Performance Management and Appraisal

Chapter 11

SECTION 3
Training and Developing Human Resources

Presented by:
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Learning Objectives

• After you have read this chapter, you should be able to:
  ➢ Identify the components of performance management systems.
  ➢ Distinguish between performance management and performance appraisal, and between job criteria and performance standards.
  ➢ Explain the administrative and developmental uses of performance appraisal.
  ➢ Describe the advantages and disadvantages of multisource (360°) appraisals.
  ➢ Discuss the importance of training managers and employees about performance appraisal, and give examples of several rater errors.
  ➢ Identify several concerns about appraisal feedback and ways to make it more effective.
Nature of Performance Management

- Performance Management
  - Processes used to identify, encourage, measure, evaluate, improve, and reward employee performance
    - Provide information to employees about their performance.
    - Clarify organizational performance expectations.
    - Identify the development steps that are needed to enhance employee performance.
    - Document performance for personnel actions.
    - Provide rewards for achieving performance objectives.
Figure 11–1

Performance Management Linkage

Organizational Strategies

Performance Management
- Identify expected performance levels
- Encourage high levels of performance
- Measure individual performance; then evaluate
- Provide feedback on individual performance
- Provide assistance as needed
- Reward or discipline depending on performance

Employee Performance

Performance Management Outcomes
- Pay increases
- Incentive rewards
- Promotions/advancement
- Training and development
- Career planning
- Disciplinary actions

Organizational Results
- Goals met or not met
- Employee satisfaction or dissatisfaction strong or weak
- Coordination between performance and pay

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Difference Between Performance Management and Performance Appraisals

• Performance Management
  ➢ Processes used to identify, encourage, measure, evaluate, improve, and reward employee performance.

• Performance Appraisal
  ➢ The process of evaluating how well employees perform their jobs and then communicating that information to the employees.

| Performance Management | Performance Appraisals | Performance Feedback | Performance Rewards and Development |

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Components of Effective Performance Management

- **Performance-Focused Organizational Culture**
- **Identifying and Measuring Employee Performance**
- **Legal and Effective Performance Appraisal Processes**
- **Manager and Employee Training**
- **Appraisal Feedback**
Identifying and Measuring Employee Performance

• Performance
  ➢ What an employee does and does not do.
    • Quantity of output
    • Quality of output
    • Timeliness of output
    • Presence at work
    • Cooperativeness

• Job Criteria
  ➢ Important elements in a given job

<table>
<thead>
<tr>
<th>Management Job Criteria at Sample Firm</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue increase</td>
<td>40%</td>
</tr>
<tr>
<td>Cost control</td>
<td>30%</td>
</tr>
<tr>
<td>Employee development</td>
<td>30%</td>
</tr>
<tr>
<td>Total Management Performance</td>
<td>100%</td>
</tr>
</tbody>
</table>

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Types of Performance Information

Trait Based
- Attitude
- Initiative
- Creativity

Behavior Based
- Verbal persuasion
- Timeliness of response
- Decision making

Results Based
- Sales made
- Customer satisfaction
- Cost reduction

Less Useful → More Useful

Figure 11–3

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Relevance of Performance Criteria

- Overemphasis
- Deficiency
- Contamination

Performance Criteria

Overemphasis
Performance Standards

- Performance Standards
  - Expected levels of performance
    - Benchmarks, goals, and targets
  - Characteristics of well-defined standards
    - Realistic
    - Measurable
    - Clearly understood

<table>
<thead>
<tr>
<th>Job Criterion: Keep current on supplier technology.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Standards: 1. Every four months, invite suppliers to make presentation of newest technology. 2. Visit supplier plants twice a year. 3. Attend trade shows quarterly.</td>
</tr>
<tr>
<td>Job Criterion: Do price or cost analysis as appropriate.</td>
</tr>
<tr>
<td>Performance Standard: Performance is acceptable when employee follows all requirements of the procedure “Price and Cost Analysis.”</td>
</tr>
</tbody>
</table>
Performance Appraisals and the Law

• Legally Defensible PA System:
  - Appraisal criteria based on job analysis
  - Absence of disparate impact and evidence of validity
  - Formal evaluation criterion that limit managerial discretion
  - Formal rating instrument linked to job duties and responsibilities
  - Personal knowledge of and contact with ratee
  - Training of supervisors in conducting appraisals
  - Review process to prevent undue control of careers
  - Counseling to help poor performers improve
Uses of Performance Appraisal

