

Performance Management System



Courtesy
School of Management, NIT Rourkela
MBA (HR) and Ph.D Human Resource Management
Lectures

Performance Management a Cascading Process

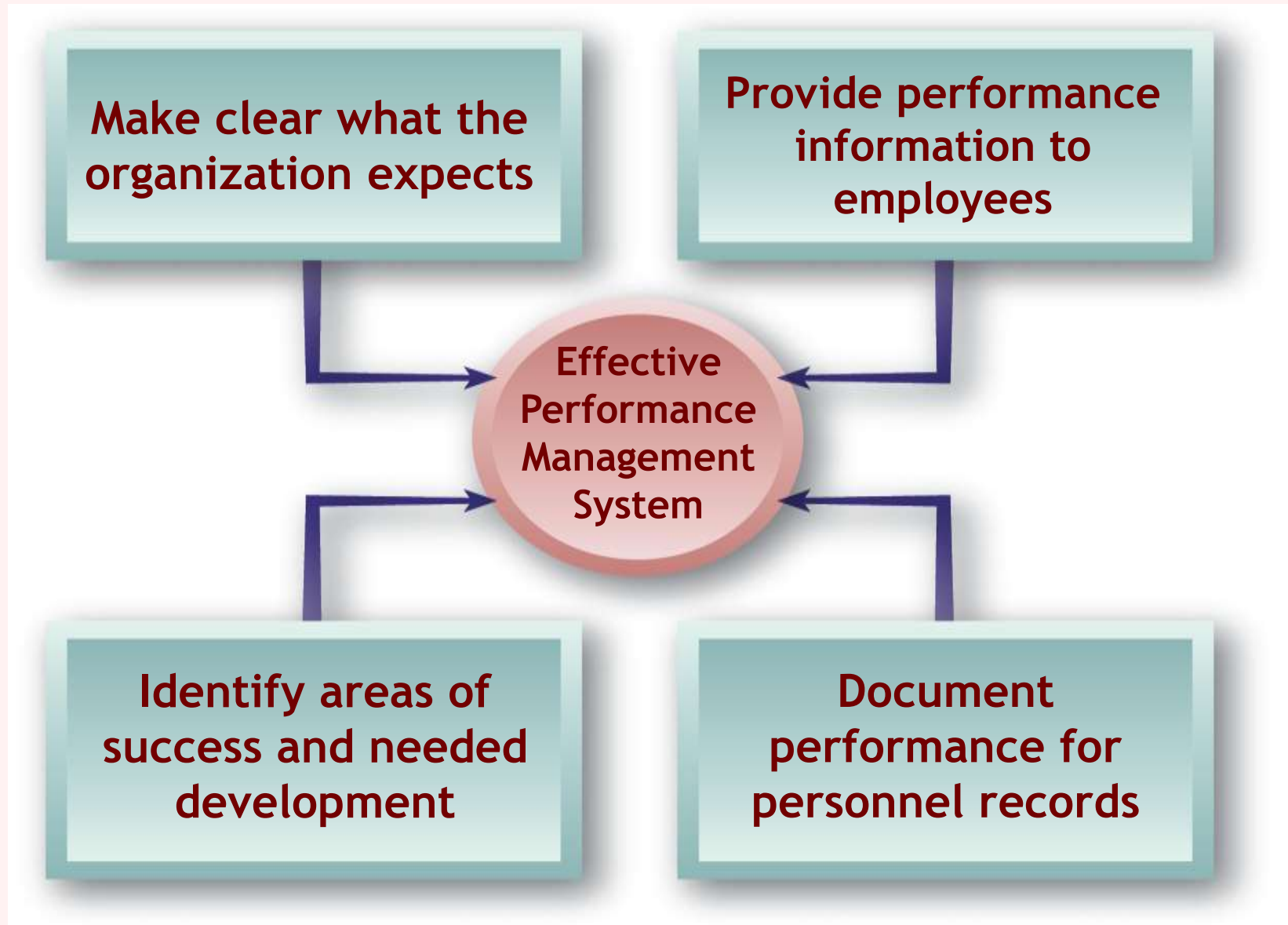


- Mission, goals, and strategies should be defined, and clearly understood by everyone
- How do all tasks contribute to overall plans for the organization?

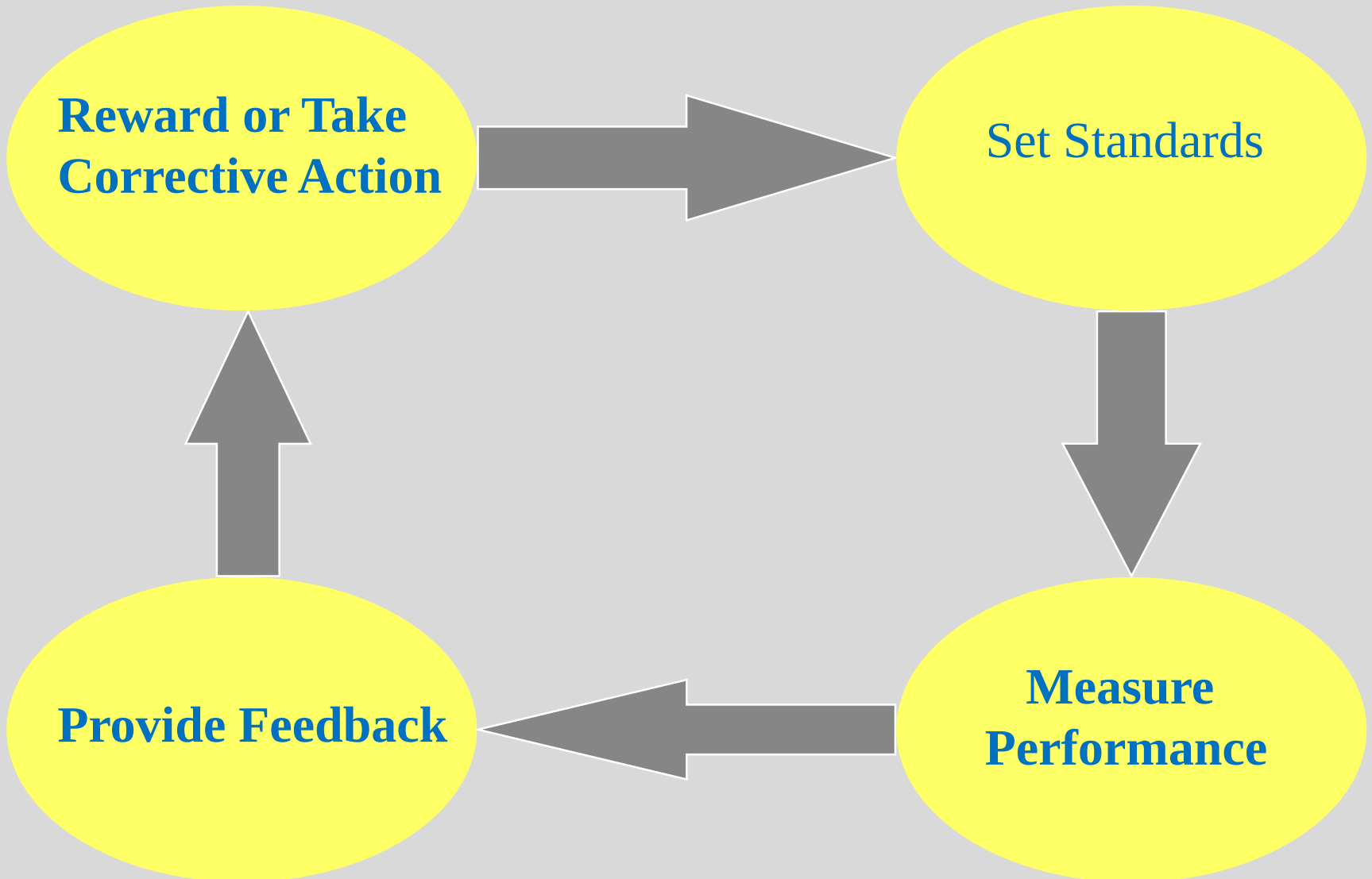
What Are the Three Steps in Performance Management?

