

Human Resource Management

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Performance Management and Appraisal

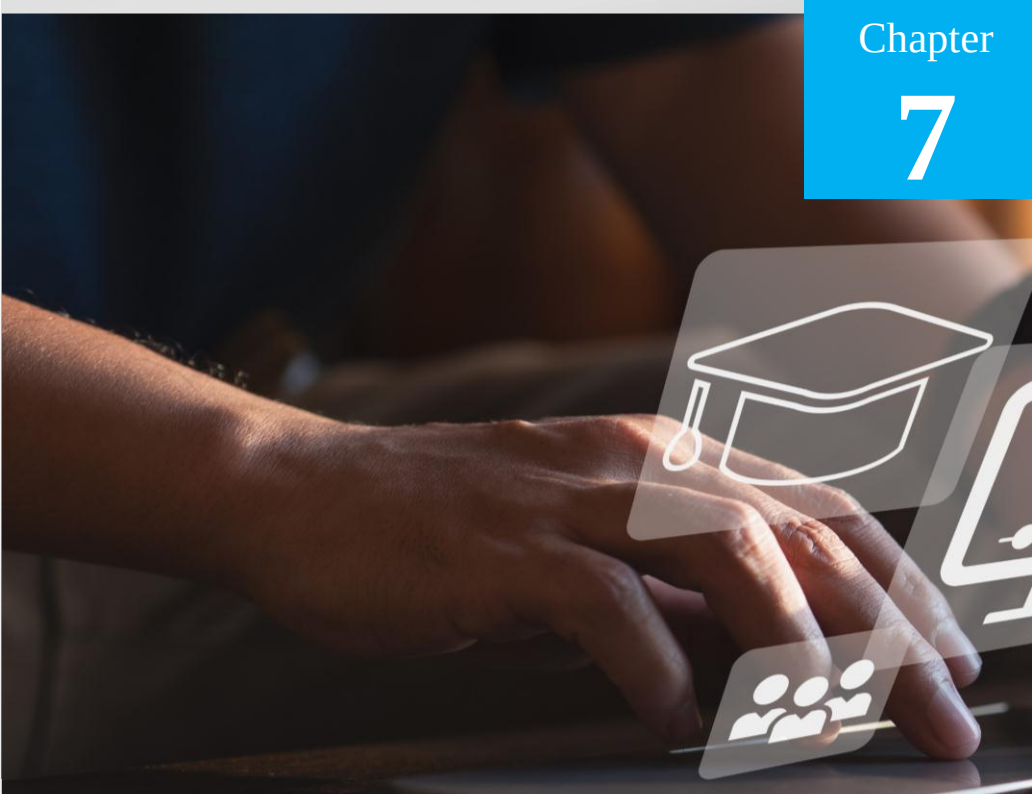
HRM 611

Lecture 7

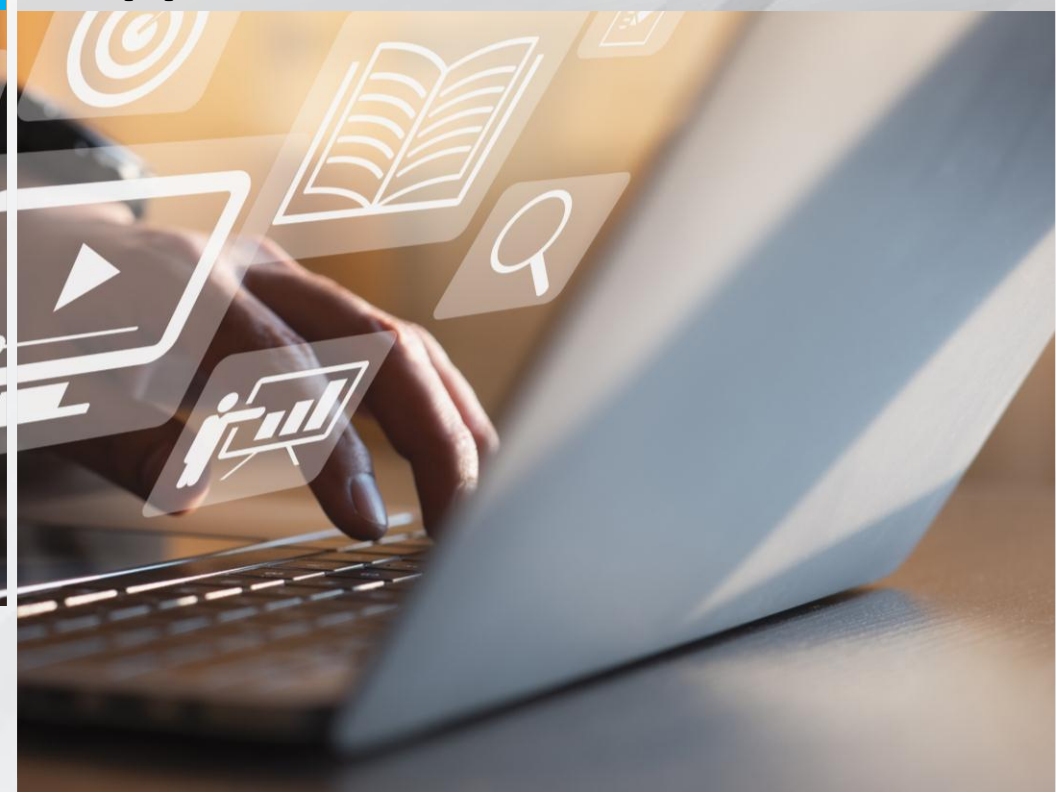


Chapter
7

Performance Management and Appraisal



The purpose of this chapter is to show you how to conduct performance management and appraisal. The main topics we cover include the performance management process, appraisal methods, appraisal performance problems and solutions, performance management, and the appraisal interview.



