

Ch.10- Performance Management

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Week Eight

Lecture 7



Learning Outcome

1

Understand the process of performance management and the role performance feedback plays in performance management

2

Examine the strategic choices an organization faces in establishing a performance management system

3

Evaluate the associated pros and cons of decisions related to the use of the performance management system

4

Gain an awareness of why performance management systems may fail and the strategies to improve

Introduction

Importance of Performance Management

- An organization's success relies on managing employee performance and aligning it with organizational goals.
- As organizations become streamlined and employees take on broader roles, performance feedback becomes more critical.
- It ensures employees perform well and their behaviors align with organizational goals.

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

Introduction

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.

Important Consideration

Flexibility in Performance Management Systems

Formal or informal systems can be effective, but alignment with organizational goals and culture is key.

Example: SAS company uses continuous performance conversations instead of formal reviews.

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.

limitations to the traditional method of Performance Evaluation

Limited Knowledge: Supervisors may not be familiar with the technical aspects of the employee's work, hindering accurate assessment.

Subjectivity: Supervisor bias (halo effect, stereotypes) and personal agendas can influence ratings.

Focus on Recent Events: Evaluations might focus heavily on recent events, neglecting earlier performance.

Central Tendency: A tendency to avoid extremes in ratings, placing most employees in the middle.

Inflated or Deflated Ratings: Empathy, competition, or personal issues can skew supervisor ratings.

Disagreements on Causes: Supervisors and employees may have different views on the reasons behind performance levels.

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.

New approach to Performance Evaluation-360 degree

New approach incorporates feedback from various sources:

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.

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.

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.

360-degree feedback systems

Effective peer feedback systems require:

- **Low Stakes:** When evaluations don't directly impact colleagues' careers or rewards, they're more likely to be honest and objective.
- **Trust in the System:** Employees need to believe the performance management system is fair and accurate for peer feedback to be truly valuable.

The key is to choose evaluators who can provide objective and insightful feedback while minimizing the potential for bias and political maneuvering.

Evaluating Employees

There are three main approaches to evaluating employee performance:

Traits: This focuses on characteristics like loyalty, work ethic, and sociability. While it can assess cultural fit, it doesn't directly measure job performance and can be subjective.

Behaviors: This examines specific actions, such as teamwork, punctuality, initiative, and meeting deadlines. This provides valuable feedback as it pinpoints areas for improvement and highlights strengths. However, employees might exhibit good behaviors but not achieving results.

Evaluating Employees

Outcomes/Results: This focuses on concrete accomplishments, like sales figures, profitability, cost reduction, or quality. These are objective measures and directly linked to organizational goals. However, results can be influenced by factors beyond the employee's control (budget cuts, resource limitations) and might not reflect how the results were achieved (e.g., high costs, damaged relationships).

The Ideal Approach:

The best approach combines elements from all three. Organizations should choose measures that align with their strategic objectives.

