaknesses. Before they are finalized, performance ratings are based on a discussion between the manager and employee. Self-evaluations have lessened the fear and anxiety associated with the old appraisal process. Employees feel they have a voice and the opportunity to influence the appraisal process. Managers are relieved because the burden for evaluation is no longer completely their responsibility. Now, employees provide them with feedback and insight into their performance which help determine performance ratings.

One problem with self-ratings, however, is a tendency toward inflated assessments. Research has found that self-ratings for personal traits as well as overall performance ratings tend to be lenient compared to ratings from other sources.64 This stems from two sources. If the ratings are going to be used for administrative decisions (like pay raises), it is in the employees’ interests to inflate their ratings. And there is ample evidence in the social psychology literature that individuals attribute their poor performance to external causes, such as a co-worker who they think has not provided them with timely information. Although self-ratings are less inflated when supervisors provide frequent performance feedback, it is not advisable to use them for administrative purposes.65 The best use of self-ratings is as a prelude to the performance feedback session to get employees thinking about their performance and to focus discussion on areas of disagreement.

**CUSTOMERS**

As discussed in Chapter 1, service industries are expected to account for a major portion of job growth.66 As a result, many companies are involving customers in their evaluation systems. One writer has defined *services* this way: "Services is something which can be bought and sold but which you cannot drop on your foot."67 Because of the unique nature of services—the product is often produced and consumed on the spot—supervisors, peers, and subordinates often do not have the opportunity to observe employee behavior. Instead, the customer is often the only person present to observe the employee’s performance and thus is the best source of performance information.
Many companies in service industries have moved toward customer evaluations of employee performance. Marriott Corporation provides a customer satisfaction card in every room and mails surveys to a random sample of customers after their stay in a Marriott hotel. Whirlpool’s Consumer Services Division conducts on-site (using the service technicians’ handheld computers), mail, and telephone surveys of customers after factory service technicians have serviced their appliances. These surveys allow the company to evaluate an individual technician’s customer-service behaviors while in the customer’s home.

Using customer evaluations of employee performance is appropriate in two situations. The first is when an employee’s job requires direct service to the customer or linking the customer to other services within the company. Second, customer evaluations are appropriate when the company is interested in gathering information to determine what products and services the customer wants. That is, customer evaluations serve a strategic goal by integrating marketing strategies with human resource activities and policies. Customer evaluations collected for this purpose are useful for both evaluating the employee and helping to determine whether changes in other HRM activities (such as training or the compensation system) are needed to improve customer service.

The weakness of customer surveys is their expense, particularly if printing, postage, telephone, and labor are involved. On-site surveys completed using handheld computers help eliminate these expenses.

In conclusion, the best source of performance information often depends on the particular job. One should choose the source or sources that provide the best opportunity to observe employee behavior and results. Often, eliciting performance information from a variety of sources results in a performance management process that is accurate and effective. In fact, one recent popular trend in organizations is called 360-degree appraisals. This technique consists of having multiple raters (boss, peers, subordinates, customers) provide input into a manager’s evaluation. The major advantage of the technique is that it provides a means for minimizing bias in an otherwise subjective evaluation technique. It has been used primarily for strategic and developmental purposes and is discussed in greater detail in Chapter 9.

EVIDENCE-BASED HR

Launched in 1994, the MTN Group is a multinational telecommunications group, operating in 21 countries in Africa, Asia and the Middle East. As of 30 April 2011, MTN recorded 149 million subscribers and subsequently passed 150 million subscribers across its operations. MTN’s substantial investment in its network, customer service initiatives and its people training and development was recognised when it took the number one spots in the Ask Afrika Orange Index survey in the Telecommunication Provider and Internet Service Provider categories. Ask Afrika Orange is a South African customer satisfaction index that is researched and compiled annually by market research specialist Ask Afrika. This high level of customer satisfaction at MTN is supported by a variety of evidence-based interventions. For example, proactive and on-going customer satisfaction is measured by an independent company.
Use of Technology in Performance Management

Technology is influencing performance management systems in three ways. As we have seen in the chapter many companies are moving to web-based online paperless performance management systems. These systems help companies ensure that performance goals across all levels of the organization are aligned, provide managers and employees with greater access to performance information and tools for understanding and using the data, and improve the efficiency of the performance management process. Consider the use of online performance management at Sereno, a biotechnology company, and Amcor Sunclipse, a nationwide distribution company headquartered in California. Sereno uses an online performance management system that allows all managers to see the performance of any employee that they are responsible for as well as the total distribution of ratings. Senior managers can see how every manager rated their people and analyze the relationship between department productivity and the total average performance of employees in the department. If there is a lack of relationship it suggests that employees are being overrated. At Amcor Sunclipse, annual appraisals were consistently late, there was no consistency in appraisals, they had little connection to company objectives, and weren’t useful in assigning employees to training programs or filling open positions. The new online process allows e-mail notification to employees and their manager to complete performance evaluations and makes it easier to weight the relative value of different performance goals. For example, all employees are measured on safety behaviors but safety is a more critical part of some jobs (such as manufacturing jobs) than others. The online system can be set up to automatically weight performance areas (safety, reduce waste, etc.) based on how important they are to the job. For example, for a manufacturing supervisor improving safety might count for 40% of their overall performance rating compared to 5% for an office worker.

Second, social media tools such as Facebook and Twitter are increasingly being used to deliver timely feedback. As emphasized in the effective performance management model (see Figure 8.1) performance feedback is a critical part of the performance management process that should not be limited to quarterly, midyear, or annual formal performance evaluations. Also sometimes peers and coworkers can give more timely and accurate feedback and recognition than busy managers. The “Competing through Technology” box shows how social media tools are being used for performance feedback.
Many employees are no longer waiting for a formal performance appraisal to receive feedback or help them understand how to improve. Employees are increasingly relying on social media for performance feedback whether or not the organization is using Facebook, Twitter, or MySpace as part of the performance management process. This is especially true for Generation Y employees who have grown up electronically connected to each other through social media tools that enable personal and professional connections. Regardless, high performers of all ages across generations are likely to seek and value feedback.