Chapter

7

LEARNING OUTCOMES

1. Define performance management and discuss how it differs from performance appraisal.
2. Set effective performance appraisal standards.
3. Describe the appraisal process.
4. Develop, evaluate, and administer at least four performance appraisal tools.
5. Explain and illustrate the problems to avoid in appraising performance.
6. Discuss the pros and cons of using different raters to appraise a person's performance.

Why Appraise Performance?

Why Appraise Performance?

- ① → Is basis for pay and promotion decisions.
- ② → Plays an integral role in performance management.
- ③ → Helps in correcting deficiencies and reinforcing good performance.
- ④ → Is useful in career planning.

Basic Concepts in Performance Management and Appraisal

Performance Appraisal

Setting work standards, assessing performance, and providing feedback to employees to motivate, correct, and continue their performance.

Performance Management

An integrated approach to ensuring that an employee's performance supports and contributes to the organization's strategic aims.

Key differences between performance management and traditional appraisals

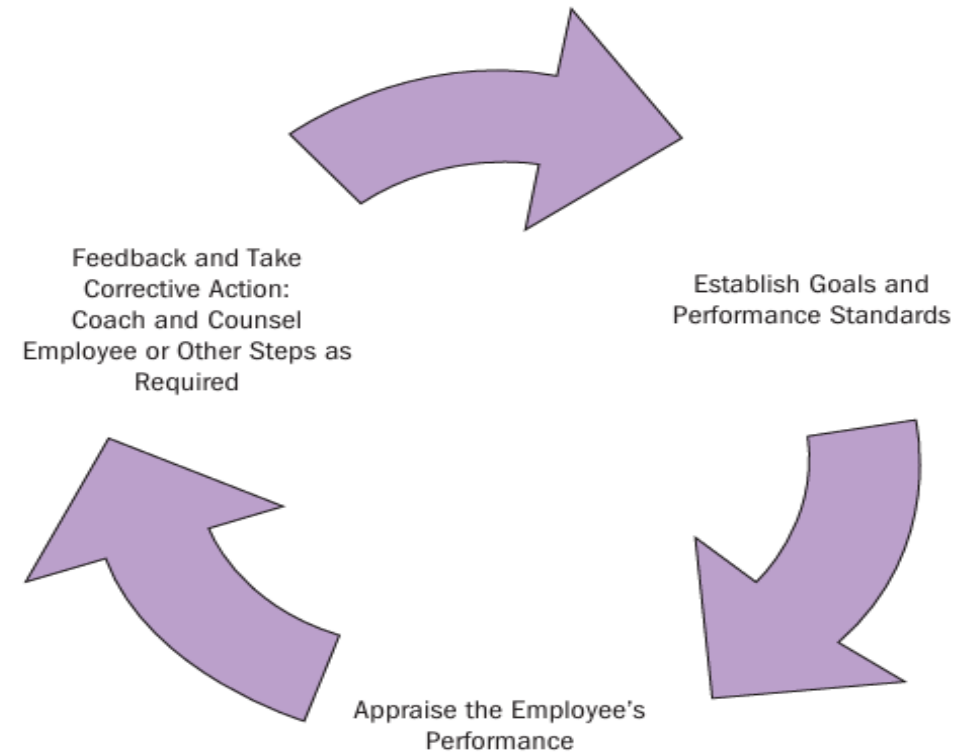
- ❑ **Timing:** Performance management is continuous, while traditional appraisals are periodic.
- ❑ **Focus:** Performance management is goal-oriented and emphasizes development, while traditional appraisals often focus on past performance evaluation.
- ❑ **Involvement:** Performance management involves ongoing feedback and coaching, while traditional appraisals rely primarily on annual reviews.

The Performance Appraisal Cycle

Setting Performance Standards: Clearly defined expectations and goals are established for each employee.

Assessing Performance: Employee performance is evaluated against the set standards.

Providing Feedback: Regular feedback is given to employees to address performance gaps and recognize achievements.



Effective Performance Management System

- Requires collaboration between employees and supervisors: setting goals, reviewing results, assessing needs, and future planning.
- Differs from performance appraisals, which are one-sided evaluations by supervisors focused on the past with minimal employee input.
- Utilizes performance feedback, a two-way conversation for employee improvement.
- Utilizes past performance data to set goals for the present and future.

Chapter

7

Designing the Appraisal Tool

What to Measure?

- Work output (quality and quantity)
- Personal competencies
- Goal (objective) achievement

How to Measure?

- Generic dimensions
- Actual job duties
- Behavioral competencies



Defining Employee Goals and Performance Standards

Clear and well-defined goals are essential for effective performance management. Employees need to understand how their performance will be evaluated and what is expected of them.

Managers typically use goals, standards, or competencies as performance benchmarks. **Goals** are specific, measurable, attainable, relevant, and time-bound (SMART) objectives aligned with the company's overall strategy. They provide a clear direction for employees and a measurable way to track progress.

Standards define the expected level of performance for a specific job or task.

Competencies focus on the skills, knowledge, and abilities required to perform a job effectively

Chapter

7

Setting SMART Objectives

- **S**pecific, and clearly state the desired results.
- **M**easurable in answering “how much.”
- **A**ttainable, and not too tough or too easy.
- **R**elevant to what’s to be achieved.
- **T**imely in reflecting deadlines and milestones.

Chapter

7

SMART Objective Example

Objective: Increase website traffic by 20% by the end of the quarter.