Defining Performance
Facilitating Performance
Encouraging Performance

Performance Management



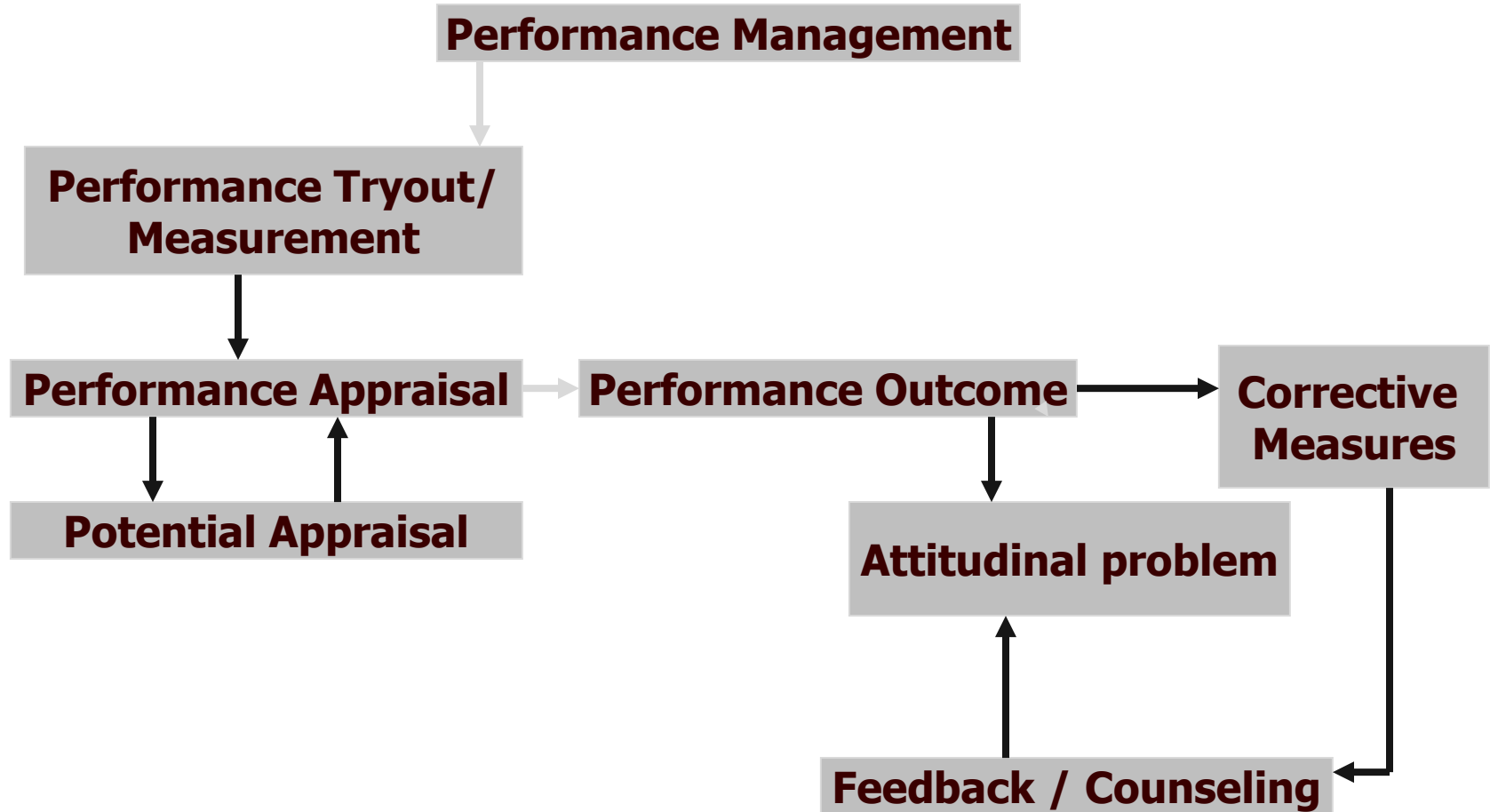
Performance Management



Performance Management Cycle



Designing Performance Management System



Performance Management Linkage



Performance Management versus Performance Appraisal

Performance Management

Processes used to identify, encourage, measure, evaluate, improve, and reward employee performance

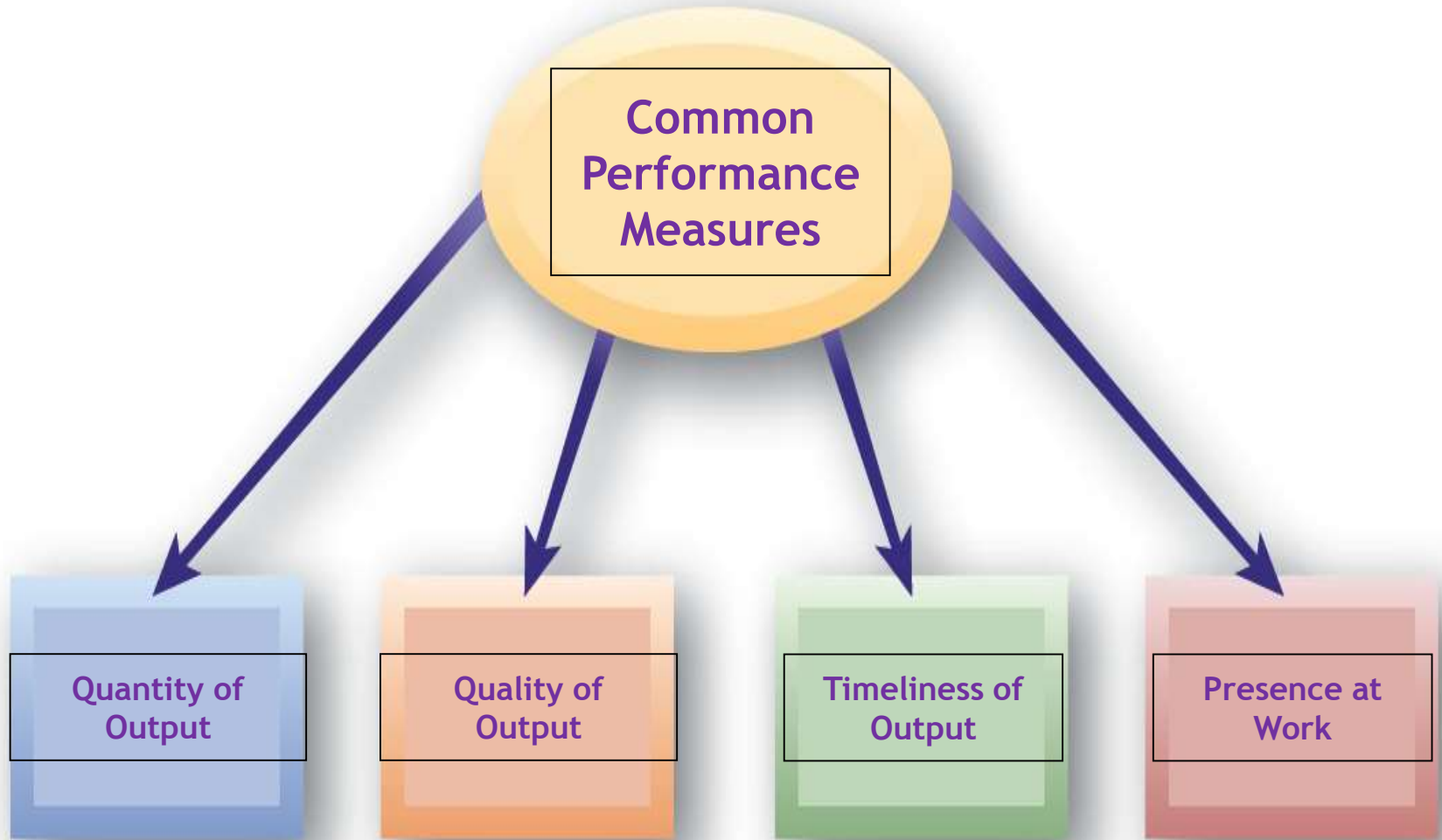
Performance Appraisal

The process of evaluating how well employees perform their jobs and then communicating that information to the employees

Components of a Performance-Focused Culture



Identifying and Measuring Employee Performance



Identifying and Measuring Employee Performance

Job Duties

Important elements in a job as identified from job descriptions.

What an employer pays an employee to do.