Recognizing the potential use of social media for performance management and capitalizing on the employees' needs for feedback from peers as well as their managers, forward-thinking companies are developing websites or purchasing software to help make performance management more of an ongoing dynamic process. Social media tools provide the opportunity for employees to get recognition from peers who may be in the best position to observe and quickly recognize good performance. Use of social media as a performance management tool is likely to be more prevalent in companies that have a culture emphasizing open communications rather than those that believe they need managers to tightly control and monitor performance. For example, Accenture has developed a Facebook-type program called Performance Multiplier that allows employees to update their performance and post weekly performance goals. Leo Pharma Inc. has a Facebook-like wall that serves as a virtual bulletin board where employees can recognize each other for behaviors that support the company’s core values. Salesforce work.com's performance management platform resembles a Facebook page. Employees and managers can send each other colorful “badges” to recognize good performance. The badges include slogans such as “you rock” or “kicking butt.” Also employees can receive feedback and coaching from peers. Employees can post short questions about their performance such as “What did you think about my speech?” or “How can I handle angry customers better?” The questions are e-mailed to managers, peers, and anyone else from whom the employee wants to receive feedback. The responses are gathered together so they are anonymous and sent back to the employee, providing a quick and timely performance review. Worksimple is a social performance platform based on actual work and social goals that happen throughout the workday. Worksimple helps employees develop current and future goals, tie them into team and company goals, and share them with peers and managers to get feedback and keep them up-to-date on changes in the goals. Some companies are also posting performance review forms on Wikis to improve the accuracy and validity of evaluations by allowing all parties who have observed an employee’s performance, including managers, peers, and customers, to provide input into the process and valuable feedback to employees.

**DISCUSSION QUESTIONS**

1. Consider the performance management process shown in Figure 8.1. On which step(s) in the process do you think social media tools can have the greatest positive influence?

2. What are the potential disadvantages of using social media tools in performance management?

Third, companies are relying on electronic tracking and monitoring systems and software to ensure that employees are working when and how they should be and to block access to visiting certain websites (such as those containing pornographic images). These systems include hand and fingerprint recognition systems, global positioning systems (GPS), and systems that can track employees using cell phones and handheld computers.

For example, at the New York law firm Akin & Smith LLC, paralegals, receptionists, and clerks clock in by placing their finger on a sensor kept at a secretary’s desk. The managing partners believe the system improves productivity and keeps everyone honest, holding them to their lunch times. 72

Economic Advantages Corporation, a mortgage service company with offices in Vermont and New York, installed an attendance tracking system. The new system implies that the company’s salaried workers, client services representatives, get paid by the hour. Automated Waste Disposal, based in Danbury, Connecticut, was concerned with the amount of overtime hours of garbage collectors and sales staff. The operations manager installed a global positioning system (GPS) in garbage trucks and sales vehicles. The tracking technology has reduced the need for overtime hours to complete work, eliminating employees getting “lost” during the day and visiting friends or local restaurants during work hours. 73

Meijer, a retail supercenter offering groceries and 40 other departments (including furniture, automotive, fashion, and health and beauty), is one of several retailers using software designed to improve the efficiency of cashiers. 74 The store’s computer times how long it takes to complete each customer transaction, taking into account the kinds of merchandise being purchased as well as whether customers are paying with cash, credit, gift cards, or store credit. Each week the cashiers receive scores. If the cashier falls below the baseline score too many times, they may be carefully monitored by their manager, moved to a lower-paying job, or even lose their job!

The rationale behind the system is to maximize efficiency to improve customer service. Meijer suggests that the system has helped managers identify slow cashiers and work with them to improve their efficiency. It also allows the company to establish standards for identifying which newly hired cashiers in the 90-day probationary period should be transferred or fired. However, interviews with cashiers suggest that it has increased their stress and decreased other customer service behaviors not related to efficiency, such as making eye contact with customers, or rushing older or physically challenged customers who might need help unloading and paying for their merchandise. Some customers like the quicker checkout times, but others feel that the cashiers are not as friendly with them because they are rushed at checkout.

Despite the potential increased productivity and efficiency benefits that can result from these systems, they still present privacy concerns. Critics argue that these systems threaten to reduce the workplace to an electronic sweatshop in which employees are treated as robots that are monitored to maximize productivity for every second they are at work. Also, electronic monitoring systems such as GPS threaten employees’ rights and dignity to work without being monitored.

Some argue that electronic tracking systems are needlessly surveilling and tracking employees when there is no reason to believe that anything is wrong.
Good managers know what their employees are doing, and electronic systems should not be a substitute for good management. Critics also argue that such systems result in less productivity and motivation, demoralize employees, and create unnecessary stress. A mentality is created that employees have to always be at their desks to be productive. Advocates, on the other hand, counter that these systems ensure that time is not abused, they improve scheduling, and they help managers identify lazy workers. To avoid the potential negative effects of electronic monitoring, managers must communicate why employees are being monitored. Monitoring can also be used as a way for more experienced employees to coach less experienced employees.