Specific: because it clearly defines what is to be achieved (increase website traffic) and by how much (20%).

Measurable: because it quantifies the desired outcome (20% increase in website traffic). Progress can be tracked using website analytics tools.

Achievable: because it is a realistic and attainable target. The 20% increase is a reasonable based on historical traffic data and current marketing efforts.

Relevant: because it aligns with the overall business objective of increasing website visitors and generating leads.

Chapter

7

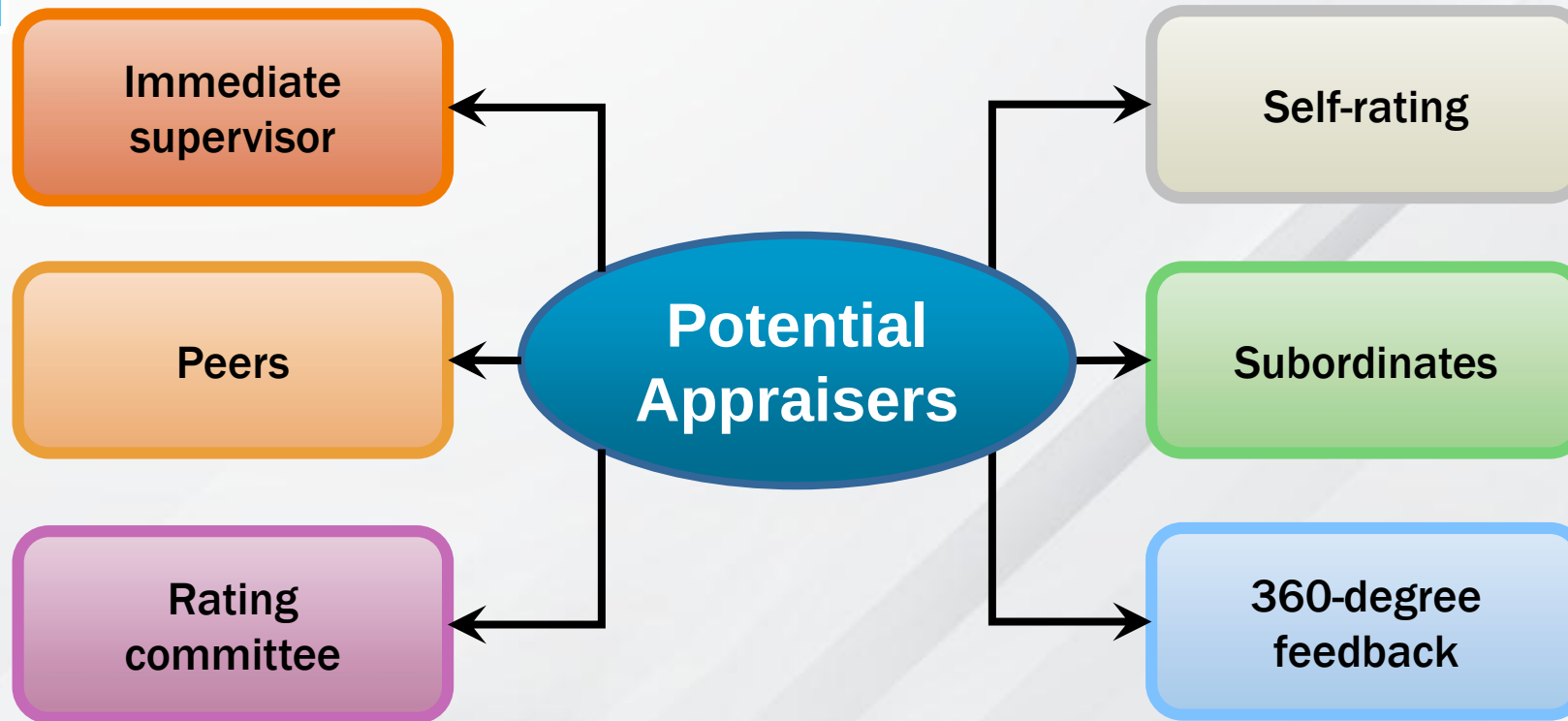
Competencies and Talent Management

Beyond goals and standards, assessing employees based on their competencies (skills, knowledge, abilities) and how they apply those skills (behaviors) offers a comprehensive performance evaluation.

By pinpointing essential competencies, organizations can identify and develop top talent aligned with strategic goals.

Competency-based approaches, often using tools like skills matrices, help match employee capabilities to job requirements, uncover development needs, and inform talent management decisions.

Who Should Do the Appraisal?



Who Should Do the Appraisal?

Peer appraisals: Involving coworkers in the evaluation process can provide valuable insights into an employee's interpersonal skills, teamwork, and overall contribution to the team.

Rating committees: A panel of supervisors can offer a more comprehensive view of an employee's performance, reducing the impact of individual biases.

Self-appraisals: While employees tend to rate themselves higher, self-appraisals can provide valuable insights into their perceptions of their performance and career goals.

Subordinate feedback: Upward feedback can offer valuable information about a manager's leadership style and effectiveness.

New approach to Performance Evaluation- 360 degree

New approach incorporates feedback from various sources:

Subordinates: They offer insights into a manager's leadership style and interpersonal skills, helping the organization identify high-potential employees and address leadership development needs. However, this feedback can be influenced by internal politics or personal conflicts.

Customers: Their unbiased perspective is crucial, especially in service-oriented companies. Their feedback directly impacts the organization's bottom line and identifies areas for employee development and reward.