Weighting of Management Duties at Sample Firm	Weight
Revenue increase	50%
Cost control	30%
Employee development	20%
Total Management Performance	100%

Types of Performance Information

Subjective

Objective

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

Performance Standards for Speaking Proficiency

Performance Level

Demonstrated Ability

Superior

- ◆ Participates fully in conversations relating to needs and professional interests
- ◆ Discusses topics both concretely and abstractly
- ◆ Can deal effectively with unfamiliar speaking situations

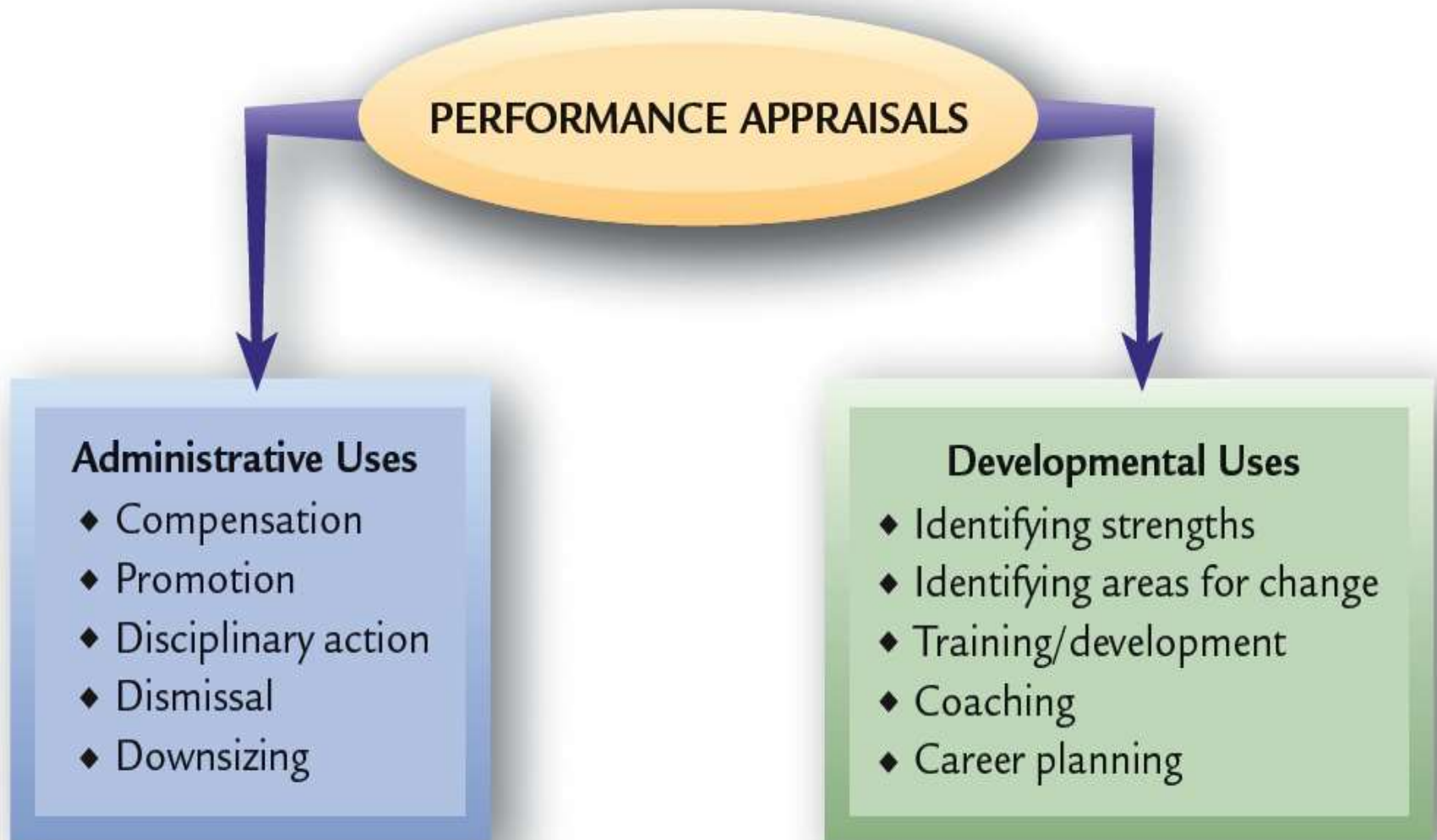
Intermediate

- ◆ Can participate in simple conversations on predictable topics
- ◆ Can satisfy simple needs to survive in the language's culture
- ◆ Can ask and answer questions

Novice

- ◆ Can respond to simple questions
- ◆ Can convey minimal meaning by using isolated words or memorized phrases
- ◆ Can satisfy a limited number of immediate needs

Conflicting Uses for Performance Appraisal



Decisions About the Performance Appraisal Process

- 1. Appraisal responsibilities**
- 2. Informal vs. systematic processes**
- 3. Timing of appraisals**
- 4. Source(s) of performance information**



Legal Concerns and Performance Appraisals

Legally Defensible Performance Appraisal System:

- Appraisal criteria based on job analysis (i.e., job-related)
- Absence of disparate impact and evidence of validity
- Formal evaluation criteria 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

Typical Division of HR Responsibilities: Performance Appraisal

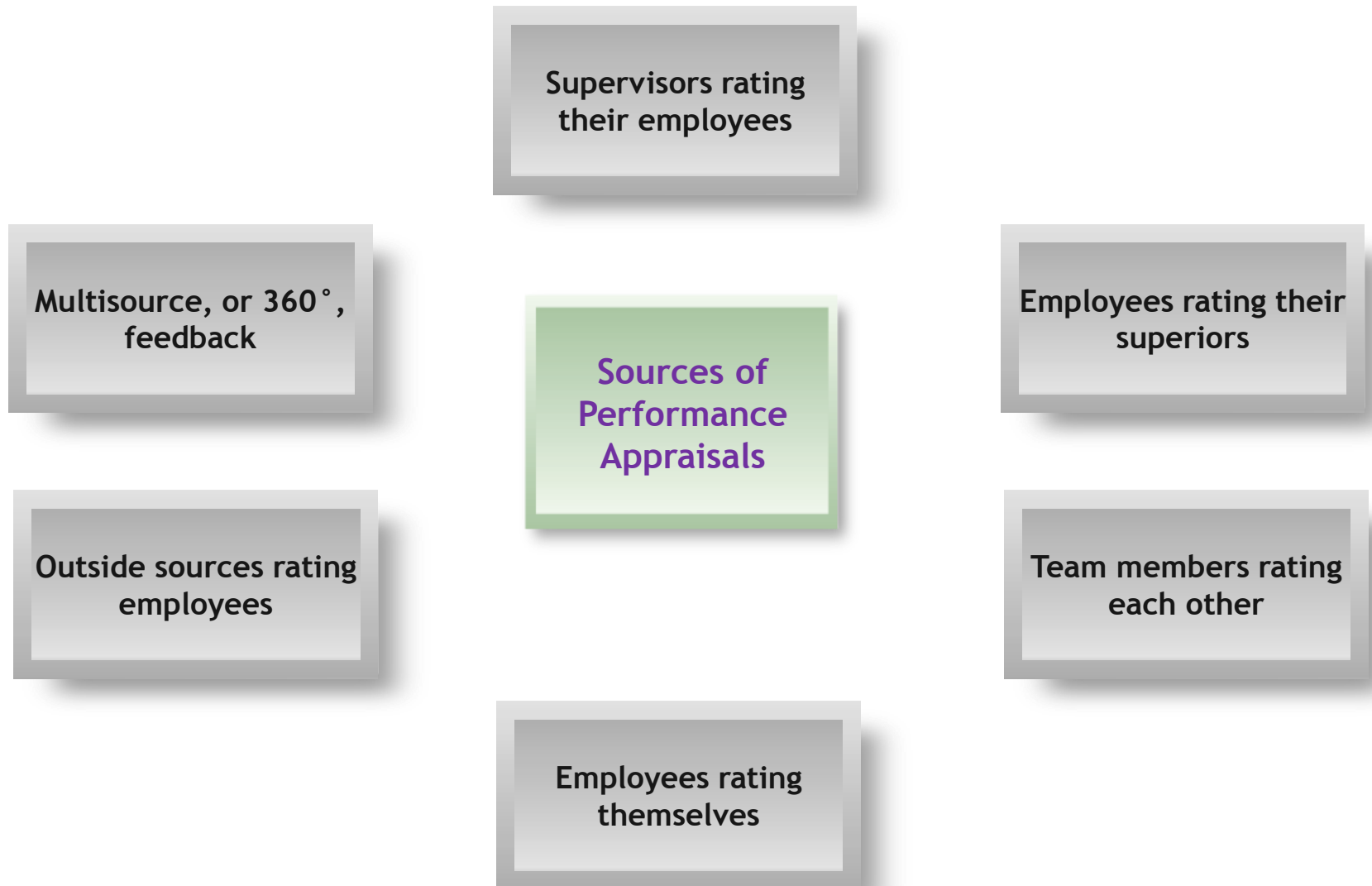
HR Unit

- ◆ Designs and maintains appraisal system
- ◆ Trains raters
- ◆ Tracks timely receipt of appraisals
- ◆ Reviews completed appraisals for consistency