REDUCING RATER ERRORS, POLITICS, AND INCREASING RELIABILITY AND VALIDITY OF RATINGS

Research consistently reveals that humans have tremendous limitations in processing information. Because we are so limited, we often use “heuristics,” or simplifying mechanisms, to make judgments, whether about investments or about people. These heuristics, which appear often in subjective measures of performance, can lead to rater errors. Performance evaluations may also be purposefully distorted to achieve personal or company goals (appraisal politics). Table 8.11 shows the different types of rating errors. Similar to me error is based on stereotypes the rater has about how individuals with certain characteristics are expected to perform. Leniency, strictness, and central tendency are known as distributional errors because the rater tends to use only one part of the rating scale. Appraisal politics refer to evaluators purposefully distorting a rating to achieve personal or company goals. Research suggests that several factors promote appraisal politics. These factors are inherent in the appraisal system and

<table>
<thead>
<tr>
<th>RATER ERROR</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>Similar to me</td>
<td>Individuals who are similar to us in race, gender, background, interest, beliefs, etc., receive higher ratings than those who are not.</td>
</tr>
<tr>
<td>Contrast</td>
<td>Ratings influenced by comparison between individuals instead of an objective standard (e.g., employee receives lower than deserved rating because he/she is compared to outstanding peers).</td>
</tr>
<tr>
<td>Leniency</td>
<td>Rater gives high ratings to all employees regardless of their performance.</td>
</tr>
<tr>
<td>Strictness</td>
<td>Rater gives low ratings to all employees regardless of their performance.</td>
</tr>
<tr>
<td>Central tendency</td>
<td>Rater gives middle or average ratings to all employees despite their performance.</td>
</tr>
<tr>
<td>Halo</td>
<td>Rater gives employee high ratings on all aspects of performance because of their overall positive impression of the employee.</td>
</tr>
<tr>
<td>Horns</td>
<td>Rater gives employee low ratings on all aspects of performance because of an overall negative impression of the employee.</td>
</tr>
</tbody>
</table>

LO 8-8
Distinguish types of rating errors, and explain how to minimize each in a performance evaluation.

Appraisal Politics
A situation in which evaluators purposefully distort ratings to achieve personal or company goals.

Table 8.11
Typical Rater Errors
the company culture. Appraisal politics are most likely to occur when raters are accountable to the employee being rated, there are competing rating goals, and a direct link exists between performance appraisal and highly desirable rewards. Also, appraisal politics are likely to occur if top executives tolerate distortion or are complacent toward it, and if distortion strategies are part of “company folklore” and are passed down from senior employees to new employees. For example, employees at King Pharmaceutical resisted development of a centralized performance system. 77 King Pharmaceutical is built from smaller acquired companies, each with a unique culture. Each department within the company had developed its own way of figuring out how to evaluate performance and link it to pay.

There are three approaches to reducing rating errors. 78 They include rater error training, frame-of-reference training, and calibration meetings. Rater error training attempts to make managers aware of rating errors and helps them develop strategies for minimizing those errors. 79 These programs consist of having the participants view videotaped vignettes designed to elicit rating errors such as “contrast.” They then make their ratings and discuss how the error influenced the rating. Finally, they get tips to avoid committing those errors. This approach has been shown to be effective for reducing errors, but there is evidence that reducing rating errors can also reduce accuracy. 80

Rater accuracy training, also called frame-of-reference training, attempts to emphasize the multidimensional nature of performance and to get raters to understand and use the same idea of high, medium, and low performance when making evaluations. This involves providing examples of performance for each dimension and then discussing the actual or “correct” level of performance that the example represents. 81 Accuracy training seems to increase accuracy, provided that in addition the raters are held accountable for ratings, job-related rating scales are used, and raters keep records of the behavior they observe. 82

An important way to help ensure that performance is evaluated consistently across managers and to reduce the influence of rating errors and politics on appraisals is to hold calibration meetings. 83 Calibration meetings provide a way to discuss employees’ performance with the goal of ensuring that similar standards are applied to their evaluations. These meeting include managers responsible for conducting performance appraisals and their managers and are facilitated by an internal HR representative or an external consultant. In the meetings, each employee’s performance rating and the manager’s reasons for the ratings are discussed. Managers have the opportunity to discuss the definition of each performance rating and ask questions. The calibration meetings help managers identify if their ratings are too positive or negative or tend to be based on employees’ most recent performance. Managers are more likely to provide accurate evaluations that are well-documented when they know they may have to justify them in a calibration meeting. Calibration meetings can also help eliminate politics by discussing how performance ratings relate to business results. Also, in addition to rater training and calibration meetings, to minimize appraisal politics, managers should keep in mind the characteristics of a fair appraisal system, shown earlier in Table 8.2. Thus, managers should also:

• Build top management support for the appraisal system and actively discourage distortion.
• Give raters some latitude to customize performance objectives and criteria for their ratees.

Calibration Meetings
Meetings attended by managers in which employee performance ratings are discussed and evidence supporting the ratings is provided. The purpose of the meetings is to reduce the influence of rating errors and politics on performance appraisals.
• Recognize employee accomplishments that are not self-promoted.
• Provide employees with access to information regarding which behaviors are desired and acceptable at work.
• Encourage employees to actively seek and use feedback to improve performance.
• Make sure constraints such as budget do not drive the process.
• Make sure appraisal processes are consistent across the company.
• Foster a climate of openness to encourage employees to be honest about weaknesses.\(^{84}\)

Performance Feedback

Once the expected performance has been defined and employees’ performances have been measured, it is necessary to feed that performance information back to the employees so they can correct any deficiencies. The performance feedback process is complex and provokes anxiety for both the manager and the employee.

Few of us feel comfortable sitting in judgment of others. The thought of confronting others with what we perceive to be their deficiencies causes most of us to shake in our shoes. If giving negative feedback is painful, receiving it can be excruciating—thus the importance of the performance feedback process.

