

Chapter 1

Performance Management and Reward Systems
In Context

Performance Management: Definition

- Continuous process of
 - Identifying, measuring and developing performance of individuals and teams
 - Aligning performance with strategic goals of organisation
- Continuous Process
 - PM is Ongoing
 - Process of setting goals and objectives, giving & receiving ongoing coaching and feedback
- Alignment with strategic goals
 - Managers to ensure that employee act & outputs are congruent with organisation goals
 - Help organisation gain competitive advantage
 - PM creates direct link between employee performance and organisation goals
 -

PM is Not Performance Appraisal

❖ Performance Management

- ❖ Strategic business consideration
- ❖ Ongoing feedback
- ❖ So employee can improve performance
- ❖ Driven by Line Manager

❑ Performance Appraisal

- ❑ Assesses employees strengths and weaknesses
- ❑ Once a year
- ❑ Lacks ongoing feedback
- ❑ Driven by HR

Contribution of PM

1. The definitions of job and success are clarified
2. Motivation to perform is increased
3. Self-esteem is increased
4. Self-insight and development and enhanced
5. Supervisors' views of performance are communicated more clearly
6. Managers gain insight about subordinates
7. There is better and more timely differentiation between good and poor performers
8. Employees become more competent
9. Organizational goals are made clear
10. Organizational change is facilitated
11. Administrative actions are more fair and appropriate
12. There is better protection from lawsuits

Disadvantages of poorly implemented PM systems

1. Lowered self-esteem
2. Employee burnout and job dissatisfaction
3. Damaged relationships
4. Use of false or misleading information
5. Increased turnover
6. Decreased motivation to perform
7. Unjustified demands on managers' resources
8. Varying and unfair standards and ratings
9. Wasted time and money
10. Unclear ratings system
11. Emerging biases
12. Increased risk of litigation

Definition of Reward System

- Set of mechanisms for distributing
- Tangible returns (Cash compensation) and benefits and
- Intangible or relational returns
 - Recognition and status, employment security, challenging work, learning opportunities
- As part of an employment relationship

Types of Reward Systems

- Base Pay
 - Given in exchange for work performed
 - Focus on position and duties performed rather than individuals contribution
- Cost-of-living Adjustment and contingent pay
 - Same % increase for all employees regardless of individual performance
 - COLA -To combat the effects of inflation and attempt to preserve employees buying power
 - CP – Merit pay – given as addition to base pay based on past performance
 - Depends on employee's level of performance
- Short Term Incentives
 - Also allocated based on past performance
 - Motivate performance in short term
 - Not added to base pay, only temporary pay adjustments based on review period
 - One time investments – Variable pay
- Long Term Incentives
 - Attempt to influence future performance
 - Stock ownerships or option to buy stocks at profitable price
 - Employees to become personally invested in success translates into high performance

Types of Reward Systems

- Income Protection
 - Serve as backup to employees salaries in the event of sickness, disability
 - Includes medical insurance, pension plans and saving plans
- Work/Life Focus
 - Programmes to help employees achieve a better balance between work and nonwork act
 - Includes time away from work, services to meet specific needs & flexible work schedules
- Allowances
 - Housing and transportation allowance
- Relational Returns
 - Intangible
 - Recognition and status, employment security, challenging work, opportunity to learn, form personal relationships at work

Aims and Roles of PM

- Strategic Purpose
 - Link employee behavior with organization's goals
 - Communicate most crucial business strategic initiatives
- Admin Purpose
 - Provide information for making decisions regarding:
 - Salary adjustments
 - Promotions
 - Retention or termination
 - Recognition of individual performance
 - Layoffs
- Info Communicate to Employees:
 - Expectations
 - What is important
 - How they are doing
 - How to improve
 - Purpose

Aims and Roles of PM

- Development Purpose
 - Performance feedback/coaching
 - Identification of individual strengths and weaknesses
 - Causes of performance deficiencies
 - Tailor development of individual career path
- Organisational Maintenance Purpose
 - Plan effective workforce
 - Assess future training needs
 - Evaluate performance at organizational level
 - Evaluate effectiveness of HR interventions
- Documentation Purpose
 - Validate selection instruments
 - Document administrative decisions
 - Help meet legal requirements

Characteristics of Ideal PM System

- Strategic Congruence
 - Consistent with organization's strategy
 - Aligned with unit and organizational goals
- Context Congruence
 - Congruent with organization and broader culture
- Thoroughness
 - All employees are evaluated
 - All major job responsibilities are evaluated
 - Evaluations cover performance for entire review period
 - Feedback is given on both positive and negative performance
- Practicality
 - Available
 - Easy to use
 - Acceptable to decision makers
 - Benefits outweigh costs

Characteristics of Ideal PM System

- **Meaningfulness**
 - Standards are important and relevant
 - System measures **ONLY** what employee can control
 - Results have consequences. Evaluations occur regularly and at appropriate times
 - System provides for continuing skill development of evaluators
- **Specificity**
 - Concrete and detailed guidance to employees
 - what's expected
 - how to meet the expectations
- **Identification of effective and ineffective performance**
 - Distinguish between effective and ineffective
 - Behaviors
 - Results
 - Provide ability to identify employees with various levels of performance

Characteristics of Ideal PM Systems

- ❖ Reliability
 - ❖ Consistent
 - ❖ Free of error
 - ❖ Inter-rater reliability
- ❖ Validity
 - ❖ Relevant (measures what is important)
 - ❖ Not deficient (doesn't measure unimportant facets of job)
 - ❖ Not contaminated (only measures what the employee can control)
- ❖ Acceptability and Fairness
 - ❖ Perception of Distributive Justice
 - ❖ Work performed → evaluation received → reward
 - ❖ Perception of Procedural Justice
 - ❖ Fairness of procedures used to:
 - ❖ Determine ratings
 - ❖ Link ratings to rewards
- ❖ Inclusiveness
 - ❖ Represents concerns of all involved
 - ❖ When system is created, employees should help with deciding
 - ❖ What should be measured
 - ❖ How it should be measured
 - ❖ Employee should provide input on performance prior to evaluation meeting