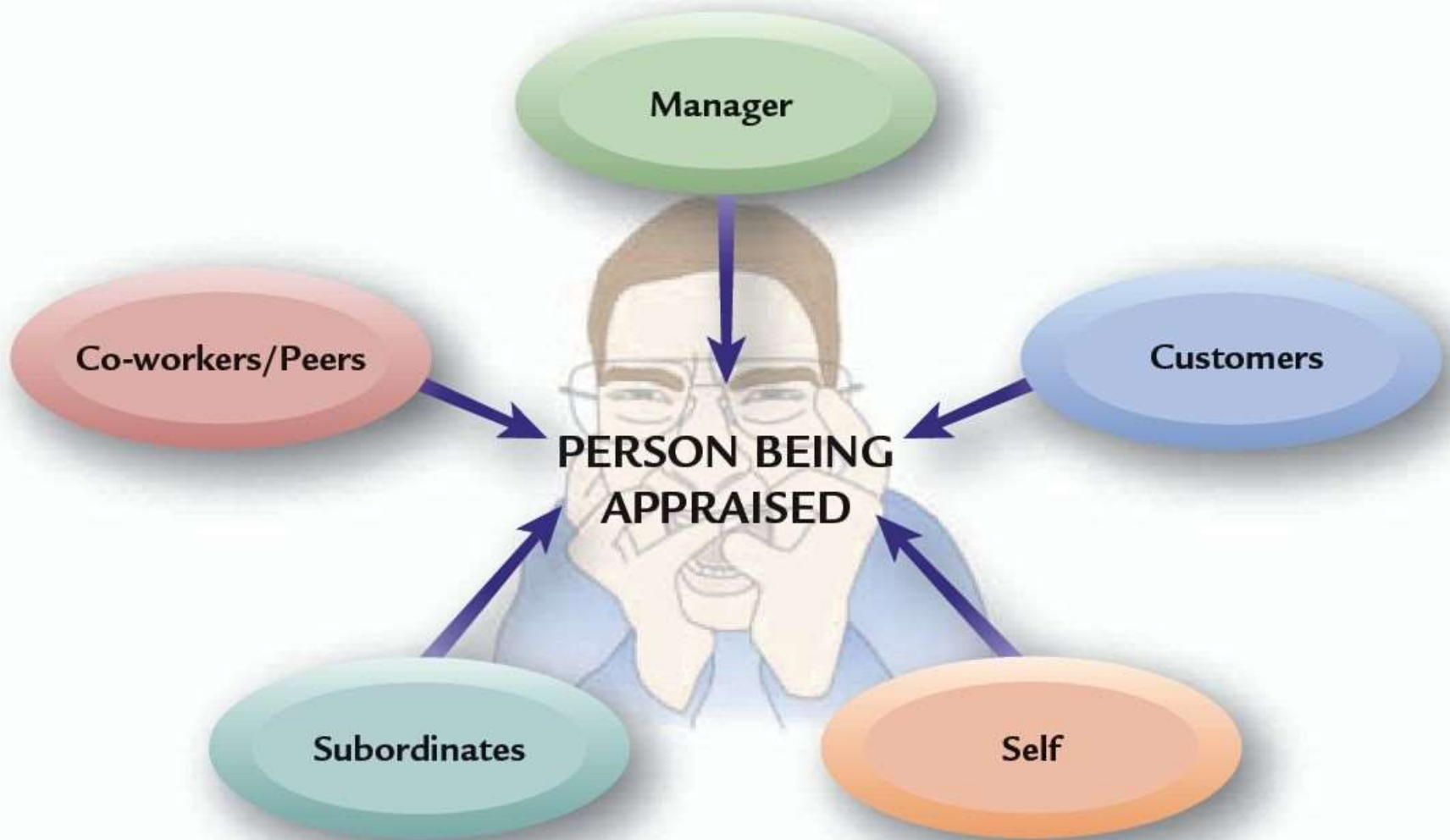
Managers

- ◆ Typically rate performance of employees
- ◆ Prepare formal appraisal documents
- ◆ Review appraisals with employees
- ◆ Identify development areas

Who Conducts Appraisals?



Multisource Appraisal



Employee Rating of Managers

Advantages

- Helps in identifying competent managers
- Serves to make managers more responsive to employees
- Contributes to the career development of managers

Disadvantages

- Negative reactions by managers to 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 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