THE MANAGER’S ROLE IN AN EFFECTIVE PERFORMANCE FEEDBACK PROCESS

If employees are not made aware of how their performance is not meeting expectations, their performance will almost certainly not improve. In fact, it may get worse. Effective managers provide specific performance feedback to employees in a way that elicits positive behavioral responses. Because of the importance of performance feedback for an effective performance management system many companies are training managers on how to provide feedback. For example, Lubrizol Corporation, a chemical manufacturer based in Wickliffe, Ohio, requires that managers enroll in a two-day training course designed to help them provide meaningful feedback.\(^{85}\) The company’s goal is to become recognized as the best developer of people. The training course focuses on how managers give feedback, who they need help from, and how they can hold themselves accountable. To provide effective performance feedback managers should consider the following recommendations.\(^{86}\)

*Feedback Should Be Given Frequently, Not Once a Year.* There are two reasons for this. First, managers have a responsibility to correct performance deficiencies immediately on becoming aware of them. If performance is subpar in January, waiting until December to appraise the performance could mean an 11-month productivity loss. Second, a major determinant of the effectiveness of a feedback session is the degree to which the subordinate is not surprised by the evaluation. An easy rule to follow is that employees should receive such frequent performance feedback that they already know almost exactly what their formal evaluation will be.
Surveys results from several companies suggest that many employees, especially those in Generation Y (employees born after 1980), want more frequent and candid performance feedback from managers beyond what is provided once or twice a year during their formal performance review. As a result, Ernst & Young LLC created an online “Feedback Zone” that prompts employees twice a year to request feedback but also allows them to request or submit feedback at any time.

Create the Right Context for the Discussion. Managers should choose a neutral location for the feedback session. The manager’s office may not be the best place for a constructive feedback session because the employee may associate the office with unpleasant conversations. Managers should describe the meeting as an opportunity to discuss the role of the employee, the role of the manager, and the relationship between them. Managers should also acknowledge that they would like the meeting to be an open dialogue.

Ask the Employee to Rate His or Her Performance before the Session. Having employees complete a self-assessment before the feedback session can be very productive. It requires employees to think about their performance over the past rating period, and it encourages them to think about their weaknesses. Although self-ratings used for administrative decisions are often inflated, there is evidence that they may actually be lower than supervisors’ ratings when done for developmental purposes. Another reason a self-assessment can be productive is that it can make the session go more smoothly by focusing discussion on areas where disagreement exists, resulting in a more efficient session. Finally, employees who have thought about past performance are more able to participate fully in the feedback session.

Encourage the Employee to Participate in the Session. Managers can take one of three approaches in performance feedback sessions. In the “tell-and-sell” approach, managers tell the employees how they have rated them and then justify these ratings. In the “tell-and-listen” approach, managers tell employees how they have rated them and then let the employees explain their side of the story. In the “problem-solving” approach, managers and employees work together to solve performance problems in an atmosphere of respect and encouragement. In spite of the research demonstrating the superiority of the problem-solving approach, most managers still rely on the tell-and-sell approach.

When employees participate in the feedback session, they are consistently satisfied with the process. (Recall our discussion of fairness earlier in this chapter.) Participation includes allowing employees to voice their opinions of the evaluation, as well as discuss performance goals. One study found that, other than satisfaction with one’s supervisor, participation was the single most important predictor of satisfaction with the feedback session.

Recognize Effective Performance through Praise. One usually thinks of performance feedback sessions as focusing on the employee’s performance problems. This should never be the case. The purpose of the session is to give accurate performance feedback, which entails recognizing effective performance as well as poor performance. Praising effective performance provides reinforcement for that behavior. It also adds credibility to the feedback by making it clear that the manager is not just identifying performance problems.
Focus on Solving Problems. A common mistake that managers make in providing performance feedback is to try to use the session as a chance to punish poorly performing employees by telling them how utterly lousy their performance is. This only reduces the employees’ self-esteem and increases defensiveness, neither of which will improve performance.

To improve poor performance, a manager must attempt to solve the problems causing it. This entails working with the employee to determine the actual cause and then agreeing on how to solve it. For example, a salesperson’s failure to meet a sales goal may be the result of lack of a proper sales pitch, lack of product knowledge, or stolen sales by another salesperson. Each of these causes requires a different solution. Without a problem-solving approach, however, the correct solution might never be identified.

Focus Feedback on Behavior or Results, Not on the Person. One of the most important things to do when giving negative feedback is to avoid questioning the employee’s worth as a person. This is best accomplished by focusing the discussion on the employee’s behaviors or results, not on the employee. Saying “You’re screwing up! You’re just not motivated!” will bring about more defensiveness and ill feelings than stating “You did not meet the deadline that you agreed to because you spent too much time on another project.”

Minimize Criticism. Obviously, if an individual’s performance is below standard, some criticism must take place. However, an effective manager should resist the temptation to reel off a litany of offenses. Having been confronted with the performance problem, an employee often agrees that a change is in order. However, if the manager continues to come up with more and more examples of low performance, the employee may get defensive.

Agree to Specific Goals and Set a Date to Review Progress. The importance of goal setting cannot be overemphasized. It is one of the most effective motivators of performance. Research has demonstrated that it results in increased satisfaction, motivation to improve, and performance improvement. Besides setting goals, the manager must also set a specific follow-up date to review the employee’s performance toward the goal. This provides an added incentive for the employee to take the goal seriously and work toward achieving it.

EVIDENCE-BASED HR

Like most businesses, Google had files of data about managers—results of performance reviews, surveys measuring employee attitudes, and nominations for management awards. Google used its expertise in analyzing large amounts of data to find what is most relevant to use its database on managers to identify a profile of the kind of manager whose team is most successful. The company’s people analytics group (which brings together psychologists, MBAs, and data mining experts) analyzed 10,000 observations about managers in terms of more than 100 variables, looking for patterns. The initial finding was a surprise to some at a company that had once operated without managers: teams with good managers outperform teams with bad managers. But what makes a good manager? Under the leadership of Google’s HR vice president, the company distilled its findings into a list of the behaviors that get results:
What Managers Can Do to Diagnose Performance Problems and Manage Employees’ Performance

As we emphasized in the previous discussion, employees need performance feedback to improve their current job performance. As we discuss in Chapter 9, “Employee Development,” performance feedback is also needed for employees to develop their knowledge and skills for the future. In addition to understanding how to effectively give employees performance feedback, managers need to be able to diagnose the causes of performance problems and take actions to improve and maintain employee performance. For example, giving performance feedback to marginal employees may not be sufficient for improving their performance.