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

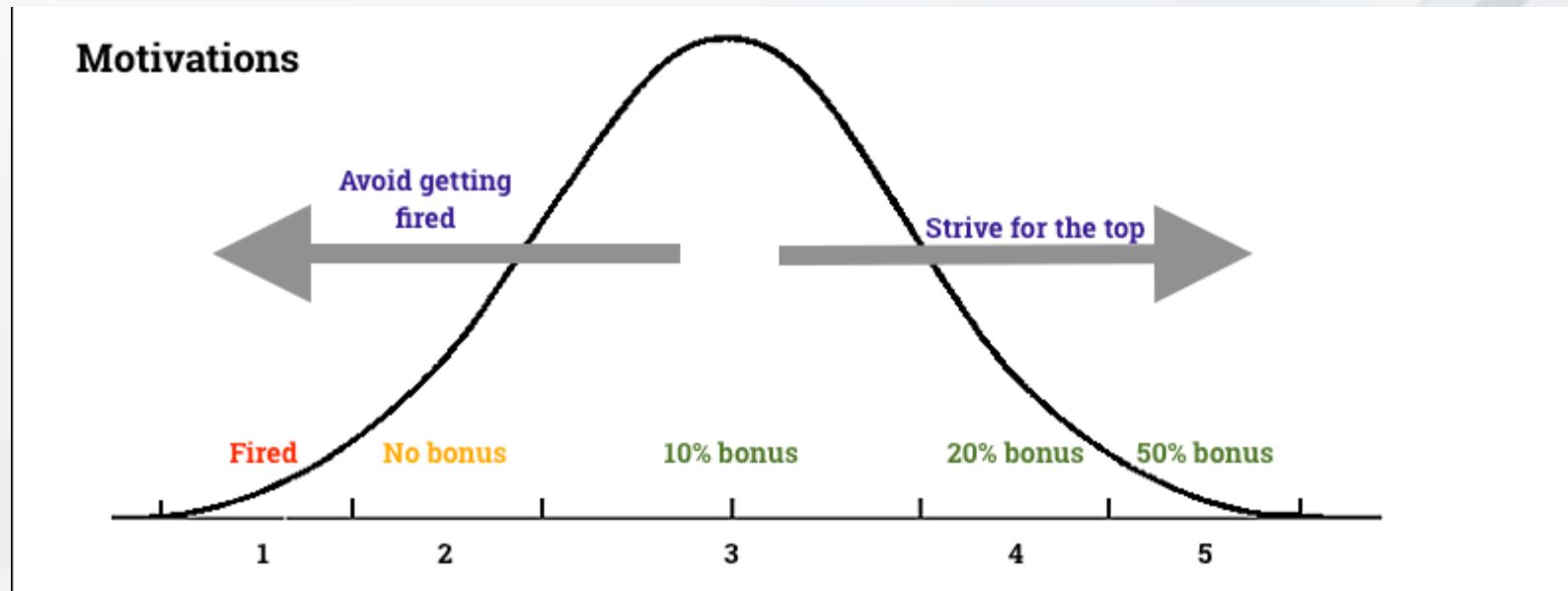
Pros:

- 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).

Performance Evaluation Methods

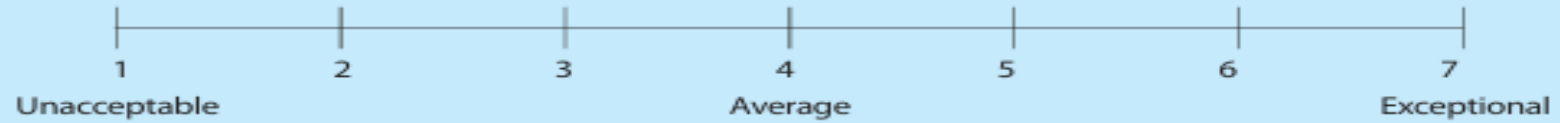
- **Graphic Rating Scales:** A popular tool, these scales involve rating employees on various aspects like traits, behaviors, or results. Imagine a scale from 1 (low) to 5 (high) for punctuality.

Graphic Rating Scales example

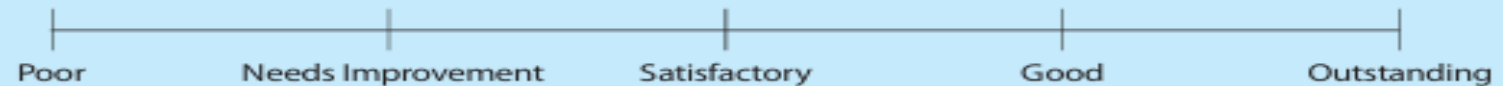
EXHIBIT 10.7

Examples of Graphic Rating Scales

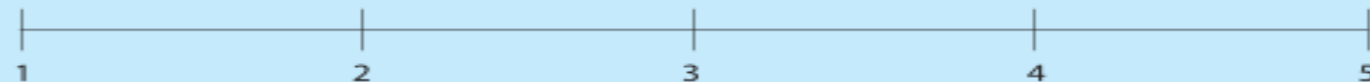
Quality of
Finished Work
Product



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

Weighted Checklists: These provide specific criteria to assess performance, with varying importance assigned to each. Think of a checklist for a customer service rep, with factors like call resolution time weighted more heavily.