Characteristics of Ideal PM System

- Openness (NO Secrets)
 - Frequent, ongoing evaluations and feedback
 - 2-way communications in appraisal meeting
 - Clear standards, ongoing communication
 - Communications are factual, open, honest
- Correct ability
 - Recognizes that human judgment is fallible
 - Appeals process provided
- Standardization
 - Ongoing training of managers to provide Consistent evaluations across
 - People
 - Time
- Ethicality
 - Supervisor suppresses self-interest
 - Supervisor rates only where he/she has sufficient information about the performance dimension
 - Supervisor respects employee privacy

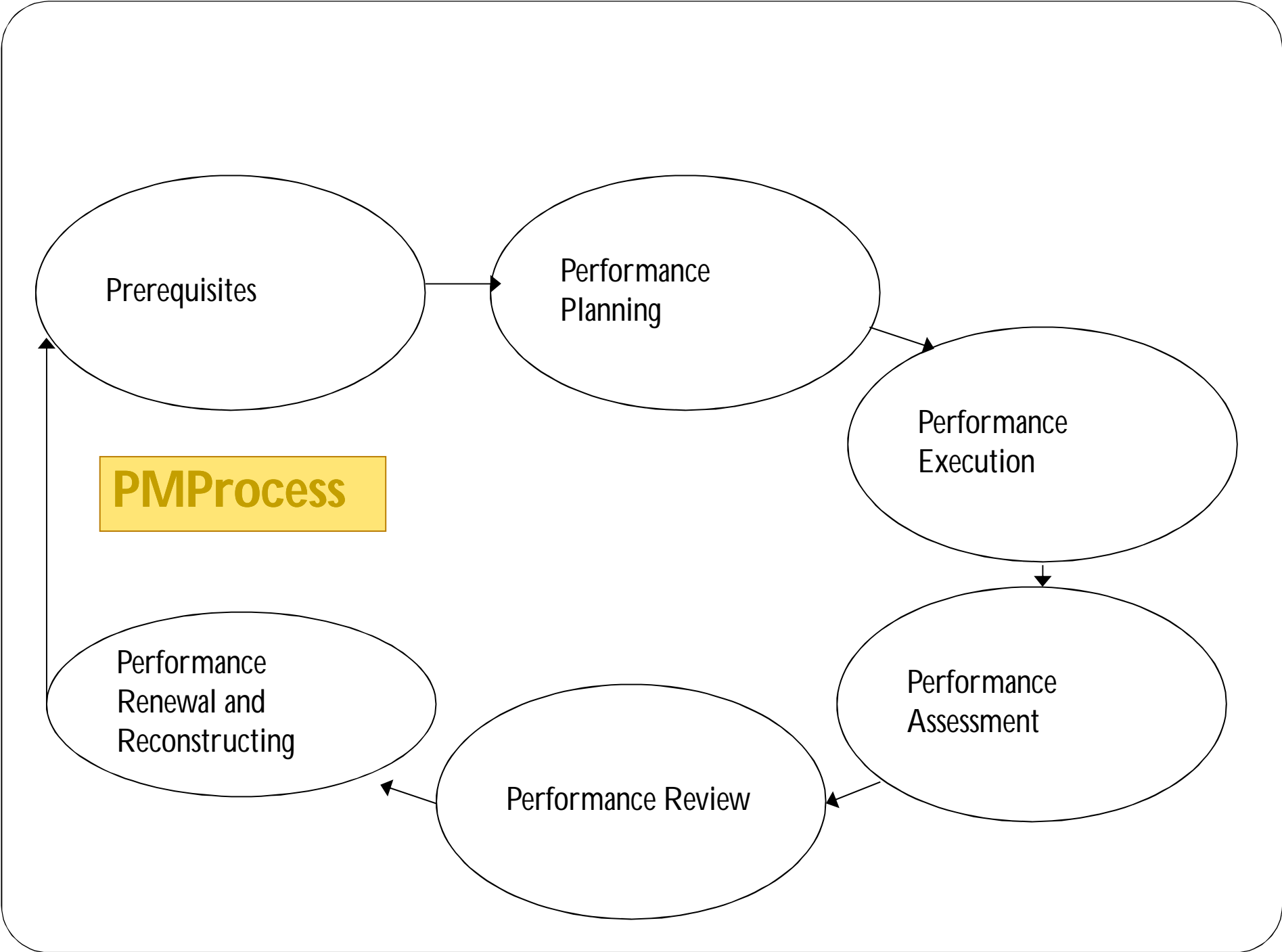
Integration with other HR Act

PM provides information for:

- ✓ Development of training to meet organizational needs
- ✓ Workforce planning
- ✓ Recruitment and hiring decisions
- ✓ Development of compensation systems

Chapter 2

PM Process



Prerequisites

- A. Knowledge of the organization's mission and strategic goals
 - Strategic planning
 - Purpose or reason for organization's existence
 - Where organization is going
 - Organizational goals
 - Strategies for attaining goals
 - Mission and Goals
 - Cascade effect throughout organization
 - Organization → Unit → Employee

Prerequisites

- Knowledge of the job in question
 - Job analysis of key components
 - Activities, tasks, products, services, processes
 - KSAs required to do the job
 - Knowledge
 - Skills
 - Abilities
 - Job Description
 - Job duties
 - KSAs
 - Working conditions
 - Job Analysis
 - Use a variety of tools
 - Interviews
 - Observation
 - Questionnaires (available on Internet)
 - Job Analysis Follow Up
 - All incumbents should
 - review information and
 - provide feedback
 - re:
 - Task
 - Frequency
 - Criticality

Performance Planning

- Results
 - Key accountabilities
 - Specific objectives
 - Performance standards
- Key Accountabilities
 - Broad areas of a job for which
 - the employee is responsible
 - for producing results
- Specific Objectives
 - Statements of outcomes
 - Important
 - Measurable

Performance Planning

- Performance Standards
 - Yardstick" to evaluate how well employees have achieved each objective
 - Information on acceptable and unacceptable performance, such as
 - quality
 - quantity
 - cost
 - time
- Behaviors
 - How a job is done
- Competencies
 - Measurable clusters of KSAs
 - Critical in determining how results will be achieved
- Development Plan
 - Areas for improvement
 - Goals to be achieved in each area of improvement