- **Performance Appraisal (PA)**
  - The process of evaluating how well employees perform their jobs when compared to a set of standards, and then communicating the information to employees.
  - **Informal Appraisal**
    - Day-to-day contacts, largely undocumented
  - **Systematic Appraisal**
    - Formal contact at regular time intervals, usually documented
Conflicting Uses for Performance Appraisal

PERFORMANCE APPRAISALS

Administrative Uses
- Compensation
- Promotion
- Disciplinary action
- Dismissal
- Downsizing

Developmental Uses
- Identifying strengths
- Identifying areas for change
- Training/development
- Coaching
- Career planning

Figure 11–4
Developmental Uses of Performance Appraisal

Performance Appraisal

- Administering Wages and Salaries
- Giving Performance Feedback
- Identifying Strengths and Weaknesses
Uses of Performance Appraisal (cont’d)

• Criticisms of Performance Appraisal
  ➢ Focus is too much on the individual and does little to develop employees.
  ➢ Employees and supervisors believe the appraisal process is seriously flawed.
  ➢ Appraisals are inconsistent, short-term oriented, subjective, and useful only at the extremes of performance.
**Typical Division of HR Responsibilities: Performance Appraisal**

<table>
<thead>
<tr>
<th>HR Unit</th>
<th>Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Designs and maintains appraisal system</td>
<td>- Typically rate performance of employees</td>
</tr>
<tr>
<td>- Trains raters</td>
<td>- Prepare formal appraisal documents</td>
</tr>
<tr>
<td>- Tracks timely receipt of appraisals</td>
<td>- Review appraisals with employees</td>
</tr>
<tr>
<td>- Reviews completed appraisals for consistency</td>
<td>- Identify development areas</td>
</tr>
</tbody>
</table>

Figure 11–5
Who Conducts Appraisals

- Supervisors who rate their subordinates
- Employees who rate their supervisors
- Team members who rate each other
- Employees’ self-appraisal
- Outside sources rating employees
- Multisource (360° feedback) appraisal
Traditional Performance Appraisal Process

HR Department
- Designs appraisal systems
- Trains supervisors

Who designs the appraisal process?

Supervisor
- Appraises direct-report employees
- Provides performance feedback to employees

Who appraises whom?

Manager
- Reviews supervisory ratings
- Coaches supervisor on feedback

Who reviews appraisal results?

Employee
- Addresses performance issues
- Sets goals with supervisor

What happens next?

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Figure 11–6
Employee Rating of Managers

• Advantages
  ➢ Helps in identifying competent managers
  ➢ Serves to make managers more responsive to employees
  ➢ Can contribute to the career development of managers

• Disadvantages
  ➢ Negative reactions by managers to employee ratings
  ➢ Subordinates’ fear of reprisals may inhibit them from giving realistic (negative) ratings
  ➢ Ratings are useful only for self-improvement purposes
Team/Peer Rating

• Advantages
  - Helps improve the performance of lower-rated individuals
  - Peers have opportunity to observe other peers.
  - Peer appraisals focus on individual contributions to teamwork and team performance.

• Disadvantages
  - Can negatively affect working relationships.
  - Can create difficulties for managers in determining individual performance.
  - Organizational use of individual performance appraisals can hinder the development of teamwork.
Multisource Appraisal

Figure 11–7

Manager

Customers

Co-workers/Peers

Self

Subordinates

PERSON BEING APPRAISED
Category Scaling Methods

- **Graphic Rating Scale**
  - A scale that allows the rater to indicate an employee’s performance on a continuum of job behaviors.
  - Aspects of performance measured:
    - Descriptive categories, job duties, and behavioral dimensions
    - Behavioral rating scales (e.g., BARS)
  - Drawbacks
    - Restrictions on the range of possible rater responses
    - Differences in the interpretations of the meanings of scale items and scale ranges by raters
    - Poorly designed scales that encourage rater errors
    - Rating form deficiencies limit effectiveness of the appraisal
<table>
<thead>
<tr>
<th>Date from:</th>
<th>4/1/05</th>
<th>Date to:</th>
<th>5/1/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name:</td>
<td>Joe Hernandez</td>
<td>Job title:</td>
<td>Receiving Clerk</td>
</tr>
<tr>
<td>Department:</td>
<td>Receiving</td>
<td>Supervisor:</td>
<td>Marvin Williams</td>
</tr>
<tr>
<td>Employment status (check one): Full-time</td>
<td></td>
<td>Date of hire:</td>
<td>5/1/99</td>
</tr>
<tr>
<td>Working period: From: 5/1/04</td>
<td>To: 5/1/05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reason for appraisal (check one): Neglect interest</td>
<td>Introductory</td>
<td>Commenting only</td>
<td>Discharge</td>
</tr>
</tbody>
</table>