Self-Evaluation: allows employees to participate in their development process and provide a more holistic view of their performance. They can offer specific examples and insights that supervisors might miss. These combined perspectives are called *360-degree feedback systems*.

360 Evaluation



360-degree feedback systems

Benefits:

- **Multiple Perspectives:** Provides a well-rounded view of an employee's performance.
- **Reduced Bias:** Balances individual viewpoints and reduces supervisor bias.
- **Employee Development:** Helps identify areas for improvement and growth

Challenges:

- **Time and Cost:** Collecting and analyzing data from multiple sources can be time-consuming and expensive.
- **Diminishing Returns:** Collecting excessive data can be overwhelming and provide little additional value.
- **Careful Implementation:** Requires clear planning and alignment with the organization's strategy to avoid confusion and conflict.

Performance Appraisal Methods

Appraisal Methodologies

- ① → Graphic rating scale
- ② → Alternation ranking
- ③ → Paired comparison
- ④ → Forced distribution
- ⑤ → Critical incident
- ⑥ → Narrative forms
- ⑦ → Behaviorally anchored rating scales (BARS)
- ⑧ → Management by objectives (MBO)
- ⑨ → Computerized and Web-based performance appraisal
- ⑩ → Merged methods

Performance Evaluation Measures

Absolute: Evaluates employees against job standards, regardless of others. (e.g., Did the salesperson meet their sales quota?)

Relative: Compares employees to each other, often ranking them. (e.g., Who was the top salesperson?)

Relative Measures: Pros and Cons

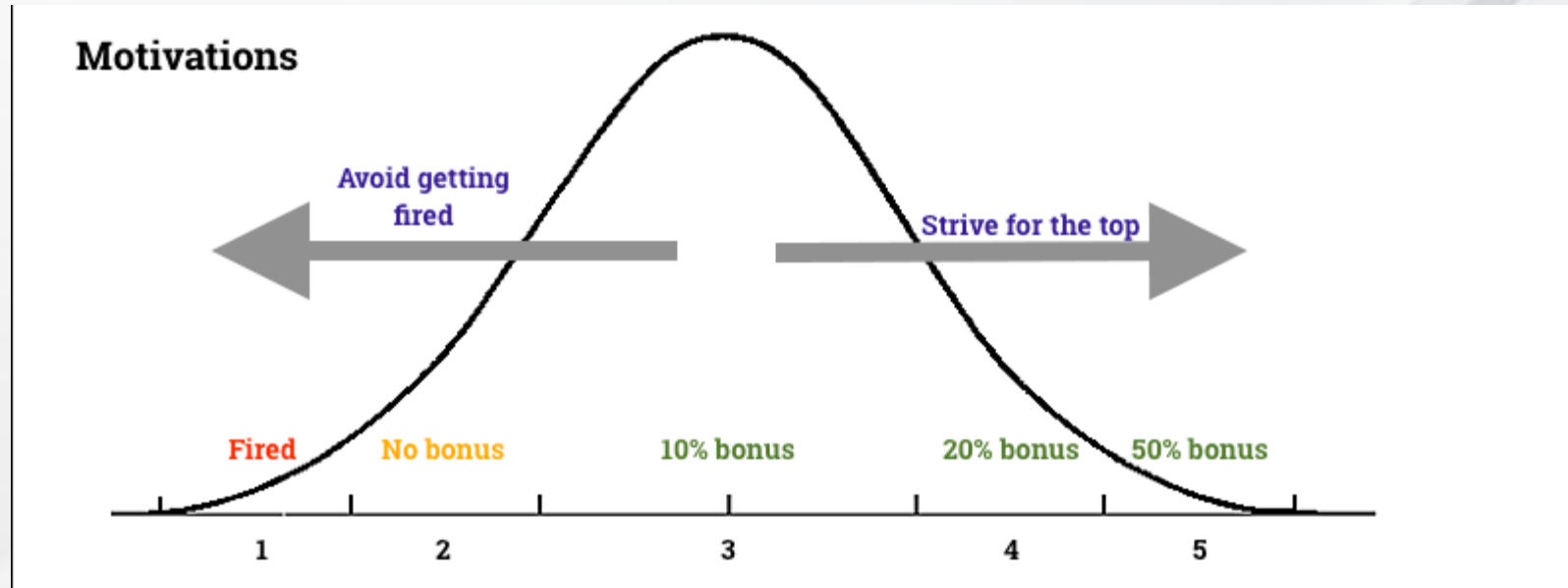
Pros:

- Identify top performers for rewards and promotions.
- Can motivate competition and improvement.

Cons:

- Skewed results if all employees perform similarly (everyone ranked low/high).
- Ignores individual improvement if compared to a static group.

Forced Ranking Example



Forced Ranking: A Specific Relative Measure

Involves placing employees into performance level categories (e.g., top 20%, middle 70%, bottom 10%).

Pros:

- Clearly differentiates performance levels.
- Provides data for compensation decisions.
- Discourages inflated reviews or leniency.

Cons:

- Can be arbitrary and unfair.
- May lead to low morale and lawsuits.
- Not suitable for all cultures (better for results-driven environments).

Alternation Ranking

This method ranks employees from best to worst on specific traits. It helps differentiate between top and bottom performers but can be challenging for larger groups.

Alternation Ranking Example

ALTERNATION RANKING SCALE

Trait: _____

For the trait you are measuring, list all the employees you want to rank. Put the highest-ranking employee's name on line 1. Put the lowest-ranking employee's name on line 20. Then list the next highest ranking on line 2, the next lowest ranking on line 19, and so on. Continue until all names are on the scale.