Weighted Checklists example

EXHIBIT 10.8

Example of a Weighted Checklist

Instructions: Check all those qualities that are accurate assessments of the employee's performance.

	Weight
___ Is able to address routine day-to-day problems effectively.	4.2
___ Maintains cordial and productive relationships with coworkers.	3.7
___ Displays the ability to delegate effectively and develop subordinates.	4.1
___ Works well without direct supervision.	5.1
___ Is able to meet deadlines and follow through on commitments.	4.8
___ Engages in appropriate activity to further individual career development.	2.9
___ Adheres to rules, procedures, and standard operating protocols.	3.4

Note: The weights are not included on the actual rating form that the evaluator completes. Higher values indicate more critical requirements for the job.

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

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

4

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

5

Performance Evaluation Methods

Behavioral Observation Scales (BOS): Addressing inconsistent employee behavior, BOS measures the frequency of specific actions. This could track how often a salesperson uses active listening skills in customer interactions.

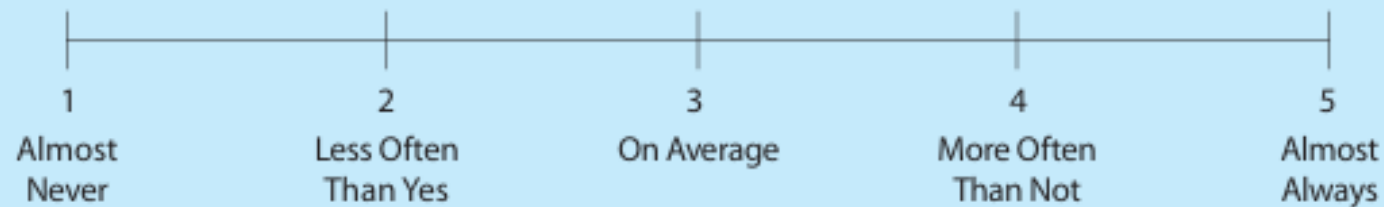
BOS Example

EXHIBIT

10.10

Example of a Behavioral Observation Scale

Assess the employee's performance using the following scale:



Is able to meet deadlines.

Shows sensitivity when dealing with delicate personal matters.

Works well as a team member.

Shows attention to detail in written reports.

Performance Evaluation Methods

Objectives-Based Measures: 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.

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.

Benefits of Effective Measurement

- **Targeted Feedback:** Specific examples from BOS or critical incidents can provide more meaningful feedback for employees compared to general impressions.
- **Enhanced Motivation:** Objectives-based systems can boost motivation by allowing employees to participate in setting goals and understanding their contribution to organizational objectives.
- **Increased Commitment:** When employees have a say in their goals, they're more likely to be committed to achieving them.

Potential Pitfalls

- **Vague Objectives:** Objectives should be clear and measurable to avoid confusion and ensure fair evaluation.
- **Unrealistic Objectives:** Setting goals that are too difficult can demotivate employees. Striking a balance between challenge and achievability is key.
- **Improper Measurement:** Objectives should be valid measures of performance, not just easily quantified but irrelevant factors. For example, focusing solely on sales volume might neglect customer service.

Why performance management systems fall short of expectations?

Managerial Disengagement: Many managers find the process time-consuming, complex, and uncomfortable.