Using the following definitions, rate the performance as I, M, or E:
I—Performance is below job requirements and improvement is needed.
M—Performance meets job requirements and standards.
E—Performance exceeds job requirements and standards most of the time.

**Specific Job Responsibilities:** List the principal activities from the job summary and rate the performance on each job duty by placing an X on the rating scale at the appropriate location, and make appropriate comments to explain the rating.

<table>
<thead>
<tr>
<th>Job Duty #1: Inventory receiving and checking</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Explanation:</strong></td>
<td></td>
</tr>
<tr>
<td><img src="image" alt="Rating Scale" /></td>
<td></td>
</tr>
<tr>
<td><img src="image" alt="Rating Scale" /></td>
<td></td>
</tr>
<tr>
<td><strong>Explanation:</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Job Duty #2: Accurate recordkeeping</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Explanation:</strong></td>
<td></td>
</tr>
<tr>
<td><img src="image" alt="Rating Scale" /></td>
<td></td>
</tr>
<tr>
<td><img src="image" alt="Rating Scale" /></td>
<td></td>
</tr>
<tr>
<td><strong>Explanation:</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Attendance (including absences and illnesses):**

| Number of absences | Number of illnesses |  |
|--------------------|---------------------|  |
| **Explanation:**   |                     |  |
| ![Rating Scale](image) | ![Rating Scale](image) |  |
| ![Rating Scale](image) | ![Rating Scale](image) |  |
| **Explanation:**   |                     |  |

**Overall rating:** In the box provided, place the letter I, M, or E that best describes the employee’s overall performance.

<table>
<thead>
<tr>
<th><strong>Explanation:</strong></th>
<th></th>
</tr>
</thead>
</table>

**Figure 11–8**
### Terms Defining Standards at One Company

<table>
<thead>
<tr>
<th>Scale</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td><strong>Outstanding:</strong> The person is so successful at this job criterion that special note should be made, and performance ranks in the top 10%.</td>
</tr>
<tr>
<td>4</td>
<td><strong>Exceeds Expectations:</strong> Performance is better than average for the unit, given the common standards and unit results.</td>
</tr>
<tr>
<td>3</td>
<td><strong>Meets Expectations:</strong> Performance is at or above the minimum standards. This level is what one would expect from most experienced, competent employees.</td>
</tr>
<tr>
<td>2</td>
<td><strong>Below Expectations:</strong> Performance is somewhat below the minimum standards. However, potential to improve within a reasonable time frame is evident.</td>
</tr>
<tr>
<td>1</td>
<td><strong>Unsatisfactory:</strong> Performance is well below standard. Whether the person can improve to meet the minimum standards is questionable.</td>
</tr>
</tbody>
</table>
Behavioral/Objective Methods

- **Behavioral Rating Approach**
  - Assesses employees’ behaviors instead of other characteristics
  - Consists of a series of scales created by:
    - Identifying important job dimensions
    - Creating statements describing a range of desired and undesirable behaviors (anchors)
- **Types of behavioral scales**
  - Behaviorally anchored rating scales (BARS)
  - Behavioral observation scales (BOS)
  - Behavioral expectation scales (BES)
**Behaviorally-Anchored Rating Scale for Customer Service Skills**

**Outstanding**
- 5
  - Used positive phrases to explain product

**Satisfactory**
- 4
  - Offered additional pertinent information when asked questions by customer
- 3
  - Referred customer to another product when requested item was not available
- 2
  - Discouraged customer from waiting for an out-of-stock item

**Unsatisfactory**
- 1
  - Argued with customer about suitability of requested product
Category Rating Methods (cont’d)

• Checklists
  ➢ A performance appraisal tool that uses a list of statements or work behaviors that are checked by raters.
    ❖ Can be quantified by applying weights to individual checklist items.
  ➢ Drawbacks
    ❖ Interpretation of item meanings by raters
    ❖ Weighting creates problems in appraisal interpretation
    ❖ Assignment of weights to items by persons other than the raters
Comparative Methods

