Chapter 7
Performance Management and Appraisal
Performance Management (PM)

- Goal-oriented process ensuring processes are in place to maximize productivity at employee-, team- and organization levels

- Close relationship between incentives and performance

- Dynamic, ongoing, continuous process

- Each part of the system is integrated and linked for continuous organizational effectiveness
Performance Appraisal

- Formal system of review and evaluation of individual or team task performance
  - Many managers do not like giving them
  - Many employees do not like receiving them
  - Often perceived negatively
Why Use Performance Appraisal

- Human resource planning
  - Assessment of employee potential
  - Internal employee relations
  - Aids recruitment and selection
- Training and development
- Career planning and career development
- Compensation programs
Performance Appraisal Process

External Environment
Internal Environment

1. Identify Specific Performance Appraisal Goals
2. Establish Performance Criteria (Standards) and Communicate Them To Employees
3. Examine Work Performed
4. Appraise the Results
5. Discuss Appraisal with Employee

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Establish Performance Criteria (Standards)

- Traits
- Behaviors
- Competencies
- Goal achievement
- Improvement potential
Traits

- Employee traits such as attitude, appearance, and initiative are basis for some evaluations.
- Note: May be unrelated to job performance or be difficult to define.
- Certain traits may relate to job performance.
Caution on Traits: Wade v. Mississippi Cooperative Extension Service

In performance appraisal system, general characteristics such as "leadership, public acceptance, attitude toward people, appearance and grooming, personal conduct, outlook on life, ethical habits, resourcefulness, capacity for growth, mental alertness, loyalty to organization are susceptible to partiality and to the personal taste, whim, or fancy of the evaluator as well as patently subjective in form and obviously susceptible to completely subjective treatment by those conducting the appraisals"
Behaviors

- Organizations may evaluate employee’s task-related behavior or competencies.
- Examples are leadership style, developing others, teamwork and cooperation, or customer service orientation.
- If certain behaviors result in desired outcomes, there is merit in using them in evaluation process.
Competencies

- Broad range of knowledge, skills, traits, and behaviors
- May be technical in nature, business-oriented, or related to interpersonal skills (ex. ability to delegate, people mgmt, talent development)
- Should be those that are closely associated with job success
Goal Achievement

- Use if organizations consider *ends* as important as *means*
- Should be within control of individual or team
- Should be those results that lead to firm’s success
Improvement Potential

- Many appraisal criteria focus on past
  - Cannot change past
- Appraisal should emphasize future
Responsibility for Appraisal

- Immediate supervisor
- Subordinates
- Peers and team members
- Self-appraisal
- Customer appraisal
- 360-degree feedback
Immediate Supervisor

- Traditionally most common choice
- Usually in excellent position to observe employee’s job performance

Negatives:
- may focus only on certain aspects
- may massage evaluations to justify increases or promotions
Historically, evaluation by subordinates viewed negatively.

Some firms find that evaluation of managers by subordinates is both feasible and needed.

Issues:
- Could be seen as a popularity contest
- Possible reprisal against employees
Peers and Team Members

- Work closely with evaluated employee and may have undistorted perspective on typical performance

- Problems include reluctance of some people who work closely together (esp. teams) to criticize each other, personal frictions intruding into evaluations, more infrequent interaction not lending itself to accurate assessment
Self-Appraisal

- If employees understand their objectives and the criteria used for evaluation, they are in a good position to appraise own performance.
- Employee development is self-development.
- Self-appraisal may make employees more highly motivated.
Customer Appraisal

- Customer behavior determines firm’s degree of success
- Demonstrates commitment to customer
- Holds employees accountable
- Fosters change
360-Degree Feedback

- Input from multiple sources such as supervisors, subordinates, peers, and customers
- Shifting responsibility to multiple sources helps to reduce or eliminate common appraisal errors
- Process is more legally defensible
Appraisal Period

- Prepared at specified intervals
  - Usually annually or semiannually
- Period may begin with employee’s date of hire, or
- All employees may be evaluated at same time
Performance Appraisal Systems

- Trait systems
- Comparison systems
- Behavioral systems
- Results-based systems
Trait Systems

- Evaluate employees based on traits (for example):
  - Quality of work
  - Dependability

- Limitations (e.g., traits represent a predisposition for behavior, but not behavior itself)
# Trait-Oriented Performance Appraisal

**FIGURE 7-2**
A Trait-Oriented Performance Appraisal Rating Form

<table>
<thead>
<tr>
<th>Employee’s Name:</th>
<th>Employee’s Position:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supervisor’s Name:</strong></td>
<td><strong>Review Period:</strong></td>
</tr>
</tbody>
</table>

*Instructions:* For each trait, circle the phrase that best represents the employee.