Highest-ranking employee

1. _____	11. _____
2. _____	12. _____
3. _____	13. _____
4. _____	14. _____
5. _____	15. _____
6. _____	16. _____
7. _____	17. _____
8. _____	18. _____
9. _____	19. _____
10. _____	20. _____

Lowest-ranking employee

Paired Comparison

This method compares employees pairwise on specific traits. It is more time-consuming but can provide a more detailed analysis.

Paired Comparison Example

FOR THE TRAIT "QUALITY OF WORK"

Employee rated:					
As Compared to:	A Art	B Maria	C Chuck	D Diane	E José
A Art		+	+	-	-
B Maria	-		-	-	-
C Chuck	-	+		+	-
D Diane	+	+	-		+
E José	+	+	+	-	

↑
Maria ranks highest here

FOR THE TRAIT "CREATIVITY"

Employee rated:					
As Compared to:	A Art	B Maria	C Chuck	D Diane	E José
A Art		-	-	-	-
B Maria	+		-	+	+
C Chuck	+	+		-	+
D Diane	+	-	+		-
E José	+	-	-	+	

↑
Art ranks highest here

Performance Evaluation Methods

- **Graphic Rating Scales:** A popular tool, these scales involve rating employees on various aspects like traits, behaviors, or results. Imagine a scale from 1 (low) to 5 (high) for punctuality.

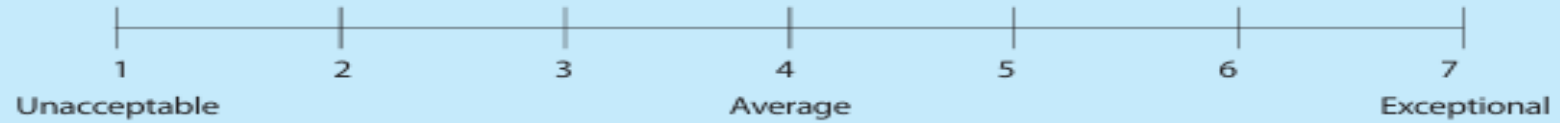
Graphic Rating Scales example

EXHIBIT

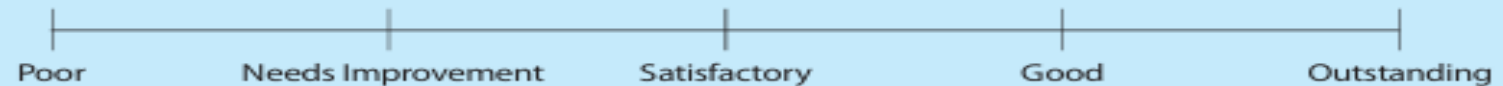
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Examples of Graphic Rating Scales

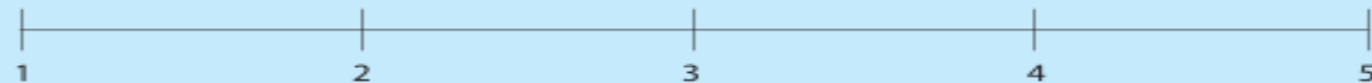
Quality of
Finished Work
Product



Ability to
Work with
Others



Attention to
Detail



- 1 Unsatisfactory performance with immediate improvement needed.
- 2 Performance that did not meet critical expectations and needs improvement.
- 3 Acceptable levels of performance that meets expectations.
- 4 Performance met and in cases exceeded expectations.
- 5 Outstanding performance that set an example for coworkers to follow.

Performance Evaluation Methods

Behaviorally Anchored Rating Scales (BARS): These go beyond simple scales by providing specific descriptions of behavior at different levels. Imagine examples of "always greets customers with a smile" (high) vs. "rarely interacts with customers" (low) for a retail employee.

BARS Example

Job: Production Line Supervisor
Work Dimension: Work Scheduling

Have no plan or schedule of work and no concept of realistic due dates.

1

Make a list of due dates and revise them but get frequently surprised by unforeseen events.

2

Have a sound plan but neglect to keep track of target dates or to report schedule slippages or other problems as they occur.

3

Usually satisfy time constraints, with time and cost overruns coming up infrequently.

4

Develop a comprehensive schedule, observe target dates, and update the status of operations relative to plans, making schedule modifications as quickly as necessary.

5



Performance Evaluation Methods

Objectives-Based Measures (MBO): This approach ties performance feedback to predetermined, negotiated work objectives. Imagine a manager and employee jointly setting goals for increasing sales within a specific timeframe.