Performance Execution

- Employee Responsibilities
 - Commitment to goal achievement
 - Ongoing requests for feedback and coaching
 - Communication with supervisor
 - Collecting and sharing performance data
 - Preparing for performance reviews
- Manager Responsibilities
 - Observation and documentation
 - Updates
 - Feedback
 - Resources
 - Reinforcement

Performance Assessment

- Manager assessment
- Self-assessment
- Other sources (e.g., peers, customers, etc.)
- Multiple Assessments Necessary
 - Increase employee ownership
 - Increase commitment
 - Provide information
 - Ensure mutual understanding

Performance Review

- Overview of Appraisal Meeting
 - Past
 - Behaviors and results
 - Present
 - Compensation to be received
 - Future
 - New goals and development plans
- Steps for Conducting Performance Review
 1. Identify what the employee has done well and poorly
 2. Solicit feedback
 3. Discuss the implications of changing behaviors
 4. Explain how skills used in past achievements can help overcome any performance problems
 5. Agree on an action plan
 6. Set a follow-up meeting and agree on behaviors, actions, attitudes to be evaluated

Performance Renewal & Recontracting

- Same as/different from Performance Planning
 - Uses insights and information from previous phases
 - Cycle begins again

Chapter 3

Performance Management & Strategic Planning

Definition Strategic Planning

- Strategic planning is the process that involves:
 - describing the organizations destination,
 - assessing barriers that stand in the way of the destination
 - Selecting approaches for moving forward
- The main goal of strategic planning is to allocate resources in a way that provides organizations with the competitive advantage.
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- The strategic plan serves as a blueprint that defines how the organization will allocated resources in pursuit of its goal.

Purpose of Strategic Planning

- Strategic planning allows organisations to define their Identities
- It helps organisations prepare for the future
- Its allows organisations to Analyze the environment and enhance their ability to adapt
- It provides organisations with focus and allows them to allocate resources
- Produces an organizational culture of cooperation
- Allows for the consideration of new options and opportunities
- Provides employees with the information to direct daily activities

Process of linking performance management to the strategic plan

- A conscious effort must be made to link the strategic plan with individual performance
- The organization strategic plan includes a mission statement and a vision statement as well as goals and strategies that will allow for the fulfilment of the mission and vision.
- See figure 3.1 on page 62 of the textbook
- The higher the level of involvement the more likely it is that managers will see the resulting strategies favorably
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- It's critical to ensure that each units mission and vision statements goals and strategies are consistent with those of the organizational level
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- Job descriptions must be revised to make sure they are consistent with the unit an organization priorities
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- The performance management system includes results, behaviors, and developmental plans consistent with the organizational and departmental level priorities
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- Performance management systems have a critical role in translating strategy into action

Strategic Planning

- The development of an organization strategic plan requires a careful analysis of:
 - the organisations competitive situation
 - The creation of an organizational mission
 - The creation of an organization of vision
 - The development of the organization strategic goals
 - The design of a plan of action and implementation
 - The allocation of resources
- There are several steps that must be considered in the creation of a successful strategic plan:
 - Conduct environmental analysis
 - Create an organizational mission
 - Create an organizational vision
 - Set goals
 - Create strategies that will allow the organization to achieve its mission, vision and goals
- The strategic planning process is not linear
- The mission and vision may be drafted first and environmental analysis may come second. There must be constant interplay among these issues.

Environmental Analysis

- Identify the external and internal parameters with the purpose of understanding broader issues related to the industry within which the organization operates so that decisions can be made against the backdrop of a broader context.
- An examination of the external environment includes a consideration of opportunities and threats.
- Examples of opportunities include:
 - Markets currently not been served
 - Untapped labour pools
 - New technological advances
- Threats are characteristics of the external environment that can prevent the organization from being successful
- The following external factors should be considered in any environmental analysis:
 - Economic -
 - Political/legal – political changes domestically or international
 - Social – young or aging workforces
 - Technological
 - Competitors – anticipating competitors next moves
 - Customers – customer wants and needs
 - Suppliers – relationships with suppliers

Environmental Analysis

- An examination of the internal environment includes a consideration of strengths and weaknesses.
- The following internal issues should be considered in any environmental analysis:
 - Organizational structure – conducive to fast and effective communication
 - Organizational culture – norms and values
 - Politics – competition for internal resources
 - Processes
 - Size
- After external and internal issues have been considered, information is collated regarding SWOT.
- The information is used to conduct a gap analysis, which analyses the external environment in relation to the internal environment.
- The paring of external opportunities and threats with the internal strengths and weaknesses leads to the following situations (ranked from most to least competitive):
 - Opportunity + strength = leverage
 - When there is an opportunity in the environment and a matching strength within the organization
 - Opportunity + weakness = constraint
 - The external opportunities present but the internal situation is not conducive to taking advantage of it
 - Threat + strength = vulnerability
 - There is an external threat but it can be contained because of the presence of an internal strength
 - Threat + weakness = problem
 - Worst scenario. And external threat and an accompanying

Mission

- Organization must determine who they are and what they do.
- Mission statements provide information on the purpose of the organization and its scope
- Good mission statements provide answers to the following questions:
 - Why does the organization exist?
 - What is the scope of the organization's activities?
 - Who are the customers served?
 - What are the product or services offered?
- In general mission statements include the following components:
 - The basic product or service to be offered
 - The primary market or customer groups
 - Unique benefits and advantages of products or services
 - Technology to be used in production or delivery
 - Fundamental concern for survival through growth and profitability
- Mission statements usually also include information about the organisations values and beliefs including:
 - Managerial philosophy of the organization
 - Public image sought by the organization
 - Self concept of business adopted by employees and stockholders'
- A mission statement defines:
 - why the organization exists,
 - the scope of its activities
 - The customers served
 - The products and services offered

Vision

- A statement of an organizations future aspirations.
- The vision statement includes descriptions of what the organization would like to become in the future.
- Vision statements are typically written after the mission statement is completed.
- Vision statements usually include two components:
 - A core ideology – The mission. Contains the core purpose and core values of an organization
 - An envisioned future – The vision. Long term objectives and a picture of what the organization aspires to
- Good vision statements have the following characteristics:
 - Brief – so that employees can remember them
 - Verifiable – ability to stand the reality test
 - Bound by a timeline
 - Current
 - Focused
 - Understandable
 - Inspiring
 - A stretch