Effective Performance Management System

Consistent with the
strategic mission

Effectively documents
performance

Beneficial as a
development tool

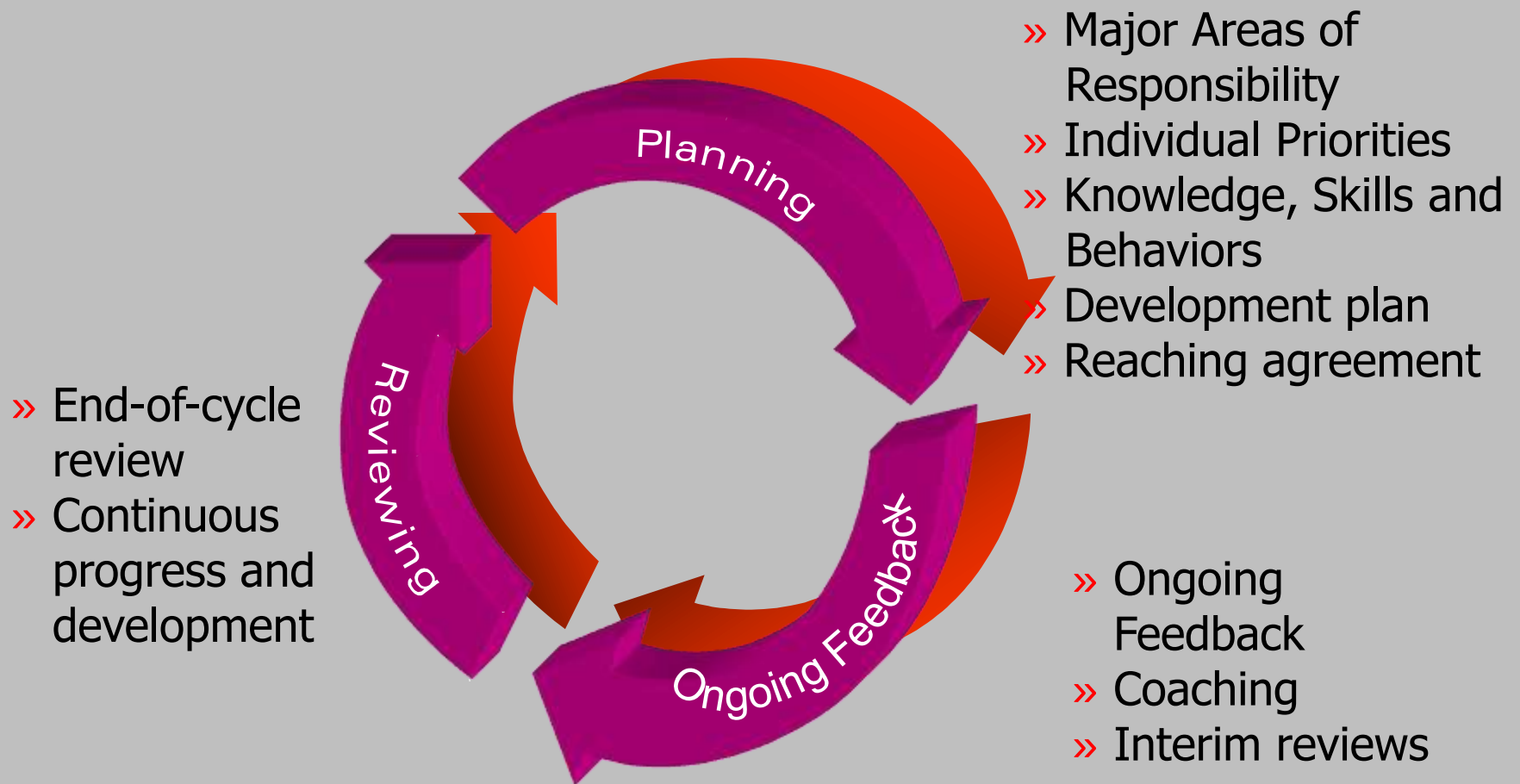
Effective
Performance
Management System

Viewed as fair by
employees

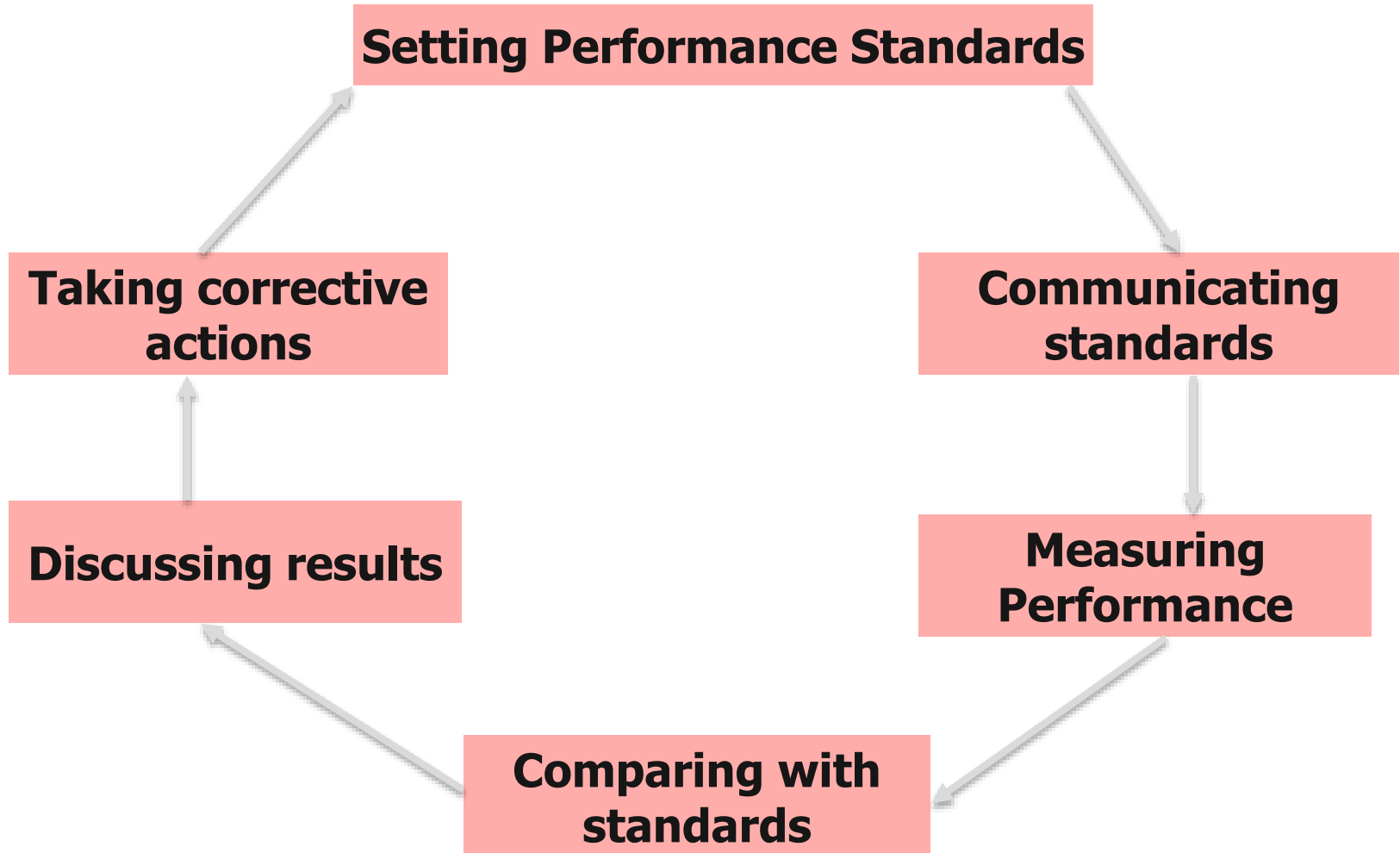
Useful as an
administrative tool

Is legal and job related

The Performance Cycle



Process of Performance Appraisal



Methods of Performance Appraisal

Traditional Methods

1. **Ranking method**
2. **Paired Comparison method**
3. **Confidential Report**
4. **Essay method**
5. **Forced Distribution Method**
6. **Graphic Rating Scales**
7. **Checklist Method**
8. **Critical Incidents Method**
9. **Group Appraisal Method**
10. **Field Review Method**
11. **Behaviourally Anchored Rating Scales**

Modern Methods

- 1. Management by Objectives**
- 2. Human Resource Accounting**
- 3. Assessment Centre**
- 4. 360-Degree Feedback System**
- 5. Key Performance Area (KPA)**

Essay Method

Manager writes essay describing an employee's performance.

Disadvantages

1. Depends on the managers' writing skills and their ability to express themselves.
2. Time consuming
3. May lack opportunities to observe performance.



Forced Distribution

Employee performance ratings distributed along bell-shaped curve.

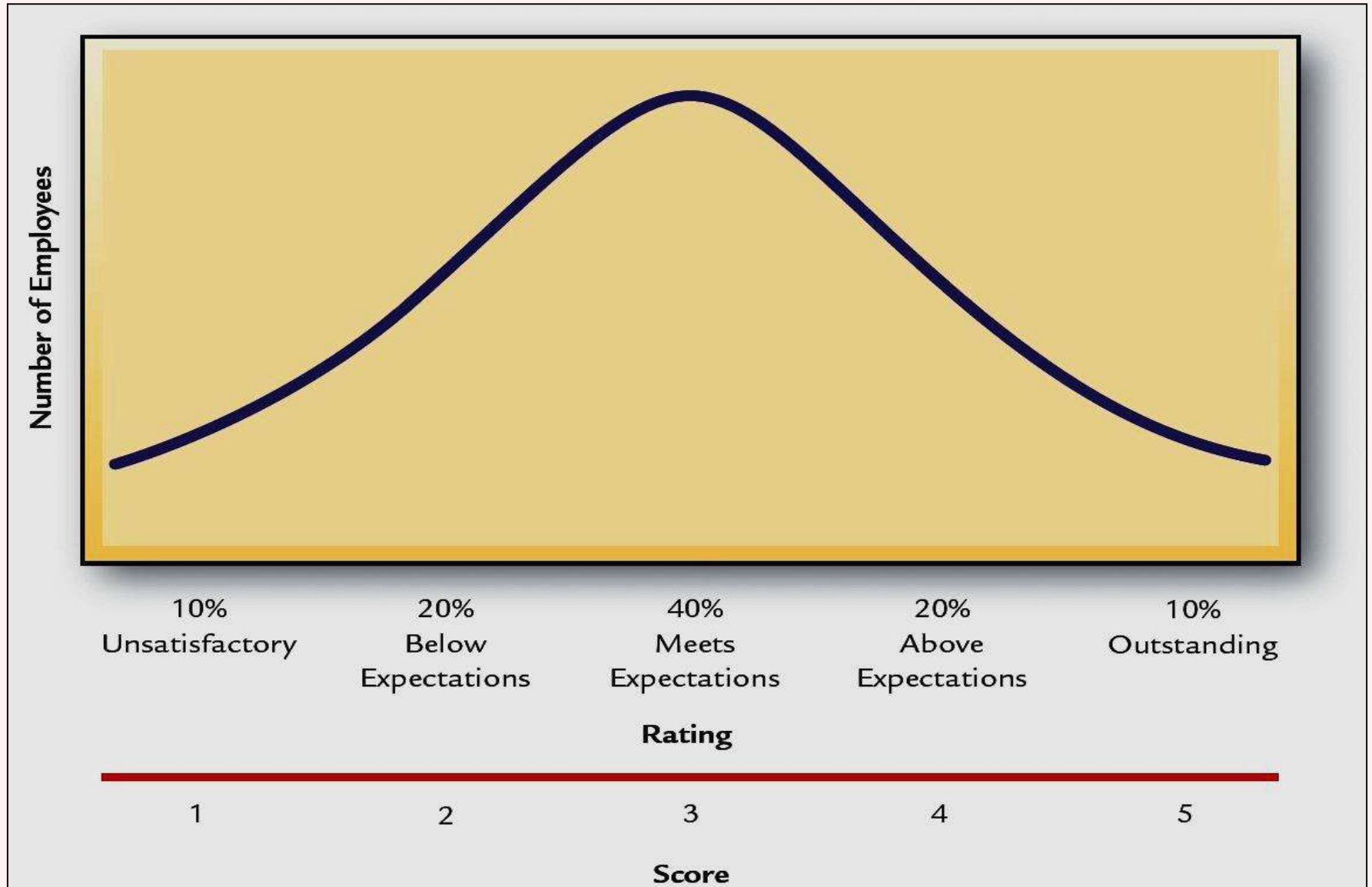
Advantages

- Helps deal with “rater inflation.”
- Makes managers identify high, average, and low performers.
- Ensures that compensation increases reflect performance differences among individuals.