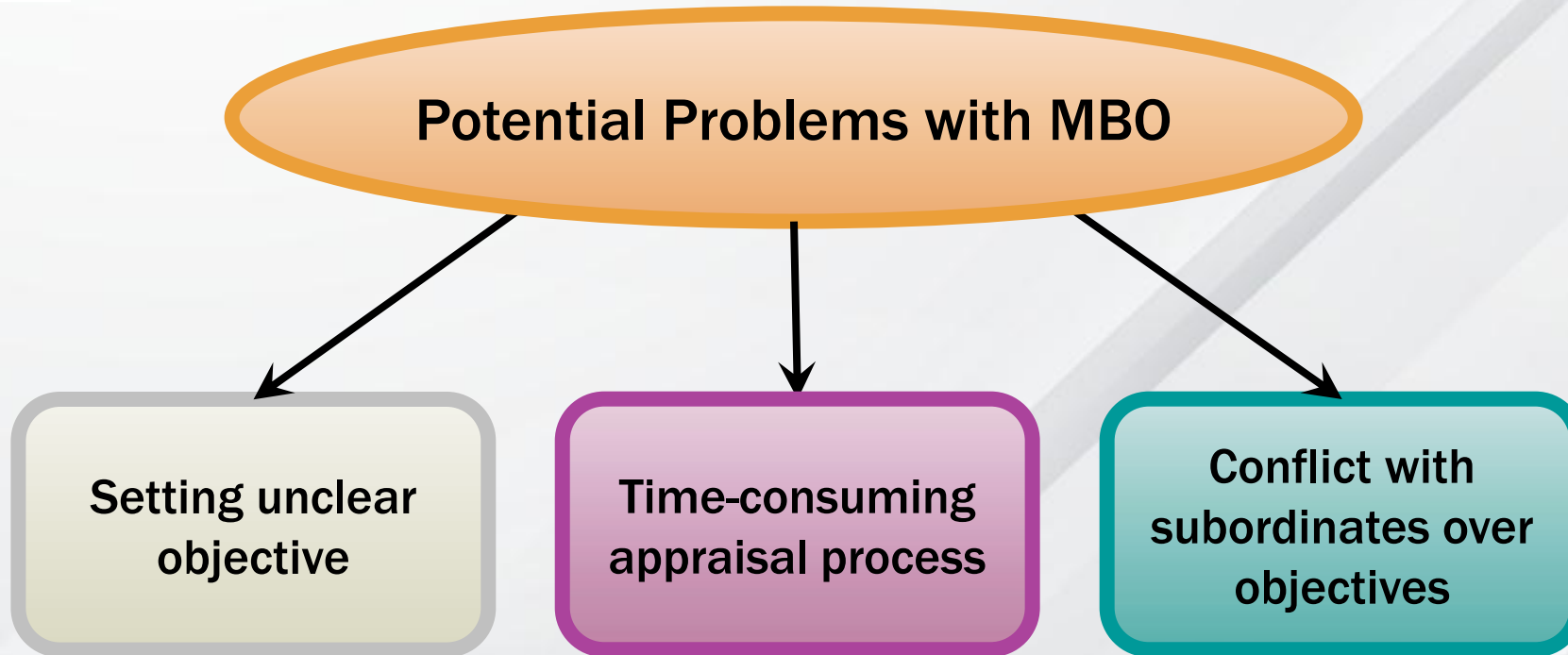
Critical Incident Measures: This method focuses on specific examples of outstanding or problematic employee behavior during the evaluation period. Imagine a manager noting a salesperson's exceptional handling of a difficult customer complaint.

Management by Objectives (MBO)

A comprehensive and formal organization wide goal-setting and appraisal program requiring:

1. Setting of organization's goals
2. Setting of departmental goals
3. Discussion of departmental goals
4. Defining expected results (setting individual goals)
5. Conducting periodic performance reviews
6. Providing performance feedback

Using MBO



Tool	Advantages	Disadvantages
Graphic rating scale	Simple to use; provides a quantitative rating for each employee.	Standards may be unclear; halo effect, central tendency, leniency, bias can also be problems.
BARS	Provides behavioral “anchors.” BARS is very accurate.	Difficult to develop.
Alternation ranking	Simple to use (but not as simple as graphic rating scales). Avoids central tendency and other problems of rating scales.	Can cause disagreements among employees and may be unfair if all employees are, in fact, excellent.
Forced distribution method	End up with a predetermined number or % of people in each group.	Employees’ appraisal results depend on your choice of cutoff points.
Critical incident method	Helps specify what is “right” and “wrong” about the employee’s performance; forces supervisor to evaluate subordinates on an ongoing basis.	Difficult to rate or rank employees relative to one another.
MBO	Tied to jointly agreed-upon performance objectives.	Time-consuming.

Choosing the Right Tool

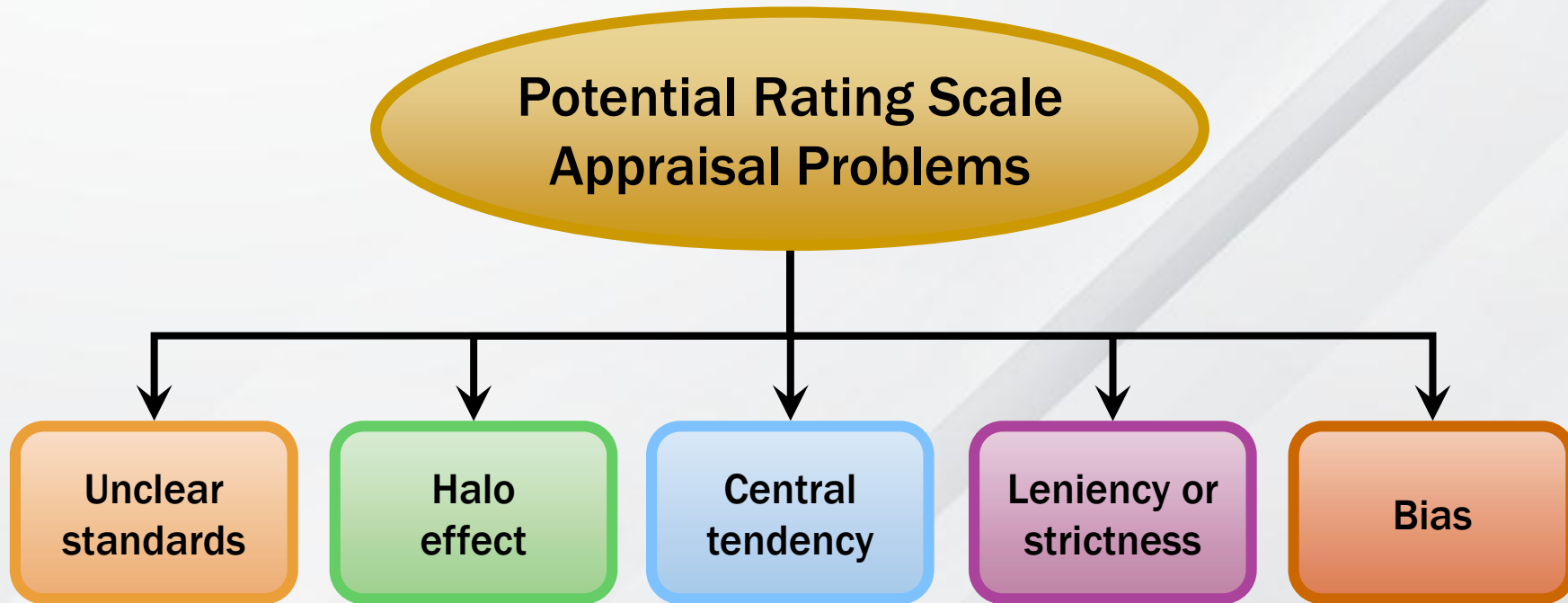
Performance evaluation methods are not mutually exclusive. Organizations can combine them, but it's important to avoid a cumbersome or overly complex system.