1. Diligence
   - a. outstanding
   - b. above average
   - c. average
   - d. below average
   - e. poor

2. Cooperation with others
   - a. outstanding
   - b. above average
   - c. average
   - d. below average
   - e. poor

3. Communication skills
   - a. outstanding
   - b. above average
   - c. average
   - d. below average
   - e. poor

4. Leadership
   - a. outstanding
   - b. above average
   - c. average
   - d. below average
   - e. poor

5. Decisiveness
   - a. outstanding
   - b. above average
   - c. average
   - d. below average
   - e. poor
Comparison Systems

- Evaluate an employee’s performance against that of another
- Employees ranked from the best performer to the poorest performer
- Supervisors judge overall performance or specific ones (e.g., timeliness)
Paired Comparison

- Variation of ranking method
- Compares performance of each employee with every other employee in group

**FIGURE 7-4**
A Paired Comparison Performance Appraisal Rating Form

*Instructions: Please indicate by placing an X which employee of each pair has performed most effectively during the past year.*

<table>
<thead>
<tr>
<th></th>
<th>Bob Brown</th>
<th></th>
<th>Mary Green</th>
<th>Jim Smith</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>Bob Brown</td>
<td>X</td>
<td>Mary Green</td>
<td>Jim Smith</td>
</tr>
<tr>
<td>Mary Green</td>
<td></td>
<td></td>
<td>Allen Jones</td>
<td></td>
</tr>
<tr>
<td>Jim Smith</td>
<td>Bob Brown</td>
<td></td>
<td>Allen Jones</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bob Brown</td>
<td>X</td>
<td>Allen Jones</td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>Allen Jones</td>
<td>X</td>
<td>Allen Jones</td>
<td></td>
</tr>
</tbody>
</table>
Forced Distribution

- Rater assigns individuals in work groups to limited number of categories
- Assumption that all groups of employees basically have the same distribution
- Sometimes called “rank-and-yank”
  - Rankings may be way for companies to easily rationalize firings
  - May damage morale and generate mistrust of leadership
Forced Distribution (cont.)

- Proponents of forced distribution believe:
  - Facilitates budgeting
  - Guards against weak managers who are too timid to get rid of poor performers
  - Requires managers to be honest with workers about how they are doing
- Unpopular with many managers
Forced Distribution System

**FIGURE 7-3**
A Forced Distribution Performance Appraisal Rating Form

*Instructions:* You are required to rate the performance for the previous 3 months of the 15 workers employed as animal keepers to conform with the following performance distribution:

- 15 percent of the animal keepers will be rated as having exhibited poor performance.
- 20 percent of the animal keepers will be rated as having exhibited below-average performance.
- 35 percent of the animal keepers will be rated as having exhibited average performance.
- 20 percent of the animal keepers will be rated as having exhibited above-average performance.
- 10 percent of the animal keepers will be rated as having exhibited superior performance.

Use the following guidelines for rating performance. On the basis of the five duties listed in the job description for animal keeper, the employee's performance is characterized as:

- Poor if the incumbent performs only one of the duties well.
- Below average if the incumbent performs only two of the duties well.
- Average if the incumbent performs only three of the duties well.
- Above average if the incumbent performs only four of the duties well.
- Superior if the incumbent performs all five of the duties well.
Behavioral Systems

Rates extent to which employees display successful job performance behaviors

When correctly constructed, behavioral systems are relatively free of rater errors

Three types:
- Critical Incident Technique (CIT)
- Behaviorally Anchored Rating Scales (BARS)
- Behavioral Observation Scale (BOS)
Instructions: For each description of work behavior, circle the number that best describes how frequently the employee engages in that behavior.