Disadvantages

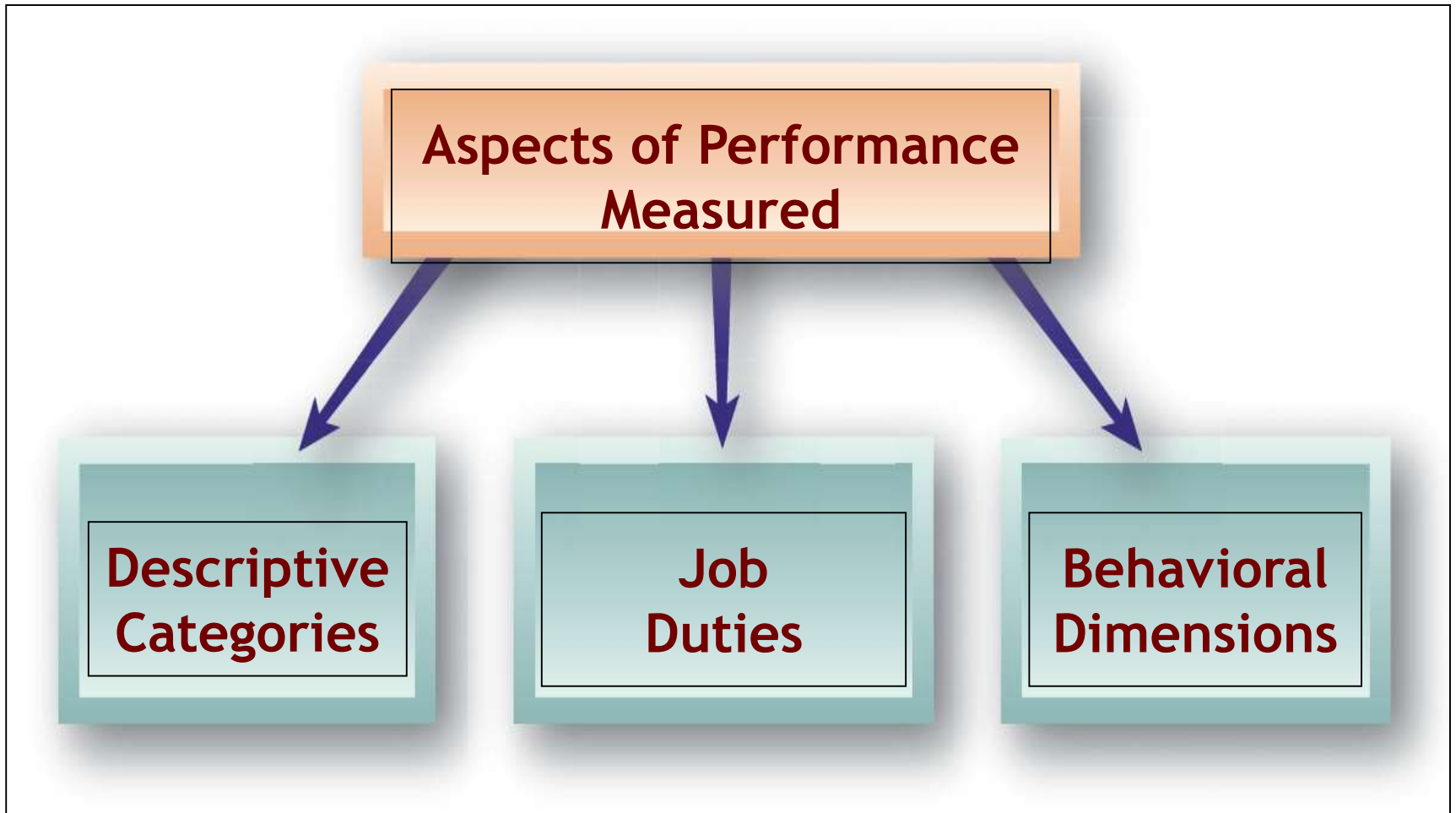
- Managers resist placing people in the lowest or highest groups.
- Explanation for placement can be difficult.
- Performance may not follow normal distribution.
- Managers may make false distinctions between employees.

Forced Distribution on a Bell-Shaped Curve



Graphic Rating Scale

Allows the rater to indicate an employee's performance on a continuum of job behaviors.



Typical Graphic Rating Scale

- **Quantity of work (volume of work under normal working conditions)**
- **Quality of work (neatness, thoroughness and accuracy of work)**
- **Knowledge of job (a clear understanding of the factors connected with the job)**
- **Attitude (exhibits enthusiasm and cooperativeness on the job)**
- **Dependability (conscientious, thorough, reliable, accurate, with respect to attendance, reliefs, lunch breaks, etc.)**
- **Cooperation (willingness and ability to work with others to produce desired goals)**

Scale

- 1. Unsatisfactory**
- 2. Fair**
- 3. Satisfactory**
- 4. Good**
- 5. Outstanding**

Graphic Rating Scale

Disadvantages:

- **Restrictions on the range and type of rater responses**
- **Differences in rater interpretations of scale item meanings and scale ranges**
- **Rating form deficiencies limit effectiveness of the appraisal**
- **Poorly designed scales that encourage rater errors**

Checklist Method

- **A checklist is a list of statement that describe the characteristics and performance of employees on the job.**
- **The rater checks to indicate if the behaviour of an employee is positive or negative to each statement.**

Simple checklist

- Does the employee follow instructions properly Yes/No

Forced Choice Block

Regularity on the job

- | | Most | Least |
|---|------|-------|
| a. Always regular | | |
| b. Informs in advance for absence/delay | | |
| c. Never regular | | |
| d. Remains absent without prior notice | | |
| e. Neither regular nor irregular | | |

Cont....

Weighted Checklist

Traits	Weights	Performance ratings (Scale 1 to 5)
1. Attendance	3	
2. Job knowledge	3	
3. Quantity of work	2.5	
4. Quality of work	2	
5. Dependability	1.5	
6. Interpersonal relations	3.5	
7. Organization loyalty	2	
8. Leadership potential	2	

Sample Checklist for Diagnosing the Causes of Performance

Check the determinants of performance or behavior that apply to the situation you are analyzing.

	Yes	No
I. Competencies		
A. Does the employee have the competencies needed to perform as expected?	_____	_____
B. Has the employee performed as expected before?	_____	_____
C. Does the employee believe he or she has the competencies needed to perform as desired?	_____	_____
D. Does the employee have the interest to perform as desired?	_____	_____
II. Goals for the Employee		
A. Were the goals communicated to the employee?	_____	_____
B. Are the goals specific?	_____	_____
C. Are the goals difficult but attainable?	_____	_____
III. Certainty for the Employee		
A. Has desired performance been clearly specified?	_____	_____
B. Have rewards or consequences for good or bad performance been specified?	_____	_____
C. Is the employee clear about her or his level of authority?	_____	_____
IV. Feedback to the Employee		
A. Does the employee know when he or she has performed correctly or incorrectly?	_____	_____
B. Is the feedback diagnostic so that the employee can perform better in the future?	_____	_____
C. Is there a delay between performance and the receipt of the feedback?	_____	_____
D. Can performance feedback be easily interpreted?	_____	_____
V. Consequences to the Employee		
A. Is performing as expected punishing?	_____	_____
B. Is not performing poorly more rewarding than performing well?	_____	_____
C. Does performing as desired matter?	_____	_____
D. Are there positive consequences for performing as desired?	_____	_____
VI. Power for the Employee		
A. Can the employee mobilize the resources to get the job done?	_____	_____
B. Does the employee have the tools and equipment to perform as desired?	_____	_____
C. Is performance under the control of the employee?	_____	_____

Critical Incident Method

Manager keeps written record of highly favorable and unfavorable employee performance.

These critical incidents are identified after thorough study of the job and discussion with the staff.