Strategies

- A discussion of how to perform a mission and vision and how to achieve the stated goals.
- Done by creating strategies which are descriptions of game plans ends to reach the stated objectives.
- The strategies could addressing issues of growth, survival, turnaround, stability, innovation and leadership among others
- The human resource function plays a critical role in creating and implementing the strategies that will allow the organization to realize its mission and vision,
- The HR function can make the following contributions:
 - Communicate knowledge of strategic plan
 - Outline knowledge, skills and abilities needed for strategy implementation
 - Propose reward systems

Developing strategic plans at the unit level

- The organization strategic plan has a direct impact on the unit strategic plans.
- The vision statement, goals and strategies of the various units need to be congruent with the overall organizational vision, goals and strategies.
- This is regardless of the type of industry or size of the organization.
- High performing organisations have a clear alignment in the mission and vision of the overall and unit level statements.

Consensus about strategies and goals across organizational units

- Strategic consensus occurs when the various organizational units agree on a common set of strategic priorities.
- Two alternative sequences :
 - Strategies → goals versus goals → strategies.
 - Strategies → Goals was superior in terms of predicting firm performance.
- It is beneficial for the cascading of strategic planning to first have units agree on common strategies before they agree on what goals will be suited to reach those strategic priorities.

Job Descriptions

- Need to be congruent with the organization and unit mission, vision, goals and strategies.
- After the strategic plan is completed, some rewriting of the existing job descriptions may be in order.
- This description provides information about the various tasks performed together with a description of some of the KSA's Required for the position.
- Job descriptions should include activities that if executed well , will help execute the mission and vision of the organization.

Individual & Team Performance

- The performance management system needs to motivate employees to display the behaviors and produce the results required to support The organisations and the units mission, vision and goals
- Developmental plans must be aligned with the unit an organization priorities
- Organisational success is a direct function of the alignment between collective and individual objectives.
- Knowledge of organization and unit level mission and vision provides information about how to design a performance management system.
- Knowledge of the organization and the unit vision and mission allows the HR function to make informed decisions about design choices.
- The criteria measured in the performance management system are behaviours and results that must be relevant to the unit and the organization.
- Performance criteria need to make a contribution to the strategic priorities.

Chapter 4

Defining Performance & Choosing a Measurement Approach

Defining Performance

- Performance management systems include measures of both behaviors and results.
- The definition of performance does not include the results of an employee's behaviors but only the behaviors themselves.
- There are two additional characteristics of the behaviors we label performance:
 - Evaluative – Behaviors can be judged as negative, neutral or positive for individuals and organizational effectiveness
 - Multi dimensional – meaning that there are many different kinds of behaviors that could have the capacity to advance organizational goals.
- Contribution to the effectiveness of others in the work unit could be assessed by using a scale including anchors demonstrating various levels of competence.
- There are several behaviors that, combined, affect the overall perceived contribution that employees make to the effectiveness of others in the work unit.

Determinates of Performance

- A combination of three factors allows some people to perform at higher levels than others:
 - Declarative knowledge – information about facts and things regarding a given tasks requirements, labels, principles and goals
 - Procedural knowledge – the combination of knowing what to do and how to do it and includes cognitive, physical, perceptual, motor and interpersonal skills
 - Motivation – involves three types of choice behaviors
 - Choice to expend effort
 - Choice to the level of level of effort
 - Choice to persist in the expenditure of that level of effort
- The three determinants have a multiplicative relationship
- Performance = declarative knowledge x procedural knowledge x motivation
- Deliberate practice is different from regular practice and from simply working many hours a week.
- Top performers in all fields engage in deliberate practice consistently, daily including week-ends
- Deliberate practice involves the following five steps:
 1. Approach performance with the goal of getting better and better
 2. As you are performing, focus on what is happening and why you are doing things the way you do.
 3. Once the task is finished, seek performance feedback from expert sources
 4. Build mental models of your job , your situation, and the organization
 5. Repeat steps 1 to 4 continually and in an ongoing basis.

Implications for addressing performance problems

- That performance is affected by the combined effect of three different factors has implications for addressing performance problems.
- Managers must find information that will allow them to understand whether the source of the problem is declarative knowledge, procedural knowledge, motivation or some combination of these three.
- Performance management systems should not only measure performance but also provide information about the source of any performance deficiencies.

Factors influencing determinants of performance

- The factors that determine performance are affected by the employee, human resources and the work environment.
- Performance problems may be related more to procedural knowledge and motivation.
- In terms of procedural knowledge, employees may actually have the knowledge to perform certain and tasks but may not have the skill to do them due to lack of opportunity for practice.
- There are three individual characteristics that determine performance:
 - Procedural knowledge - knowing HOW to do something
 - Declarative knowledge - knowing THAT something is the case
 - Motivation

Performance Dimensions

- Two types of behaviors stand out:
 - Task performance
 - Contextual performance
- Each must be considered separately because they do not necessarily occur in tandem.
- An employee can be highly proficient at the task but be an underperformer regarding contextual performance.
- Task performance is defined as:
 - Activities that transform raw materials into goods and services produced by the company
 - Activities that help with the transformation process
- Contextual performance is defined as those behaviours that contribute to the organization's effectiveness by providing a good environment in which task performance can occur.
- Contextual performance includes behavior such as:
 - Persisting with enthusiasm and exerting extra effort to complete one's own task activities successfully
 - Volunteering to carry out task activities not formally part of the job
 - Helping and cooperating with others
 - Following organization rules and procedures
 - Endorsing, supporting and defending organizational objectives

Performance Dimensions

- Contextual performance is similar across functional and hierarchical levels.
- Past performance is likely to be role prescribed, meaning that task performance is usually included in one's job description.
- Contextual performance behaviors are usually not role prescribed.
- Task performance is mainly influenced by abilities and skills
- Contextual performance is mainly influenced by personality.
- There are many reasons why both task and contextual performance dimensions should be included in the performance management system:
 - Global competition is raising the levels of effort required of employees
 - The need to offer outstanding customer service.
 - Many organizations are forming employees into teams
 - Including both task and contextual performance in the performance management system provides an additional benefit - employees being rated are more satisfied with the system and believe the system is fairer if contextual performance is measured in addition to task performance.
 - When supervisors evaluate performance, it's difficult for them to ignore the contextual performance dimension.
- There is an additional type of behavior is another facet of contextual performance – voice behavior
- Voice behavior is a type of behavior that emphasizes the expression of constructive challenge with the goal to improve rather than merely criticize. It challenges the status quo in a positive way.
- Voice behavior can be seen as a threat by the new employee's supervisor who is used to doing things the same way we've done them before.