• Ranking
  ➢ A listing of all employees from highest to lowest in performance.
  ➢ Drawbacks
    ❖ Does not show size of differences in performance between employees
    ❖ Implies that lowest-ranked employees are unsatisfactory performers.
    ❖ Becomes an unwieldy process if the group to be ranked is large.
Comparative Methods (cont’d)

- **Forced Distribution**
  - Performance appraisal method in which ratings of employees are distributed along a bell-shaped curve.
  - **Drawbacks**
    - Assumes a normal distribution of performance.
    - Resistance by managers to placing individuals in the lowest or highest groups.
    - Providing explanation for placement in a higher or lower grouping can be difficult.
    - Is not readily applicable to small groups of employees.
Forced Distribution on a Bell-Shaped Curve

Figure 11–11

- 10% Unsatisfactory
- 20% Below Expectations
- 40% Meets Expectations
- 20% Above Expectations
- 10% Outstanding

Number of Employees

Rating

Score

1 2 3 4 5

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Narrative Methods

- **Critical Incident**
  - Manager keeps a written record of highly favorable and unfavorable employee actions.

- **Drawbacks**
  - Variations in how managers define a “critical incident”
  - Time involved in documenting employee actions
  - Most employee actions are not observed and may become different if observed
  - Employee concerns about manager’s “black books”
Essay

- Manager writes a short essay describing an employee’s performance.

Drawback

- Depends on the managers’ writing skills and their ability to express themselves.
Management by Objectives (MBO)

• Management by Objectives
  ➢ Specifying the performance goals that an individual and his or her manager agree the employee will to try to attain within an appropriate length of time.

• Key MBO Ideas
  ➢ Employee involvement creates higher levels of commitment and performance.
  ➢ Encourages employees to work effectively toward achieving desired results.
  ➢ Performance measures should be measurable and should define results.
The MBO Process

- Job Review and Agreement
- Development of Performance Standards
- Objective Setting
- Continuing Performance Discussions
Training of Managers and Employees

• **Appraisal Training Topics:**
  - Appraisal process and timing
  - Performance criteria and job standards that should be considered
  - How to communicate positive and negative feedback
  - When and how to discuss training and development goals
  - Conducting and discussing the compensation review
  - How to avoid common rating errors
Common Rater Errors

<table>
<thead>
<tr>
<th>Rater Error</th>
<th>Practical Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Varying Standards</td>
<td>Similar performances are rated differently.</td>
</tr>
<tr>
<td>Recency and Primacy Effects</td>
<td>Timing of information affects rating.</td>
</tr>
<tr>
<td>Central Tendency, Leniency, and Strictness Errors</td>
<td>Everyone is rated the same.</td>
</tr>
<tr>
<td>Rater Bias</td>
<td>Rater values or prejudices affect ratings.</td>
</tr>
<tr>
<td>Halo and Horus Effects</td>
<td>Generalization is made from only one trait.</td>
</tr>
<tr>
<td>Contrast Error</td>
<td>Comparison is made to other people, not to performance standards.</td>
</tr>
<tr>
<td>Similar to Me / Different from Mc Error</td>
<td>Rater compares employees to self.</td>
</tr>
<tr>
<td>Sampling Error</td>
<td>Available information is insufficient or inaccurate.</td>
</tr>
</tbody>
</table>
**Appraisal Interview Hints**

**DO**
- Prepare in advance
- Focus on performance and development
- Be specific about reasons for ratings
- Decide on specific steps to be taken for improvement
- Consider the supervisor’s role in the subordinate’s performance
- Reinforce desired behaviors
- Focus on future performance

**DO NOT**
- Do all the talking
- Lecture the employee
- Mix performance appraisal and salary or promotion issues
- Concentrate only on the negative
- Be overly critical or “harp on” a failing
- Feel it is necessary that both parties agree in all areas
- Compare the employee with others

Figure 11–13

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Feedback as a System

Data

Evaluation of Data

Feedback System

Action Based on Evaluation
Training of Managers and Employees (cont’d)

- Effective Performance Management Systems (PMS) are:
  - Consistent with the strategic mission of the organization
  - Beneficial as development tool
  - Useful as an administrative tool
  - Legal and job-related
  - Viewed as generally fair by employees
  - Effective in documenting employee performance