The chosen methods should align with the overall goals of the performance management system and the organization's strategic objectives.

Computerized and Web-Based Performance Appraisal Systems

- Allow managers to keep notes on subordinates.
- Notes can be merged with employee ratings.
- Software generates written text to support appraisals.
- Allows for employee self-monitoring and self-evaluation.
- Electronic Performance Monitoring (EPM) Systems
 - Use computer network technology to allow managers access to their employees' computers and telephones.
 - Managers can monitor the employees' rate, accuracy, and time spent working online.

Dealing with Performance Appraisal Problems



Best Practices for Fair and Effective Appraisals

Clear and Objective Standards: Develop clear performance expectations and use specific criteria for evaluation.

Rater Training: Provide training to managers on appraisal methods, bias awareness, and effective feedback delivery.

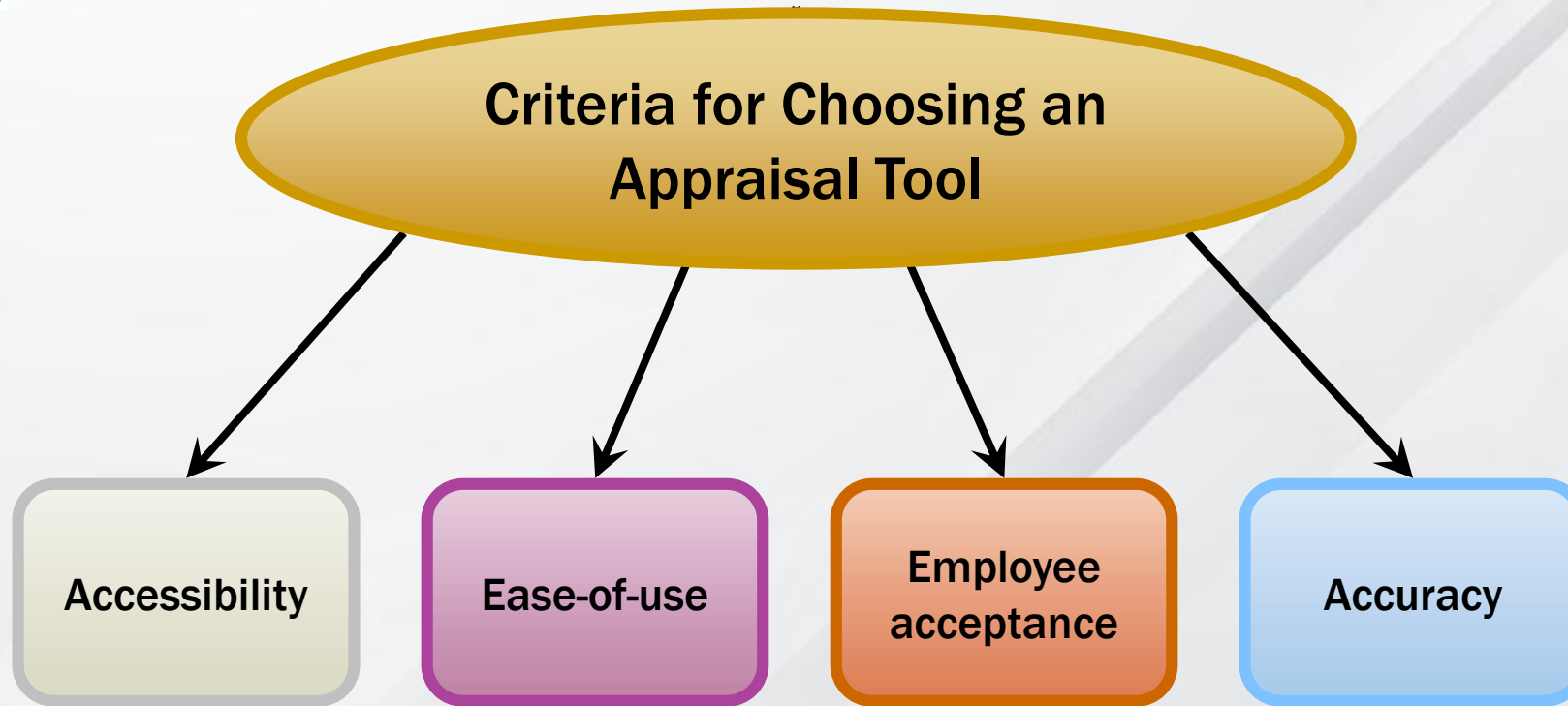
Multiple Raters: Gather feedback from various sources (peers, subordinates, customers) to reduce bias.