Approaches to measuring performance

- ***Behavior approach***

- Emphasizes what an employee does on the job and does not consider employee traits or the outcomes resulting from their behaviours. It's basically a process oriented approach that emphasizes how an employee does the job.
- Its most appropriate under the following circumstances:
- The link between behaviours and results is not obvious – e.g. the salesperson may not be able to close the deal because of a downturn in the economy
- Outcomes occur in the distant future – the desired results will not be seen for a long time
- Poor results are due to causes beyond the performer's control

Approaches to measure Performance

- **Results approach**

- Emphasizes the outcomes and results produced by the employees.
- Does not consider the traits that the employees may possess or how employees do the job.
- It's basically a bottom line approach that is not concerned about the employees behaviors and processes but focuses on what is produced.
- Defining and measuring results usually takes less time than defining and measuring behaviors needed to achieve these results.
- The results approach is usually seen as more cost effective because results can be less expensive to track than behaviors.
- The results approach is most appropriate in the following circumstances:
- *Workers are skilled in the needed behaviours* – workers know what specific behaviours are needed to achieve the desired results and are sufficiently skilled to know what to do to correct any process related problems
- *Behaviors and results are obviously related* - certain results can be obtained only if the worker engages in certain specific behaviours. This is the case of jobs involving repetitive tasks i.e. assembly lines, paper delivery.
- *Results show consistent improvement over time* – when results improve consistently its an indication that workers are aware of the behaviors needed to complete the job successfully. It appropriate to adopt a results approach to assessing performance.
- *The are many ways to do the job right* - When there are different ways in which one can do the tasks required for a job, the results approach is appropriate. An emphasis on results can be beneficial because it could encourage employees to achieve the desired outcomes in creative and innovative ways.

Approach to measure Performance

- **Trait approach**
 - Emphasizes the individual performer and ignores the specific situation, behaviours and results.
 - If the trait approach is adopted, raters adopt relatively stable traits. These can include abilities, such as cognitive abilities or personality
 - This approach is justified based on the positive relationship found between abilities and personality traits and desirable work related behaviors.
 - Some of the challenges of implementing a system that emphasizes the measurement of traits only include:
 - Traits are not under the control of individuals – they are fairly stable over one's life span
 - Because an individual possesses a certain trait that does not mean that it will lead to desired results and behaviors.
 - There are situations in which a trait oriented approach can be fruitful:
 - As part of its business strategy, an organization may anticipate drastic structural changes that will lead to a reorganization of most functions and the resulting reallocation of employees.
 - In most organisations, performance is not measured using the trait approach

Chapter 5

Measuring Results and Behaviours

MEASURING RESULTS

- If one adopts a results approach, one needs to ask the following key questions:
 - What are the different areas in which this individual is expected to focus efforts (key accountabilities)?
 - Within each area, what are the expected objectives?
 - How do we know how well the results have been achieved (performance standards)?
- Key accountabilities are broad areas of a job for which the employee is responsible for producing results.
- A discussion of results also includes specific objectives that the employee will achieve as part of each accountability.
- Objectives are statements of important and measurable outcomes.
- Finally, discussing results also means discussing performance standards.
- Organizations that implement a management by objectives (MBO) philosophy are likely to implement components of performance management systems, including objectives and standards.
- An emphasis on objectives and standards is likely to allow employees to translate organizational goals into individual goals, which is a key goal of MBO philosophies.

Determining Accountabilities

- The first step in determining accountabilities is to collect information about the job.
- The primary source is the job description.
- The job description provides information on the tasks performed. Tasks included in the job description can be grouped into clusters of tasks based on their degree of relatedness.
- After the accountabilities have been identified, we need to determine their relative degree of importance. To understand this issue, we need to ask the following questions:
 - What percentage of the employee's time is spent performing each accountability?
 - If the accountability were performed inadequately, would there be a significant impact on the work unit's mission?
 - Is there a significant consequence of error?
- The job description is the following:
 - Identifies the training and development needs of Target Corporation's work force with primary emphasis on exempt team members.
 - Designs and delivers training and development workshops and programs and maintains an ongoing evaluation of the effectiveness of those programs.
- Based on the job description and additional information , list of the accountabilities, consequences of performing them inadequately, consequences of making errors, and percentage of time spent in each are shown in the following:
 - Process leadership. Leads the strategy and direction of assigned processes.
 - Supervision of nonexempt staff.
 - Supervises nonexempt staff working in the unit. This is relatively important to the functioning of the work unit.
 - Coaching.
 - Team building consultation
 - Assessment instrument feedback.
 - Delivers feedback based on scores obtained on assessment instruments of skills, ability, personality, and other individual characteristics.
- Product improvement. Continuously seeks and implements opportunities to use technology to increase the effectiveness of leadership and team development programs

Determine Objectives

- The next step in measuring results is to determine specific objectives.
- Objectives are statements of an important and measurable outcome that will help ensure success for the accountability.
- The purpose of establishing objectives is to identify a limited number of highly important results.
- After objectives are set, employees should receive feedback on their progress toward attaining the objective.
- Objectives are important because they help employees guide their efforts.
- To serve a useful function, objectives must have the following characteristics:
 - *Specific and clear.* - Objectives must be easy to understand.
 - *Challenging.* - Challenging (but not impossible to achieve).
 - *Agreed upon.*
 - *Significant.* - Objectives must be important to the organization.
 - *Prioritized.* - Objectives should be prioritized and tackled one by one.
 - *Bound by time.* - Good objectives have deadlines and mileposts..
 - *Achievable.* - Good objectives are doable
 - *Fully Communicated*
 - Flexible
 - Limited in number – too many are impossible to achieve
- Examples of objectives (one or two per accountability) are the following:
 - *Process leadership.*
 - *Supervision of nonexempt staff.*
 - *Coaching.*
 - *Team-building consultation.*
 - *Assessment instrument feedback.*
 - *Product improvement.*