DIAGNOSING THE CAUSES OF POOR PERFORMANCE

Many different reasons can cause an employee’s poor performance. For example, poor performance can be due to lack of employee ability, misunderstanding of performance expectations, lack of feedback, or the need for training an employee who does not have the knowledge and skills needed to meet the performance standards. When diagnosing the causes of poor performance it is important to consider whether the poor performance is detrimental to the business. That is, is poor performance critical to completing the job and does it affect business results? If it is detrimental, then the next step is to conduct a performance analysis to determine the cause of poor performance. The different factors that should be considered in analyzing poor performance are shown in

Figure 8.8. For example, if an employee understands the expected level of performance, has been given sufficient feedback, understands the consequences, but lacks the knowledge and skills needed to meet the performance standard, this suggests that the manager may want to consider training the employee to improve performance, moving the employee to a different job that better fits that person’s skills, or discharging the employee and making sure that selection methods to find a new employee measure the level of knowledge and skills needed to perform the job.

<table>
<thead>
<tr>
<th>Input</th>
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<tbody>
<tr>
<td>Does the employee recognize what he or she is supposed to do?</td>
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<tr>
<td>Are the job flow and procedures logical?</td>
</tr>
<tr>
<td>Do employees have the resources (tools, equipment, technology, time) needed for successful performance?</td>
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<tr>
<td>Are other job demands interfering with good performance in this area?</td>
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<table>
<thead>
<tr>
<th>Employee Characteristics</th>
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</thead>
<tbody>
<tr>
<td>Does the employee have the necessary skills and knowledge needed?</td>
</tr>
<tr>
<td>Does the employee know why the desired performance level is important?</td>
</tr>
<tr>
<td>Is the employee mentally, physically, and emotionally able to perform at the expected level?</td>
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<table>
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<tr>
<th>Feedback</th>
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<tbody>
<tr>
<td>Has the employee been given information about his or her performance?</td>
</tr>
<tr>
<td>Is performance feedback relevant, timely, accurate, specific, and understandable?</td>
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<thead>
<tr>
<th>Performance Standard/Goals</th>
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<tbody>
<tr>
<td>Do performance standards exist?</td>
</tr>
<tr>
<td>Does the employee know the desired level of expected performance?</td>
</tr>
<tr>
<td>Does the employee believe she or he can reach the performance standard?</td>
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<table>
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<tr>
<th>Consequences</th>
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<tbody>
<tr>
<td>Are consequences (rewards, incentives) aligned with good performance?</td>
</tr>
<tr>
<td>Are the consequences of performance valuable to the employee?</td>
</tr>
<tr>
<td>Are performance consequences given in a timely manner?</td>
</tr>
<tr>
<td>Do work group or team norms encourage employees not to meet performance standards?</td>
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</table>

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After conducting the performance analysis, managers should meet with the employee to discuss the results, agree to the next steps that the manager and employee will take to improve performance (e.g., training, providing resources, giving more feedback), discuss the consequences of failing to improve performance, and set a time line for improvement. This type of discussion is most beneficial if it occurs more frequently than the quarterly or yearly performance review, so performance issues can be quickly dealt with before they have adverse consequences for the company (and the employee). Below we discuss the actions that should be considered for different types of employees.

ACTIONS FOR MANAGING EMPLOYEES’ PERFORMANCE

Table 8.12 shows actions for the manager to take with four different types of employees. As the table highlights, managers need to take into account employees’ ability, motivation, or both in considering ways to improve performance. To determine an employee’s level of ability, a manager should consider if he or she has the knowledge, skills, and abilities needed to perform effectively. Lack of ability may be an issue if an employee is new or the job has recently changed. To determine employees’ level of motivation, managers need to consider if employees are doing a job they want to do and if they feel they are being appropriately paid or rewarded. A sudden negative change in an employee's performance may indicate personal problems.

### Table 8.12

<table>
<thead>
<tr>
<th>ABILITY</th>
<th>HIGH</th>
<th>LOW</th>
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<tbody>
<tr>
<td><strong>HIGH</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LOW</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ABILITY</strong></td>
<td>Solid performers</td>
<td>Misdirected effort</td>
</tr>
<tr>
<td></td>
<td>• Reward good performance</td>
<td>• Coaching</td>
</tr>
<tr>
<td></td>
<td>• Identify development opportunities</td>
<td>• Frequent performance feedback</td>
</tr>
<tr>
<td></td>
<td>• Provide honest, direct feedback</td>
<td>• Goal setting</td>
</tr>
<tr>
<td><strong>MOTIVATION</strong></td>
<td>Underutilizers</td>
<td>Deadwood</td>
</tr>
<tr>
<td></td>
<td>• Give honest, direct feedback</td>
<td>• Withholding pay increases</td>
</tr>
<tr>
<td></td>
<td>• Provide counseling</td>
<td>• Demotion</td>
</tr>
<tr>
<td></td>
<td>• Use team building and conflict resolution</td>
<td>• Outplacement</td>
</tr>
<tr>
<td></td>
<td>• Link rewards to performance outcomes</td>
<td>• Firing</td>
</tr>
<tr>
<td></td>
<td>• Offer training for needed knowledge or skills</td>
<td>• Specific, direct feedback on performance problems</td>
</tr>
<tr>
<td></td>
<td>• Manage stress levels</td>
<td></td>
</tr>
</tbody>
</table>
Employees with high ability and motivation include likely good and outstanding performers (solid performers). Table 8.12 emphasizes that managers should not ignore employees with high ability and high motivation. Managers should provide development opportunities to keep them satisfied and effective. Some individuals who are outstanding or good performers may be candidates for leadership positions within the company. As a result they will need challenging development experiences and exposure to different aspects of the business. These employees would be considered “A players” (see Table 8.3). We discuss development experiences in Chapter 9. Other employees may not desire positions with managerial responsibility. These employees need development opportunities to help keep them engaged in their work and to avoid obsolescence. These employees would be considered B players in Table 8.3. Finally, there are different reasons why employees are considered poor performers (C players shown in Table 8.3). Poor performance resulting from lack of ability but not motivation (misdirected effort) may be improved by skill development activities such as training or temporary assignments. Managers with employees who have the ability but lack motivation (underutilizers) need to consider actions that focus on interpersonal problems or incentives. These actions include making sure that incentives or rewards that the employee values are linked to performance and making counseling available to help employees deal with personal problems or career or job dissatisfaction. Chronic poor performance by employees with low ability and motivation (deadwood) indicates that outplacement or firing may be the best solution.