Regular Feedback: Provide ongoing feedback throughout the year, not just during formal appraisals.

Focus on Development: Use appraisals as a tool for employee growth and improvement, rather than solely for evaluation.

Legal Compliance: Ensure that appraisal processes comply with all relevant employment laws and regulations

Choosing the Right Appraisal Tool



The Appraisal Interview: A Critical Conversation

Preparation

- **Give employees advance notice:** This allows employees to reflect on their performance and prepare questions.
- **Review performance data:** Compare the employee's performance against established standards and previous appraisals.
- **Schedule a private and uninterrupted meeting:** This creates a conducive environment for open and honest communication.

Conducting the Appraisal Interview

- **Reinforcing strengths:** Acknowledging and appreciating employee accomplishments.
- **Addressing weaknesses:** Providing constructive feedback and developing improvement plans.
- **Setting goals:** Establishing clear expectations for future performance.
- **Open communication:** Encouraging employee input and feedback.

The Appraisal Interview: A Critical Conversation

Handling Difficult Conversations:

Appraisal interviews often involve delivering negative feedback, which can be challenging for both managers and employees. It's important to:

- **Focus on behavior, not personality:** Describe specific actions or behaviors rather than making personal attacks.
- **Use "I" statements:** Express concerns without blaming the employee.
- **Listen actively:** Understand the employee's perspective and respond empathetically.
- **Create an action plan:** Develop a clear plan for improvement, including specific goals and timelines

FIGURE**Checklist During
Appraisal Interview****CHECKLIST DURING THE APPRAISAL INTERVIEW**

	Yes	No
• Did you discuss each goal or objective established for this employee?	☐	☐
• Are you and the employee clear on the areas of agreement? disagreement?	☐	☐
• Did you and the employee cover all positive skills, traits, accomplishments, areas of growth, etc.? Did you reinforce the employee's accomplishments?	☐	☐
• Did you give the employee a sense of what you thought of his or her potential or ability?	☐	☐
• Are you both clear on areas where improvement is required? expected? demanded? desired?	☐	☐
• What training or development recommendations did you agree on?	☐	☐
• Did you indicate consequences for noncompliance, if appropriate?	☐	☐
• Did you set good objectives for the next appraisal period?	☐	☐
• Objective?	☐	☐
• Specific?	☐	☐
• Measurable?	☐	☐
• Did you set a standard to be used for evaluation?	☐	☐
• Time frame?	☐	☐
• Did you set a time for the next evaluation?	☐	☐
• Did you confirm what your part would be? Did the employee confirm his or her part?	☐	☐
• Did you thank the employee for his or her efforts?	☐	☐

CHAPTER SUMMARY

Performance management is an ongoing cycle that encompasses setting clear performance expectations, providing continuous feedback and coaching, conducting regular performance evaluations, and using these insights to guide development plans.

Performance feedback plays a central role in this process. By offering specific, constructive feedback, managers can help employees understand their strengths and weaknesses, identify areas for improvement, and adjust their behaviors to achieve better results.

A Roadmap for Success:

Collaborative Design & Strategic Alignment: Involve managers in the design process and ensure the system is tightly linked to the organization's strategy.

Fair and Objective Evaluations: Establish clear performance standards using a combination of absolute (rating) and relative (ranking) measures when appropriate.

CHAPTER SUMMARY

The chapter discussed **various evaluation methods** (Ranking and rating methods)

Common Appraisal Problems:

- Subjectivity and Bias
- Leniency or Strictness
- Central Tendency
- Halo Effect
- Legal Issues

Guideline for managers in conducting an effective evaluation interview

Designing an Effective Performance Management System

Purpose and Use: What's the main goal of the system? Is it for employee development, informing rewards and compensation, boosting motivation, ensuring legal compliance, or HR planning (or a combination)? It's crucial to define the purpose upfront to avoid conflicting goals and ensure data collection supports them all.

Employee Development: The system should identify skill and performance gaps to guide training and development programs. Performance feedback should provide information to fuel these programs, and desired outcomes from training should be incorporated back into the performance management system. This creates a two-way loop for improvement.

Designing an Effective Performance Management System

Rewards and Compensation: Decisions like salary, promotions, and bonuses often rely on performance data. Employees must trust the performance feedback system for these decisions to be seen as fair. An unfair system can lead to a perceived unfairness in compensation as well.

Motivation: A formal process for acknowledging and praising employees can reinforce positive behaviors and outcomes. The system should clearly communicate expectations and allow employees to express their desired job assignments and responsibilities.

Legal Compliance: Documentation of performance deficiencies is crucial for defending against claims of unfair dismissal or discrimination. Data showing consistent, unacceptable performance strengthens the organization's defense against such charges.

EXHIBIT

10.1

Performance Feedback Versus Performance Appraisal

	Performance Feedback	Performance Appraisal
Time period	Past, present, and future	Past
Focus	Link employee work activities to specific business objectives and strategy	Create records; document performance problems
Nature of communication	Two-way	One-sided, downward, directive; "rebuttal" sometimes allowed
Employee role	Active participant	Passive
Formality	Informal, verbal	High formality, written forms with signatures
Timing	Spontaneous, ad hoc needed	As prescribed (usually annual)
Basis of relationship	Collegiality	Power
Role of supervisor	Coach, motivator, partner	Authority figure
Outcomes	Participation; enhanced, targeted performance; improved relationships	Compensation decision; task directives



Thank You