Determining Performance Standards

- These are yardsticks designed to help people understand to what extent the objective has been achieved.
- The standards provide raters with information about what to look for to determine the level of performance that has been achieved.
- Standards can refer to various aspects of a specific objective, including quality, quantity, and time.
- Each of these aspects can be considered a criterion to be used in judging the extent to which an objective has been achieved.
 - Quality: how well the objective has been achieved?
 - Quantity: how much has been produced, how many, how often, and at what cost?
 - Time: due dates, adherence to schedule, cycle times, deadlines
- Standards must include an action, the desired result, a due date, and some type of quality or quantity indicator.
- Standards usually describe fully satisfactory performance.

Determine Performance Standards

- In writing standards, consider the following characteristics that often determine whether one has a useful standard:
 - *Related to the position.*
 - Good standards are based on the job's key elements and tasks, not on individual traits or person-to-person comparisons.
 - *Concrete, specific, and measurable.* Good standards are observable and verifiable.
 - *Practical to measure.*
 - Good standards provide necessary information about performance in the most efficient way possible
 - Meaningful
 - Realistic and achievable.
 - Standards are possible to accomplish, but they require a stretch.
 - Reviewed regularly.
 - Information should be available on a regular basis to determine whether the employee has reached the standard, and if not, remedial action should be taken.
- Examples of standards are the following:
 - *Process leadership.*
 - *Supervision of nonexempt staff.*
 - *Coaching.*
 - *Team-building consultation.*
 - *Assessment instrument feedback.*
 - *Product improvement*

Chapter 6

Gathering Performance Information

Appraisal Forms

- At the core of any performance management system is the assessment of performance.
- One advantage of filling out forms electronically is that the information is stored and can easily be shared,
- Having the data available in electronic form can help in subsequent analyses
- Using electronic forms is beneficial because, as change take place in the organization or job in question, forms need to be revised and updated, and electronic forms are usually easier to modify than paper forms.

Appraisal Form Components

1. **Basic employee information** – includes basic employee information such as job title, division, department and other work group information, employee number, and pay grade or salary classification.
2. **Include the dates of the evaluation period**, the number of months and years the rater has supervised or worked with the employee, an employee's starting date with the company and starting date in the current job, the reason for the appraisal, current salary and position in range, and the date of the next scheduled evaluation.
3. **Accountabilities, objectives, and standards** - this section of the form would include the name and description of each accountability, objectives agreed upon by manager and employee, and the extent to which the objectives have been achieved. The objectives are weighted in terms of importance, which facilitates the calculation of an overall performance score.
4. **Competencies and indicators.** - this section of the form includes a definition of the various competencies to be assessed, together with their behavioral indicators.
5. **Major achievements and contributions** - Forms include a section in which a rater is asked to list the two or three major accomplishments of the individual being rated during the review period.
6. **Developmental achievements** - Section of the form includes information about the extent to which the developmental goals set for the review period have been achieved.
7. **Developmental needs, plans, and goals** - This section of the form is future oriented and includes information about specific goals and timetables in terms of employee development.
8. **Stakeholder input** - Some forms include sections to be filled out by other stakeholders, such as customers with whom the employee interacts. Overall, stakeholders are defined as people who have firsthand knowledge of and are affected by the employee's performance. Input from other stakeholders is collected from them by using forms separate from the main appraisal
9. **Employee comments** - Section includes reactions and comments provided by the employee being rated. In addition to allowing formal employee input, which improves the perceived fairness of the system, the inclusion of this section helps with legal issues because it documents that the employee has had an opportunity to participate in the evaluation process.
10. **Signatures** - The final section of most forms includes a section in which the employee being rated, the rater, and the rater's supervisor provide their signatures.

CHARACTERISTICS OF APPRAISAL F

- If the system adopted a behavior approach the form may emphasize competencies and ignore results
- The form may emphasize developmental issues
- There are certain desirable features that make appraisal forms particularly effective:

1. *Simplicity.*

1. Forms must be easy to understand, easy to administer, quick to complete, clear, and concise.

2. *Relevancy.*

1. Good forms include information related directly to the tasks and responsibilities of the job;

3. *Descriptiveness.*

1. Good forms require that the raters provide evidence of performance regardless of the performance level. They should be sufficiently descriptive that an outside party has a clear understanding of the performance information conveyed.

4. *Adaptability.*

1. Good forms allow managers in different functions and departments to adapt them to their particular needs and situations.

5. *Comprehensiveness.*

1. Good forms include all the major areas of performance for a particular position for the entire review period.

6. *Definitional clarity.*

1. Desirable competencies and results are clearly defined for all raters

7. *Communication.*

1. The meaning of each of the components of the form must be successfully communicated to all people participating in the evaluation process.

8. *Time orientation.*

1. Good forms help clarify expectations about performance.

DETERMINING OVERALL RATING

- After the form has been completed you need to compute an overall performance score. This is necessary to make admin decisions such as the allocation of rewards.
- Two main strategies are used to obtain overall performance score for each employee: judgmental and mechanical.
- **The judgmental procedure** consists of considering every aspect of performance and then arriving at a defensible summary. This basically holistic procedure relies on the ability of the rater to arrive at a fair and accurate overall score.
- **Mechanical Procedure:** The use of weights allows the supervisor to come to an objective and clear overall performance score for each employee. As this example illustrates, the use of clearly specified weights allows the supervisor to come to a verifiable score for each employee. Thus, the supervisor and the employees can be sure that the overall performance rating is reflective of the employee's performance in each category.
- In most cases, the mechanical method is superior to the judgmental method. A supervisor is more likely to introduce his or her own biases in computing the overall performance score when no clear rules exist regarding the relative importance of the various performance dimensions and there is no direction on how to combine the various performance dimensions in calculating the overall score.
- Sections labeled "comments." These open-ended sections are common in most appraisal forms. However, this information is typically not used effectively.
- Two chief reasons that this is the case.
 - First, not easy to systematically categorize and analyze such comments. Second, the quality, length, and content of these comments may be more a function of the culture of the organization and the writing skills of the person filling out the form than actual KSAs of the employee being rated
 - If raters are not given any training or general instructions on what to write, comments may range from none at all to very detailed descriptions of what employees have done.
- It's important to first establish the goals of the information that raters are asked to include in these open ended sections and then offer raters training

WHO SHOULD PROVIDE PERFORMANCE INFORMATION?