Developing and Implementing a System That Follows Legal Guidelines

We now discuss the legal issues and constraints affecting performance management. Because performance measures play a central role in such administrative decisions as promotions, pay raises, and discipline, employees who sue an organization over these decisions ultimately attack the measurement systems on which the decisions were made. Two types of cases have dominated: discrimination and unjust dismissal.

In discrimination suits, the plaintiff often alleges that the performance measurement system unjustly discriminated against the plaintiff because of age, race, or gender. Many performance measures are subjective, and we have seen that individual biases can affect them, especially when those doing the measuring harbor racial or gender stereotypes. For example, in 2002, Ford Motors settled two class action lawsuits for $10.5 million. Ford said it needed a forced ranking system because its culture discouraged candor in performance evaluations. Ford Motors Performance Management System involved grading 1,800 middle managers as A, B, or C. Managers who received a C for one year received no bonus; two years at the C level meant possible demotion and termination. Ten percent of the managers were to be graded as C. But some employees claimed the system had a negative impact on older, white workers because they received a larger proportion of C grades. Eventually, Ford eliminated the forced ranking system.

In Brito v. Zia, the Supreme Court essentially equated performance measures with selection tests. It ruled that the Uniform Guidelines on Employee Selection Procedures apply to evaluating the adequacy of a performance appraisal
instrument. This ruling presents a challenge to those involved in developing performance measures, because a substantial body of research on race discrimination in performance rating has demonstrated that both white and black raters give higher ratings to members of their own racial group, even after rater training.\(^9\) There is also evidence that the discriminatory biases in performance rating are worse when one group makes up a small percentage of the workgroup. When the vast majority of the group is male, females receive lower ratings; when the minority is male, males receive lower ratings.\(^9\)

In the second type of suit, an unjust dismissal suit, the plaintiff claims that the dismissal was for reasons other than those the employer claims. For example, an employee who works for a defense contractor might blow the whistle on the company for defrauding the government. If the company fires the employee, claiming poor performance, the employee may argue that the firing was, in fact, because of blowing the whistle on the employer—in other words, that the dismissal was unjust. The court case will likely focus on the performance measurement system used as the basis for claiming the employee’s performance was poor. Unjust dismissal also can result from terminating for poor performance an employee who has a history of favorable reviews and raises. This may occur especially when a new evaluation system is introduced that results in more experienced older employees receiving unsatisfactory reviews. Rewarding poor performers or giving poor performers positive evaluations because of an unwillingness to confront a performance issue undermines the credibility of any performance management system. This makes it difficult to defend termination decisions based on a performance appraisal system.

Because of the potential costs of discrimination and unjust dismissal suits, an organization needs to determine exactly what the courts consider a legally defensible performance management system. Based on reviews of such court decisions, we offer the following characteristics of a system that will withstand legal scrutiny.\(^9\)

1. The system should be developed by conducting a valid job analysis that ascertains the important aspects of job performance. The requirements for job success should be clearly communicated to employees.
2. The system should be based on either behaviors or results; evaluations of ambiguous traits should be avoided. Also, performance discussions should focus on work behavior and results other than questioning potential underlying reasons for behavior and results such as a physical or mental disability.
3. Raters should be trained in how to use the system rather than simply given the materials and left to interpret how to conduct the appraisal.
4. There should be some form of review by upper-level managers of all the performance ratings, and there should be a system for employees to appeal what they consider to be an unfair evaluation.
5. The organization should provide some form of performance counseling or corrective guidance to help poor performers improve their performance before being dismissed. Both short- and long-term performance goals should be included.
6. Multiple raters should be used, particularly if an employee’s performance is unlikely to be seen by only one rating source such as manager or customer. At a minimum, employees should be asked to comment on their appraisals. There should be a dialogue between the manager and the employee.
7. Performance evaluations need to be documented.
A LOOK BACK

The story that opened this chapter discussed how companies redesign their Performance Management systems in order to evaluate what employees accomplish and how they do this.

QUESTIONS

1. Explain why peer or co-worker evaluations might be necessary to evaluate values.
2. Do you think evaluations of values and their related behavior should receive equal, more, or less weight than evaluation of objectives in employees’ performance evaluation? Why?
3. Progressive and larger companies have often formulated their corporate values. If a company has no written corporate values, what can you do and what questions can you ask to gain insight into what the company stands for?

SUMMARY

Measuring and managing performance is a challenging enterprise and one of the keys to gaining competitive advantage. Performance management systems serve strategic, administrative, and developmental purposes—their importance cannot be overestimated. A performance measurement system should be evaluated against the criteria of strategic congruence, validity, reliability, acceptability, and specificity. Measured against these criteria, the comparative, attribute, behavioral, results, and quality approaches have different strengths and weaknesses. Thus, deciding which approach and which source of performance information are best depends on the job in question.