Reasons for Resistance:

- **Complexity:** Data collection, analysis, and reconciling conflicting feedback can be cumbersome.
- **Lack of Future Focus:** If performance data doesn't translate into future goal setting
- **Discrimination Concerns:** Subjective data raises concerns about potential bias in reward decisions.
- **Limited Control:** Managers may feel they lack control over the process, especially when standards are set by senior management.
- **Disconnected Rewards:** Lack of clear consequences for performance diminishes the system's importance.

How to Improve Performance Management Systems

Building Buy-In:

- **User Involvement:** Involve managers in the design process. Their input as the system's "consumers" is crucial for creating a system that works for everyone.
- **Accountability:** Hold managers accountable for both their subordinates' performance and their development. Linking managers' success to effective use of the system increases their commitment.

How to Improve Performance Management Systems

Enhancing the System:

- **Clear Expectations:** Set clear performance expectations at all levels. This facilitates timely reviews and allows for more specific feedback.
- **Purpose and Goals:** Define the system's purpose and goals clearly. Linking it to the organization's strategy makes it more relevant and legitimizes the process.
- **Rewards Integration:** Clearly link performance measures to rewards, solidifying the system's value.

How to Improve Performance Management Systems

Leadership Commitment:

- Gain absolute commitment from top management. A recent survey found 42% of executives don't even review the system!
- When senior leaders publicly support and use the system, it sends a strong message about its importance.

By addressing these points, organizations can create a performance management system that managers are invested in, leading to a more performance-driven culture with engaged employees.

Conclusion

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.

2. Strategic Choices in Performance Management Systems:

Complexity vs. Simplicity: Organizations can choose between a detailed system with many metrics or a simpler, streamlined approach depending on factors like size and industry.

Focus and Frequency: The system can focus on outcomes (results) or behaviors while achieving them. The frequency of formal reviews can also be tailored (annual vs. more frequent check-ins).

Conclusion

Understanding the Pros and Cons:

Pros:

- Improved Performance & Engagement: Effective systems can lead to significant gains in performance and employee engagement.
- Talent Development & Data-Driven Decisions: Performance data helps identify high-potential employees and informs strategic talent management decisions.

Cons:

- Administrative Burden & Subjectivity: Complex systems can be time-consuming and bureaucratic. Performance evaluations can be subjective, leading to potential biases.
- Short-Term Focus & Employee Dissatisfaction: Overemphasis on short-term results can discourage long-term development, and poorly designed systems can demotivate employees.

Conclusion

Reasons for System Failure and Improvement Strategies:

- Lack of Strategic Alignment
- Inconsistent Communication
- Limited Manager Training
- Focus on Punishment & Lack of Employee Involvement

Strategies for Effective Systems:

- Simplify the Process: Focus on Meaningful Feedback
- Develop Manager Capabilities
- Link Performance to Rewards
- Embrace Technology

Conclusion

A Roadmap for Success:

The chapter goes beyond identifying challenges and offers a roadmap for organizations to create effective performance management systems:

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.

The chapter also discussed various evaluation methods beyond setting standards, such as:

- Management by Objectives (MBO)

- 360-Degree Feedback

Conclusion

Fostering Open Communication: Promote open and frequent communication regarding expectations, performance, and development goals.

Establishing Clear Consequences: Implement clear and consistent consequences for performance, both positive (rewards) and negative (performance improvement plans).

Securing Top-Management Commitment: Gain unwavering commitment from top management to create a performance-driven culture.

Continuous Improvement: Recognize that the system is a dynamic tool and regularly review and refine it to address changing needs and maintain its effectiveness.

References

Main Reference

- Mello A .Jeffrey (2011). Strategic Management of Human Resources (3rd ed.) South-Western Cengage Learning.

Additional Resources for extra reading.

- Boselie, Paul (2014). Strategic Human Resource Management: A Balanced Approach .McGraw Hill Companies.
- Millmor, Mike, Philip Lewis, and others (2007), Strategic Human Resource Management Contemporary issues. Ft Prentice Hall.



Thank You