Disadvantages

- 1. Variations in how managers define “critical incident”**
- 2. Time consuming and limited opportunity to observe.**
- 3. Most employee actions are not observed and may change if observed.**



Critical Incident Score

Worker	Reaction	Score
A	Informed the supervisor immediately	5
B	Became anxious of loss of output	4
C	Tried to repair the machine	3
D	Complained of poor performance	2
E	Was happy to get forced rest	1

Group Appraisal Method

- A group of evaluators assesses employees
- Group consists of the immediate supervisor of the employee, other supervisors having close contact with the employee's work, head of the department and personnel expert.
- The group determines the standards of performance for the job, measures actual performance of an employee, analyses the causes of poor performance and offers suggestions for improvements in future
- Due to multiple evaluators personal bias is minimized
- It is a very time consuming process

Field Review Method

- Where subjective performance measures are used, rater's biases may influence the evaluation process and to avoid this field review method is quite useful.
- A trained, skilled representative of the HR department goes into the field and assists line supervisors with their ratings of their respective subordinates.
- Since an expert is handling the appraisal process in consultation with the supervisor, the rating are more reliable.

Behaviorally Anchored Rating Scale (BARS)

- *Composed of job dimensions (specific descriptions of important job behaviors) that "anchor" performance levels on the scale.*
- *Combines graphic rating scales with critical incidents method*
- *Critical areas of job performance and the most effective behaviour for getting results are determined in advance*
- *The rater records the observable job behaviour of an employee and compares these observations with BARS.*

Developing a BARS

- *Identify important job dimensions*
- *Write short statements of job behaviors*
- *Assign statements (anchors) to job dimensions*
- *Set scales for anchors*



Sample Terms for Defining Anchors

5

Outstanding: The person is so successful at this job criterion that special note should be made, and performance ranks in the top 10%.

4

Exceeds Expectations: Performance is better than average for the unit, given the common standards and unit results.

3

Meets Expectations: Performance is at or above the minimum standards. This level is what one would expect from most experienced, competent employees.

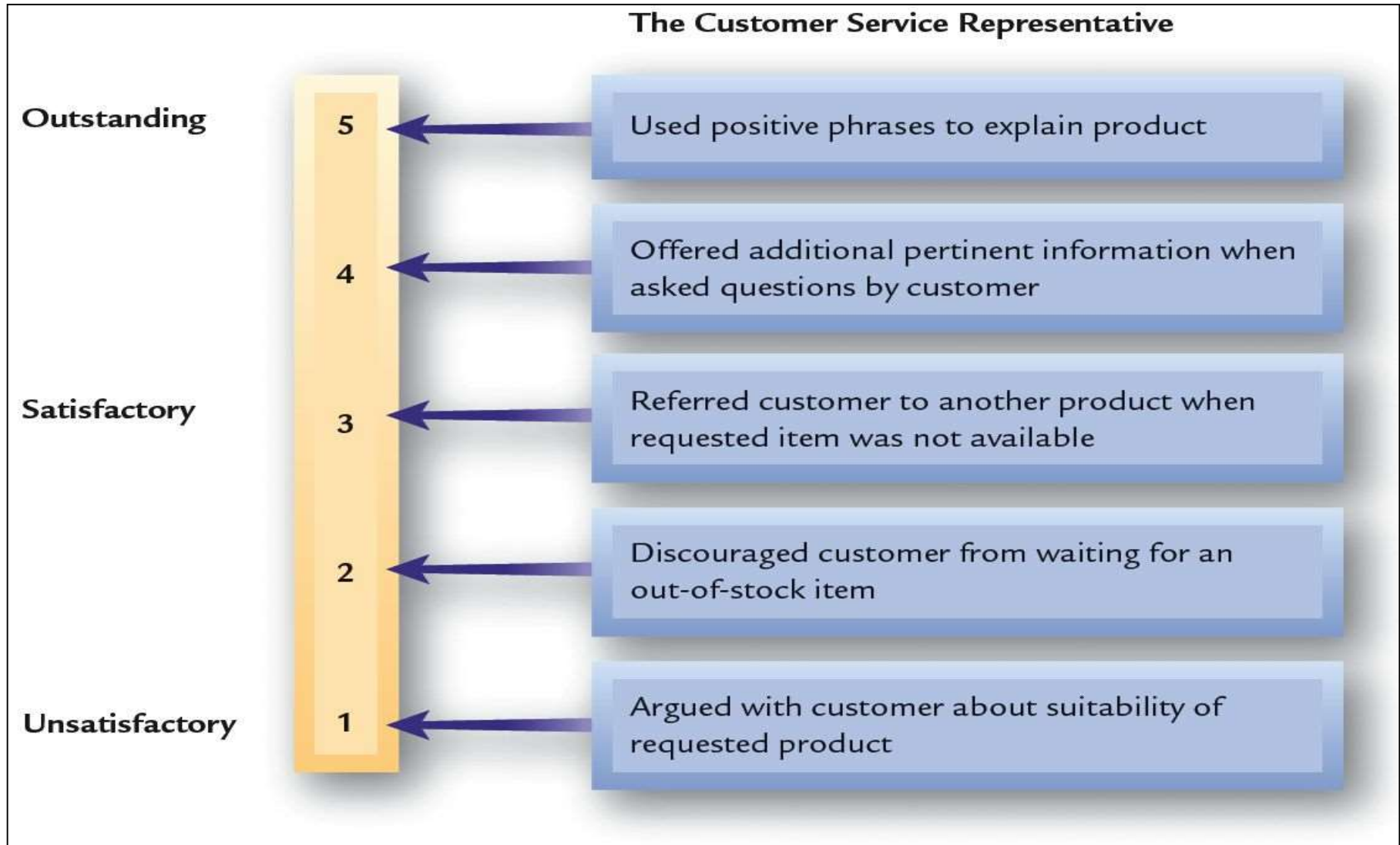
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Below Expectations: Performance is somewhat below the minimum standards. However, potential to improve within a reasonable time frame is evident.

1

Unsatisfactory: Performance is well below standard. Whether the person can improve to meet the minimum standards is questionable.

Behaviorally-Anchored Rating Scale Example for Customer Service Skills



Management by Objectives (MBO)

Management by Objectives

- *Performance goals that an individual and his/her manager agree the employee will try to attain within appropriate length of time.*

Key MBO Ideas

- *Employee involvement creates higher levels of commitment and performance.*
- *Employees encouraged to work effectively toward goals.*
- *Perf. measures should be measurable and should define results.*

Hierarchy of objectives

- **Vision**
- **Mission**
- **Goals**
- **Objectives**
- **Policies**
- **Procedures**