- **Supervisors**

- An advantage of using supervisors as a source of performance information :
 - They are usually in the best position to evaluate performance in relation to strategic organizational goals.
 - Also, supervisors are often those making decisions about rewards associated with performance evaluation.
 - Supervisors are able to differentiate among various performance dimensions
- Supervisors are often the most important source of performance information because they are knowledgeable about strategic issues, understand performance, and are usually in charge of managing employee performance.
- Performance evaluations given by the supervisor may be biased because the supervisor may evaluate performance based on whether the ratee is contributing to goals valued by the supervisor as opposed to goals valued by the organization as a whole.

WHO SHOULD PROVIDE PERFORMANCE INFORMATION?

- **Peers**

- Change management is extremely important to the successful implementation of this consolidation
- Successful teamwork is crucial to change management initiatives.
- Peer evaluations suffer from three problems.
 - Evaluations may not be readily accepted when employees believe there is friendship bias at work.
 - Peers are less discriminating among performance dimensions than supervisors. If one is rated high on one dimension, one is also likely to be rated high on all the other dimensions,
 - Peer evaluations are likely to be affected by what is called *context effects*.
- Peer evaluations can be quite different based on whether the peer providing the rating is thinking about one specific situation versus another one, or communication behaviors across situations in general.

WHO SHOULD PROVIDE PERFORMANCE INFORMATION?

- **Subordinates**
- Subordinates are a good source of information regarding the performance of their managers.
- Subordinates are in a good position to evaluate leadership competencies, including delegation, organization, and communication.
- Subordinates may be asked to rate their manager's ability to:
 - Remove barriers that employees face,
 - Shield employees from politics, and
 - Raise employees' competence.
- Many organizations take upward feedback very seriously.
- Performance information provided by subordinates is more accurate when the resulting ratings are to be used for developmental purposes rather than administrative purposes
- Confidentiality is key if subordinates are to be used as a source of performance information

WHO SHOULD PROVIDE PERFORMANCE INFORMATION?

- **Self**

- When employees are given the opportunity to participate in the performance management process, their acceptance of the resulting decision is likely to increase, and their defensiveness during the appraisal interview is likely to decrease.
- Self-appraisals should not be used as the sole source of information in making administrative decisions because they are more lenient and biased than are ratings provided by other sources such as a direct supervisor.
- Self-ratings tend to be less lenient when they are used for developmental as opposed to administrative purposes. In addition,
- The following suggestions may improve the quality of self-appraisals:
 - Use comparative as opposed to absolute measurement systems
 - Allows employees to practice self-rating skills
 - Assure confidentiality
 - Emphasize the future

- **Customers**

- Collecting information from customers can be a costly and time-consuming process;
- Performance information provided by customers is particularly useful for jobs that require a high degree of interaction with the public or with particular job-related individuals.

A MODEL OF RATER MOTIVATION

- The rater is likely to be affected by biases that distort the resulting ratings. Performance ratings may be intentionally or unintentionally distorted or inaccurate.
- When performance ratings are distorted, the performance management system not only fails to result in desired outcomes but also may lead to very negative consequences for the organization.
- Rating behaviors are influenced by:
 - Motivation to provide accurate ratings
 - Motivation to distort ratings.
- The motivation to provide accurate ratings is determined by whether the rater expects positive and negative consequences of accurate ratings and by whether the probability of receiving these rewards and punishments will be high if accurate ratings are provided

A MODEL OF RATER MOTIVATION

- There are motivational barriers that prevent raters from providing accurate performance information.
- A supervisor may be motivated to provide inflated ratings to:
 - *Maximize the merit raise/rewards.*
 - *Encourage employees.*
 - *Avoid creating a written record.*
 - *Avoid confrontation with employees*
 - *Promote undesired employees out of unit.*
 - *Make the manager look good to his/her supervisor.*
- Supervisors may also be motivated to provide ratings that are artificially deflated. Some reasons for this are to:
 - Shock an employee
 - Teach a rebellious employee a lesson
 - Send a message to the employee that he should consider leaving.
 - Build a strongly documented, written record of poor performance.
- This discussion should allow us to see that the process of evaluating performance can be filled with emotional overtones and hidden agendas that are driven by the goals and motivation of the person providing the rating.
- If raters are not motivated to provide accurate ratings, they are likely to use the performance management system to achieve political and other goals, such as rewarding allies and punishing enemies or competitors, instead of using it as a tool to improve employee and, ultimately, organizational performance.
- It is important to understand the influence of context on the accuracy of performance ratings and be aware that performance measurement does not take place in a vacuum,

A MODEL OF RATER MOTIVATION

- We need to provide incentives so that raters will be convinced that they have more to gain by providing accurate ratings than they do by providing inaccurate ratings.
- If a supervisor believes there is accountability in the system and ratings that are overly lenient are likely to be easily discovered, resulting in an embarrassing situation for the supervisor, leniency is also likely to be minimized.
- Lenient ratings may be minimized when supervisors understand they will have to justify their ratings to their own supervisors.
- In terms of increasing accountability, specific recommendations include the following:
 - Have raters justify their ratings.
 - Have the raters justify their ratings in a face-to-face meeting.
 - The performance management system needs to be designed in such a way that the benefits of providing accurate ratings outweigh the benefits of providing inaccurate ratings.