1. The incumbent removes manure and unconsumed food from the animal enclosures.

2. The incumbent haphazardly measures the feed items when placing them in the animal enclosures.

3. The incumbent leaves refuse dropped by visitors on and around the public walkways.

4. The incumbent skillfully identifies instances of abnormal behavior among the animals, which represent signs of illness.
Behaviorally Anchored Rating Scales (BARS)

- Combines traditional rating scales and critical incidents methods
- Job behaviors derived from critical incidents described more objectively
<table>
<thead>
<tr>
<th>BARS for Factor: Ability to Present Positive Company Image</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearly Outstanding Performance:</td>
</tr>
<tr>
<td>Makes excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to applicant and answers questions in a very positive manner.</td>
</tr>
<tr>
<td>Excellent Performance:</td>
</tr>
<tr>
<td>Makes good impression on college recruits. Answers all questions and explains positive aspects of the company. Answers questions in a positive manner.</td>
</tr>
<tr>
<td>Good Performance:</td>
</tr>
<tr>
<td>Makes a reasonable impression on college recruits.</td>
</tr>
<tr>
<td>Listens to applicant and answers questions in knowledgeable manner.</td>
</tr>
<tr>
<td>Average Performance:</td>
</tr>
<tr>
<td>Makes a fair impression on college recruits. Listens to applicant and answers most questions in a knowledgeable manner.</td>
</tr>
<tr>
<td>Slightly Below Average Performance:</td>
</tr>
<tr>
<td>Attempts to make a good impression on college recruits.</td>
</tr>
<tr>
<td>Listens to applicants but at times could be expected to have to go to other sources to get answers to questions.</td>
</tr>
<tr>
<td>Poor Performance:</td>
</tr>
<tr>
<td>At times makes poor impression on college recruits.</td>
</tr>
<tr>
<td>Sometimes provides incorrect information to applicant or goes down blind avenues before realizing mistake.</td>
</tr>
<tr>
<td>Very Poor Performance:</td>
</tr>
<tr>
<td>Even with repeated instructions continues to make a poor impression. This interviewer could be expected to turn off college applicant from wanting to join the firm.</td>
</tr>
</tbody>
</table>
Behavioral Observation Scales

- Similar to BARS in its development
- Compared to BARS, BOS focuses exclusively on positive performance behaviors
- Appropriate for jobs that require observable behaviors
- Requires observation of job behaviors on a regular basis
Results-Based Systems

- Focus on measurable outcomes such as sales, accident rates, and productivity
- Selection of results depends on:
  - Relevance of results toward strategic goals
  - Reliability with which results can be measured
  - Validity of performance measure
Management by Objectives

- Supervisor and employee decide on performance objectives
  - They decide whether objectives are tied to the company’s strategic goals
- Progress is reviewed and decisions such as objective revision are made
- A concern is a “results at any cost” mentality
Work Standards

- Compares performance to predetermined standard
- Standards: Normal output of average worker operating at normal pace
- Time study and work sampling used
- Workers need to know how standards were set
Work Standards Example

**FIGURE 7-6**  
Calculation of a Piecework Award for a Garment Worker

- **Piecework standard:** 15 stitched garments per hour  
- **Hourly base pay rate awarded to employees when the standard is not met:** $4.50 per hour  
- **That is, workers receive $4.50 per hour worked regardless of whether they meet the piecework standard of 15 stitched garments per hour.**  
- **Piecework incentive award:** $0.75 per garment stitched per hour above the piecework standard

<table>
<thead>
<tr>
<th>Guaranteed Hourly Base Pay ($)</th>
<th>Piecework Award (No. of Garments Stitched above the Piecework Standard × Piecework Incentive Award)</th>
<th>Total Hourly Earnings ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First hour 4.50</td>
<td>10 garments × $0.75/garment = $7.50</td>
<td>12.00</td>
</tr>
<tr>
<td>Second hour 4.50</td>
<td>Fewer than 15 stitched garments, thus piecework award equals $0</td>
<td>4.50</td>
</tr>
</tbody>
</table>

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Issues for Performance Appraisal