Effective managers need to be aware of the issues involved in determining the best method or combination of methods for their particular situations. In addition, once performance has been measured, a major component of a manager’s job is to feed that performance information back to employees in a way that results in improved performance rather than defensiveness and decreased motivation. Managers should take action based on the causes for poor performance: ability, motivation, or both. Managers must be sure that their performance management system can meet legal scrutiny, especially if it is used to discipline or fire poor performers.

KEY TERMS

- Performance management, 347
- Performance appraisal, 347
- Performance feedback, 347
- Strategic congruence, 353
- Validity, 355
- Reliability, 355
- Acceptability, 356
- Specificity, 356
- Competencies, 367
- Competency model, 367
- Kaizen, 375
- Upward feedback, 380
- 360-degree appraisal, 382
- Appraisal politics, 386
- Calibration meetings, 387

DISCUSSION QUESTIONS

1. What are examples of administrative decisions that might be made in managing the performance of professors? Developmental decisions?
2. What would you consider the strategy of your university (e.g., research, undergraduate teaching, graduate teaching, a combination)? How might the performance management system for faculty members fulfill its strategic purpose of eliciting the types of behaviors and results required by this strategy?
3. What do you think is the most important step shown in the model of the effective performance management process? Justify your answer.
4. What sources of performance information would you use to evaluate faculty members’ performance?

5. What are the advantages and disadvantages of a performance management system that evaluates values?

6. Think of the last time you had a conflict with another person, either at work or at school. Using the guidelines for performance feedback, how would you provide effective performance feedback to that person?

7. Explain what fairness has to do with performance management.

8. Why might a manager intentionally distort appraisal results? What would you recommend to minimize this problem?


10. A delivery driver contaminated a hospital’s oxygen supply by refilling the hospital’s main oxygen supply line with trichloroethane, a mild anesthetic. Following detection of the contamination, all patients were switched to oxygen tanks and no patients were injured. How would you diagnose the cause of this performance problem? Explain.

11. How can the use of social media such as Facebook and Twitter-like applications benefit the performance management process?

**SELF-ASSESSMENT EXERCISE**

How do you like getting feedback? To test your attitudes toward feedback, take the following quiz. Read each statement, and write A next to each statement you agree with. If you disagree with the statement, write D.

1. I like being told how well I am doing on a project.
2. Even though I may think I have done a good job, I feel a lot more confident when someone else tells me so.
3. Even when I think I could have done something better, I feel good when other people think well of me for what I have done.
4. It is important for me to know what people think of my work.
5. I think my instructor would think worse of me if I asked him or her for feedback.
6. I would be nervous about asking my instructor how she or he evaluates my behavior in class.
7. It is not a good idea to ask my fellow students for feedback; they might think I am incompetent.
8. It is embarrassing to ask other students for their impression of how I am doing in class.
9. It would bother me to ask the instructor for feedback.
10. It is not a good idea to ask the instructor for feedback because he or she might think I am incompetent.
11. It is embarrassing to ask the instructor for feedback.
12. It is better to try to figure out how I am doing on my own, rather than to ask other students for feedback.

For statements 1–4, add the total number of As: _____
For statements 5–12, add the total number of As: _____

For statements 1–4, the greater the number of As, the greater your preference for and trust in feedback from others.
For statements 5–12, the greater the number of As, the greater the risk you believe there is in asking for feedback.

How might this information be useful in understanding how you react to feedback in school or on the job?

**EXERCISING STRATEGY**

**Cascading Goals**

Baxter Healthcare Corporation has an automated goal-alignment system that about half of its 55,000 employees participate in. At Baxter the process starts with the company’s top strategic goals known as the four Bs (Best Team, Best Partner, Best Investments, Best Citizen). The executive team creates goals under each category. The top 150 executives then develop their goals which are distributed to employees. The
goals are collected in a performance management system. A website provides guidance on how to write goals, and achievement results are shared with the company’s performance review and compensation systems. A manager of e-procurement of suppliers at Baxter who reports to the VP of purchasing says, “The biggest value is the digitization and consistent fashion of performance information. Historically we’d put this information into filing cabinets and pull it out once or twice a year. What this process is, really, is a tool that provides me with an opportunity to better understand Baxter’s expectations of me and my team.”

**QUESTIONS**

1. How does this type of goal-setting process contribute to effective performance management?

Baxter uses a website to provide guidance on how to write goals. What are the characteristics of effective goals and objectives that should be emphasized on the website?

3. What are the potential disadvantages of relying entirely on goals or objectives for performance management? What recommendations would you give, if any, to Baxter to increase the effectiveness of this system?

**MANAGING PEOPLE**

**Performance Management Helps Turn Around a Healthcare Organization**

Financial distress plagued Scripps Health, a private nonprofit community health system located in San Diego, California. The company was losing money, the chief executive officer resigned, turnover among nurses was high, and employee morale was poor. Under the leadership of a new CEO, a new strategic plan was developed that included streamlining business operations, increasing the efficiencies of operations, and improving employee satisfaction and performance. Implementation of the strategic plan was successful.

A new performance management system that focused on leadership development, metrics, recognition of employees and business unit performance, and using compensation to motivate employees was a key contributor to the successful turnaround of Scripps Health. Scripps Health performance management system plays an important role in helping Scripps Health motivate and engage employees, which leads to delighting customers through providing excellent patient care and service.

Patient admissions and donations are high and employee turnover dropped below industry standards. Today, Scripps Health system includes five acute-care hospitals, more than 23 primary and specialty care outpatient clinics, home health care services, and more than 2,600 affiliated physicians and 13,000 employees. Scripps also provides health education and wellness events and programs such as exercise classes, heart health seminars, parenting classes, and fund raising events across San Diego County.

Since 2008 Scripps has been named one of the 100 Best Companies to Work For by *Fortune* magazine.