PREVENTING RATING DISTORTION THROUGH RATER TRAINING PROGRAMS

- Rater training programs have the overall objective of providing raters with tools that will allow them to implement the performance management system effectively and efficiently.
- Programs also help prevent rating distortion.
- Remedial programs include content related to information, motivation, and skills.
- In addition to intentional errors, raters are likely to make unintentional errors in rating performance.
- Training programs, must address both types of errors and
- The goal is to align the goals of the rater with the goals of the performance management system so that raters are partners and active contributors to the process.

PREVENTING RATING DISTORTION THROUGH RATER TRAINING PROGRAMS

- **Specifically, training programs may cover the following topics:**

- *Reasons for implementing the performance management system.*
- *How to identify and rank job activities*
- *How to observe, record, and measure performance.*
- *Information on the appraisal form and system mechanics.*
- *How to minimize rating errors.*
- *How to conduct an appraisal interview.*
- *How to train, counsel, and coach*
- Reasons for Rating Distortion

- **Rating Inflation**

- Maximize the merit raise/rewards
- Encourage employees
- Avoid creating a written record
- Avoid a confrontation with employees
- Promote undesired employees out of the unit
- Make manager look good to their supervisor

- **Rating Deflation**

- Shock employees
- Teach a rebellious employee a lesson
- Send a message that employee should consider leaving
- Build a record of poor performance

Chapter 9

Reward systems and legal issues

Traditional and contingent pay plans

- A traditional approach in implementing reward systems is to reward employees with the positions they fill as indicated by the job descriptions and not necessarily by how they do their work
- In traditional reward systems, the type of position and seniority are the determinants of salary and salary increases, not performance. There is no relationship between performance management and rewards
- Contingent pay (CP) also known as pay for performance – individuals are awarded based on how well they perform on the job
- Employees receive increases in pay based wholly or partly on job performance.
- When increases are not added to an employees base salary, as in the case of one time bonuses , they're called variable pay.
- Currently, CP plans are more pervasive

Reasons for introducing contingency pay plans

- PM systems are more effective when results are directly tied to the reward system
- CP plans force organisations to define effective performance clearly and determine what factors are likely to lead to effective performance.
- When a CP plan is implemented organisations needs to make clear what is expected of employees.
- This serves an important communication goal because supervisors and employees are better able to understand what really matters.
- High achieving performers are attracted to the organisations that reward high level performance. High performers are usually in favour of CP plans – known as the sorting effect
- CP plans serve as a good tool to recruit and retain top performers.
- CP Plans enhance employee motivation to accomplish the goals that match the organisations needs.
- CP plans have the potential to help people change behavior and improve performance.

Reasons for introducing contingency pay plans

- Employees performance is determined by the joint effects of:
 - Declarative knowledge
 - Procedural knowledge
 - Motivation
- CP plans address the motivational components.
- Employees are likely to expend effort in the presence of financial incentives.
- CP plans can help improve the motivation of employees when each of the following conditions is presumed:
 - Employees see a clear link between their efforts and the resulting performance – Expectancy
 - Employees see a clear link between their performance level and awards received – Instrumentality
 - Employees value the rewards available – Valence
- $Motivation = Expectancy \times Instrumentality \times Valence$
- CP plans should not be regarded as the holy grail of employee performance for the following reasons:
 - Pay can affect only the motivation aspects of performance – poor performance won't be solved by more pay

Problems associated with contingent pay plans

- Not all CP plans working as intended
- Some of the following reasons include:
 1. **A poor performance management system is in place –**
 - Employees may challenge the CP plan legally
 2. **The folly of rewarding A while hoping for B –**
 - Rewarding results and behavior Not part of organizational goals
 3. **Rewards are not considered significant –**
 - Rewards must be meaningful for all employees
 4. **Managers are not accountable**
 5. **There exists extrinsic motivation at the expense of intrinsic motivation –**
 - exclusive emphasis on rewards
 6. **Rewards for executives are disproportionately large compared to rewards for everyone else**

Selecting a contingent pay plan

- A critical issue to consider is that of organizational culture.
 - An organizations culture is defined by its unwritten rules and procedures.
- CP plans are powerful tools that help identify the current culture and can be used to create a new type of culture.
- Examples of such CP systems are the following:
 - **Piece rate** – employees are paid based on the number of units produced or repaired
 - **Sales commissions** - payment based on a % of sales
 - **Group incentives** – payment based on extra group production based on results oriented measures
- Involvement culture is different from traditional culture
 - Characterized by shared decision making, lateral communications, and loosely defined roles.
- Examples of systems that work well in organisations with the involvement cultures include:
 - **Profit sharing** – employees paid based on the performance of a group
 - **Skilled based pay** – employees paid based on whether they require new knowledge and skills. Popular in software companies
- An important consideration in selecting a CP plan is the organisations strategic direction.
- If employee development is a key strategic priority, rewards should emphasize new skills acquired. If customer services is a key priority rewards should be emphasize competencies related to customer service.

Performance management & the law

- Performance management systems that are fair and acceptable to employees are also legally sound.
- A basic principle that guides the design of a fair system is the application of standardized procedures for all employees.
- Discriminatory effects of a performance management system can be minimized by applying the basic principle: *treat everyone exactly the same way*

Legal principles affecting PM

- **Employment at will**

- The employer or employee can end the employment relationship at any time. Gives employers considerable latitude in determining whether, when and how to measure and reward performance

- **Negligence**

- Employees may challenge an unfair performance evaluation if they believe the system has not been implemented as expected

- **Defamation**

- An employee can argue that an organization defamed them if the employer states false and libelous information during the course of the performance evaluation. This can happen when an employee is evaluated based on behaviors that are irrelevant and not job related.

- **Misrepresentation**

- Disclosing untrue favorable performance, and this information causes risk or harm to others.

- **Adverse impact**

- Also called unintentional discrimination. Occurs when the performance management system has an unintentional impact on a protected class i.e. Women receive consistently lower performance ratings than men

- **Illegal discrimination**

- Also called disparate treatment. Raters assign scores differently to various employees based on factors that are not performance related such as race, nationality, color or ethnic and national origin

- The majority of legal cases involving performance management systems involve a claim of disparate treatment.

- Be careful to distinguish illegal discrimination from legal discrimination. A good performance management system is able to discriminate among