- Appraiser discomfort
- Subjectivity
  - Bias errors
  - Contrast errors
  - Errors of central tendency
  - Errors of leniency or strictness
- Employee anxiety
Appraiser Discomfort

- Performance appraisal process cuts into manager’s time
- Experience can be unpleasant when employee has not performed well
Lack of Objectivity in Poorly-Designed Appraisal

- Trait factors such as attitude, appearance and personality are difficult to measure.
- Factors may have little to do with employee’s job performance.
- May place evaluator and company in untenable positions.
Appraiser Bias Errors

- First-impression effect
- Halo effect (positive halo)
- Horn effect (negative halo)
- Similar-to-me effect
- Illegal discriminatory bias
Contrast Errors

- Supervisors make **contrast errors** when they compare an employee with other employees rather than to specific, explicit standards.

- Some comparisons qualify as errors because other employees are required to perform only at minimum acceptable standards.

- Employees performing at minimally acceptable levels should receive satisfactory ratings, even if every other employee doing the job is performing at outstanding levels.
Central Tendency Error

- Error occurs when employees are incorrectly rated near average or middle of the rating scale.
- May be encouraged by some rating scale systems requiring evaluator to justify extremely high or extremely low ratings.
Leniency/Strictness

- **Leniency**: Giving undeserved high ratings
- **Strictness**: Being unduly critical of employee’s work performance
- Worst situation is when firm has both lenient and strict managers and does nothing to level inequities
Employee Anxiety

- Evaluation process may create anxiety for appraised employee
- Opportunities for promotion, better work assignments, and increased compensation may hinge on results
Characteristics of Effective Appraisal System

- Job-related criteria
- Performance expectations
- Standardization
- Trained appraisers
- Continuous open communication
- Performance reviews
- Due process
Job-Related Criteria

- *Job-relatedness* is the fundamental criterion needed in employee performance appraisals

- *Uniform Guidelines* and court decisions are clear on this point
Performance Expectations

- Managers and employees must agree on performance expectations in advance of appraisal period.
- If employees clearly understand expectations, they can evaluate their own performance and make timely adjustments prior to formal review.
Standardization

Firms should use same evaluation instrument for all employees in the same job category who work for the same supervisor.
Trained Appraisers

- Commonly, evaluators seldom receive training on how to conduct effective evaluations.
- Training should be ongoing, include:
  - how to rate employees
  - how to conduct appraisal interviews
Continuous Open Communication

- Employees need to know how well they are performing
  - Good appraisal system provides highly desired feedback on continuing basis
  - There should be few surprises in periodic performance review.
Conducting Performance Reviews

- Set appointment for formal discussion of employee’s performance
- Performance review allows employee to detect errors or omissions in appraisal
- Employee may simply disagree with evaluation and want to challenge it
Appeal Process

- To provide employees opportunity to appeal appraisal results
- Must have procedure for pursuing grievances and having them addressed objectively
Legal Implications

- Employee lawsuits may result from negative evaluations
- Unlikely that any appraisal system will be immune to legal challenge
Appraisal Interview

- Scheduling Interview
- Structure of Interview
- Use of Praise and Criticism
- Employee’s Role
- Interview Conclusion
Scheduling the Interview

- Employees typically know when their interview will take place
- Anxiety tends to increase if the supervisor delays the meeting
Interview Structure

- Discuss employee’s performance
- Assist employee in setting goals and personal development plans for next appraisal period
- Suggest means for achieving established goals, including support from manager and firm
Conduct Separate Interviews

- Conduct separate interviews for discussing:
  - Employee performance and development
  - Pay

- When pay emerges in interview, it tends to dominate conversation
  - Performance improvement then takes a back seat
Use of Praise and Criticism

- Praise is appropriate when warranted
- Criticism, even when warranted, is difficult to give
- “Constructive” criticism is often not perceived that way
  - Criticize specific behavior, not employee
Employee’s Role (Preparation)

- Employee should go through diary or files, and note all projects regardless of their success
- Information should be on appraising manager’s desk well before review
Concluding the Interview

- Ideally, employee will leave interview with positive feelings about management, company, job and self.
- Cannot change past behavior; future performance is another matter.
- Interview should end with specific and mutually-agreed-upon plans for employee’s development.