Performance management is part of Scripps’ annual planning, business strategy, financial and operations processes through collaboration between HR, finance, strategic planning, and operations departments. This helps ensure that the performance management process helps Scripps meet its strategic business goals and employees engage in behaviors that support the achievement of these goals. The performance appraisal evaluates employees on annual objectives and behaviors related to the Scripps core values (respect, quality, and efficiency). The performance management process is aligned for all employees in the organization including board and senior executive management and staff employees. Also, Scripps Health performance management process encourages managers and employees to work together in evaluating performance, setting measurable goals, indentifying areas for performance improvement, and recognizing excellent performance.

HR introduced an automated, online performance evaluation that simplified the performance management process. Managers can more easily track employee performance strengths and weaknesses and ensure performance appraisals are valid by linking them to the job description. The online system makes it easier for managers to set personal, employee, and department goals that are linked to functional and organizational goals (a process known as “cascading”
goal setting). Also, the online performance management system helps managers review and track their own, their employees’, and the department’s progress in reaching performance goals.

One of the most important uses for performance management systems is to help motivate and reward employees for effective performance. Scripps Health uses its performance management system to help determine pay increases and reward bonuses. Employees can receive annual pay increases up to 5% based on their performance appraisals. Scripps also has a gainsharing program called “Success Shares” which helps motivate and reward teamwork. Gainsharing programs such as Success Shares are designed to reward outstanding patient care and employee contributions toward financial performance based on the overall performance of their department or business unit. Employees only receive rewards if department or business unit goals and objectives are met or exceeded. Rewards are calculated using formulas which include a combination of patient satisfaction scores and financial objectives. For example, one year Scripps paid out $7.8 million to more than 9,300 employees. On average these employees received $900 with a maximum payout of five days’ pay.

For successful performance management, employees need to receive effective and timely performance feedback from their managers. Employees need to receive feedback on a day-to-day basis as well as during the formal annual performance review. In addition, managers need to understand how to set goals that link employee performance to department and business goals. To facilitate effective performance management, Scripps managers receive extensive performance management education and training. Also, managers’ performance evaluation includes leadership competencies including character, relationships, serve, change, and results which help hold them accountable for evaluating and developing employees.

QUESTIONS
1. The chapter discusses five criteria for effective performance appraisals: strategic congruence, validity, reliability, acceptability, and specificity. Evaluate the Scripps Health appraisal system on each criterion, that is, decide whether the appraisal system meets the criterion, falls short of the criterion, or exceeds the criterion. Provide evidence of each.

2. What are the strengths and weaknesses of online appraisal systems such as the one used by Scripps Health? What changes would you recommend for the system to improve its weaknesses?


Brian Conrad, the practice manager of Meadow Hills Veterinary Center, makes a claim that sounds a lot like statements you often hear in management and HR circles: “The staff is my number one asset in this hospital.” Sometimes statements like that are puffery, but in Conrad’s case, he puts the claim into action in the way he handles performance management at his two Washington State facilities.

Because the organization is small, appraisal interviews are handled at the highest level: each employee being evaluated meets with Conrad and the owners of the practice. Conrad wants them to be full participants in the process, not nervous subjects under a microscope, so he tries to put them at ease by giving employees a few months to look over evaluation forms ahead of time, so they can see what measures will be evaluated. He also keeps the meetings regular and predictable by scheduling a meeting with each employee twice a year.

Conrad also tries to dial down the tension by separating compensation discussions from performance evaluations. In his experience, employees don’t listen well to feedback if they’re busy calculating whether the review will qualify them for a raise. Instead, Conrad meets twice a year with the owners to go over the budget and all the employees’ contributions. Raises and bonuses are determined in those meetings and awarded to employees in meetings separate from the appraisal interviews. This keeps the appraisals focused on what is getting in the way of top performance and how employees can improve.

Conrad also tries to keep appraisal interviews positive by not waiting for appraisal time to address performance problems. His understanding of his position is that he is responsible for addressing performance problems as they arise. When a situation can’t be resolved by a few words from a supervisor, Conrad invites the employee and his or her supervisor to join
him for lunch away from the workplace. There they discuss the issue and look for a solution.

Conrad doesn’t limit communication and feedback to problems. He tries to know employees and their work situations better by looking for informal opportunities for two-way communication. If he needs to run an errand or attend a community event, he invites one of the employees to accompany him and uses that time to ask about their career goals and how they feel about their work. Often, he uncovers opportunities for employees to develop and use untapped skills. In one case, a part-time administrative employee indicated she was interested in full-time work. Over lunch, Conrad and the employee mapped out possible career paths, and she decided to get involved in treatment of the animals. She continued to apply her administrative skills by coordinating surgeries and dentistry, and she enrolled in continuing-education classes so she could assist in the treatment area.

This approach to performance management is part of a larger objective at Meadow Hills. Conrad says he promised employees, “No team member will leave the practice feeling unchallenged, concede to a lack of direction, or have professional growth hindered.” Keeping that promise requires a combination of careful hiring, ongoing training, and honest review of any mistakes that are made. When employees don’t perform up to expectations, managers evaluate whether changes are needed in training or hiring. Conrad expects that employees will keep their part of the bargain by showing a willingness to try new opportunities and participate in problem solving. If employees aren’t willing to buy into this culture, Conrad won’t keep them on board. But apparently not many want to leave. While the rate of employee turnover for the veterinary industry is about 30%, turnover of Meadow Hills has fallen from 25% several years ago to just 10% soon after Conrad made his promise to employees.

QUESTIONS

1. Based on the information given, discuss how well the performance management at Meadow Hills Veterinary Center meets its strategic, administrative, and developmental purposes.

2. What methods for measuring employee performance do you think would be most beneficial for Meadow Hills? Why?

3. Evaluate Brian Conrad’s approach to appraisal interviews. Write a paragraph or two summarizing what Conrad is doing well and how he might further improve the effort.


NOTES