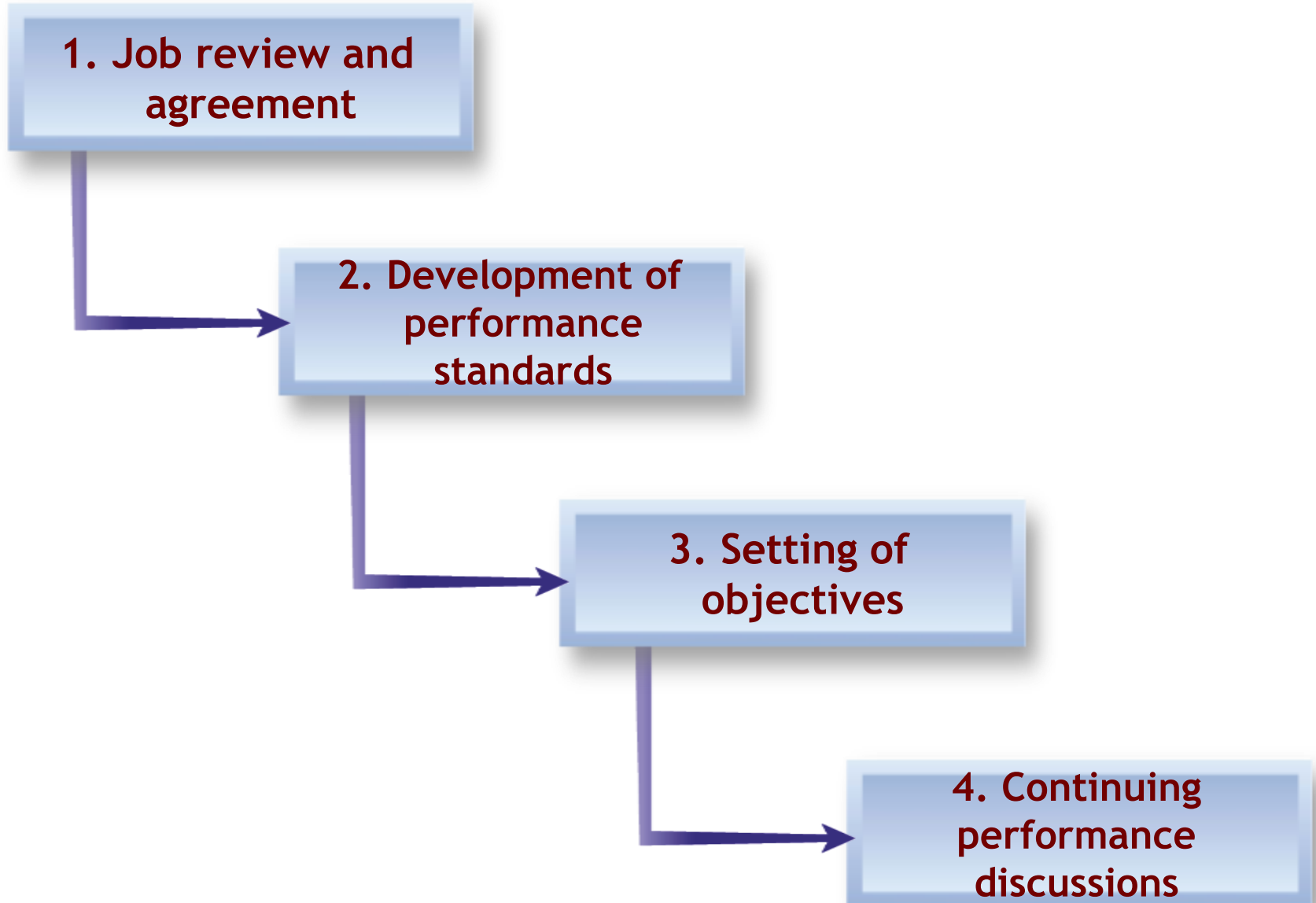
SMART

Management by Objectives introduced the SMART method for checking the validity of Objectives,

'SMART'

- ❖ Specific
- ❖ Measurable
- ❖ Achievable
- ❖ Realistic, and
- ❖ Time-related.

The MBO Process

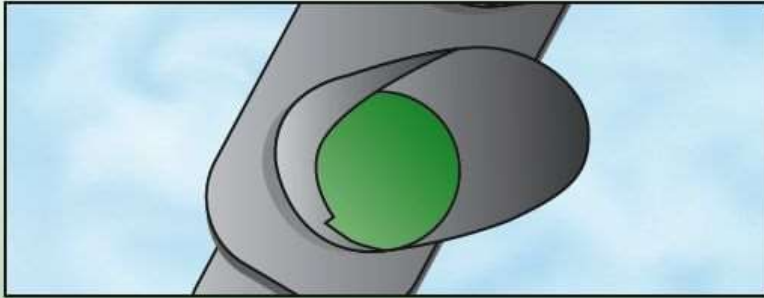


Preparing Managers to Deliver Performance Information

1. Procedure and timing
2. Performance criteria
3. Rating errors
4. Delivering feedback
5. Compensation decisions
6. Training needs assessment

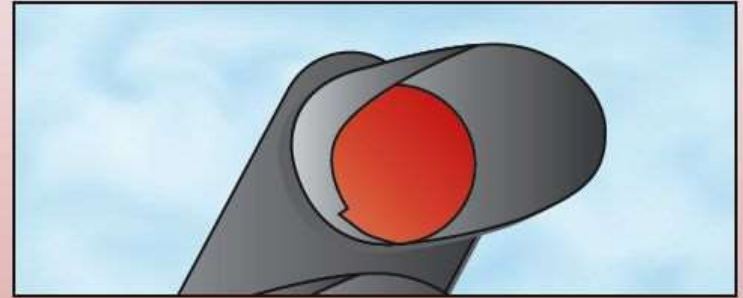


Hints for Delivering an Effective Performance Appraisal



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 for both parties to agree in all areas
- ◆ Compare the employee with others

Strategic Performance Management System

- *Consistent with org strategic mission
- *Documents performance
- *Perceived as fair
- *Legal and job-related
- *Developmental tool—leads to performance improvement, promotion, etc.

Common Appraisal Problems

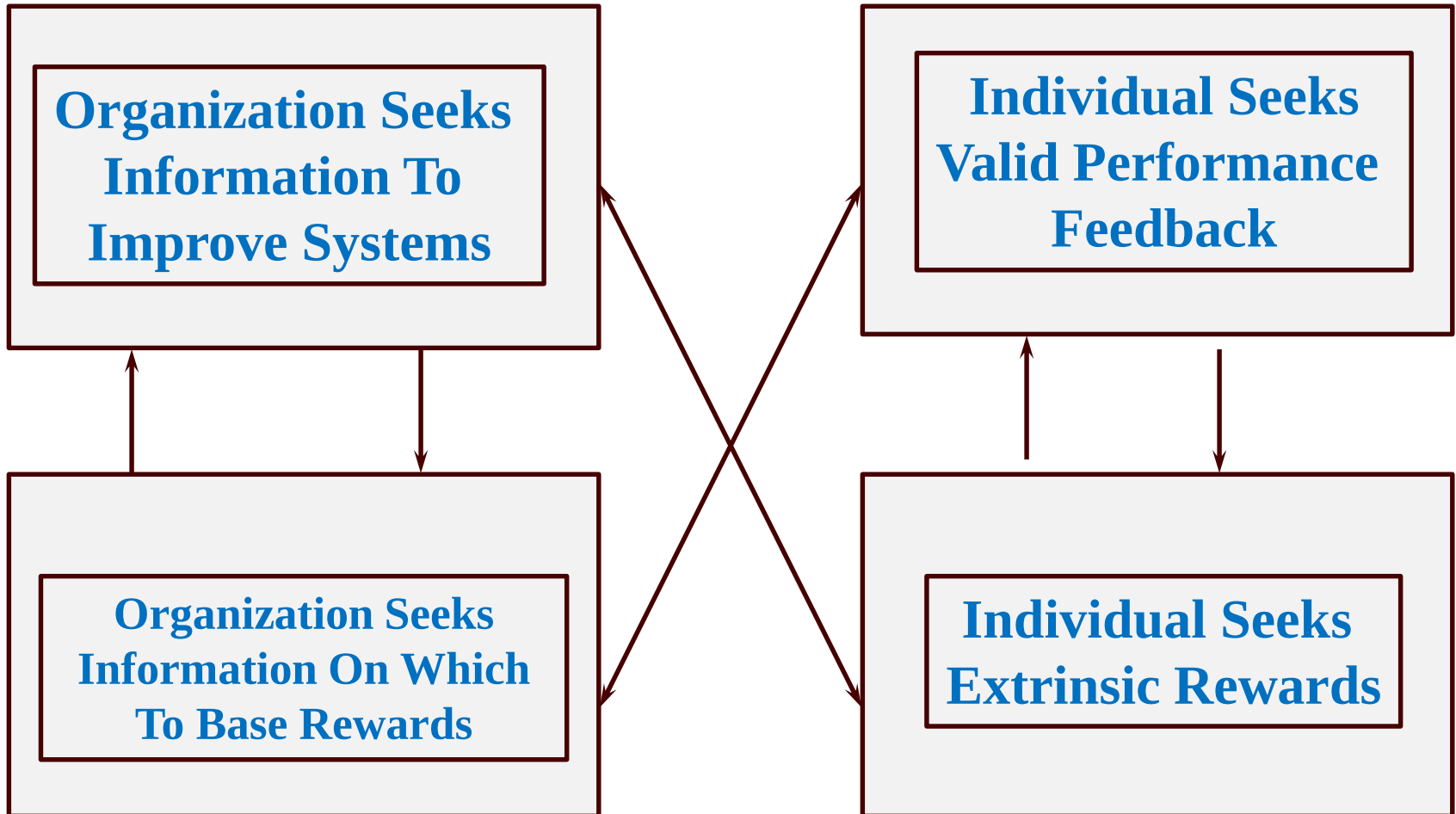
- **Inadequate preparation on the part of the manager.**
- **Employee is not given clear objectives at the beginning of performance period.**
- **Manager may not be able to observe performance or have all the information.**
- **Inconsistency in ratings among supervisors or other raters.**
- **Performance standards may not be clear.**
- **Rating personality rather than performance.**

Common Appraisal Problems (Contd.)

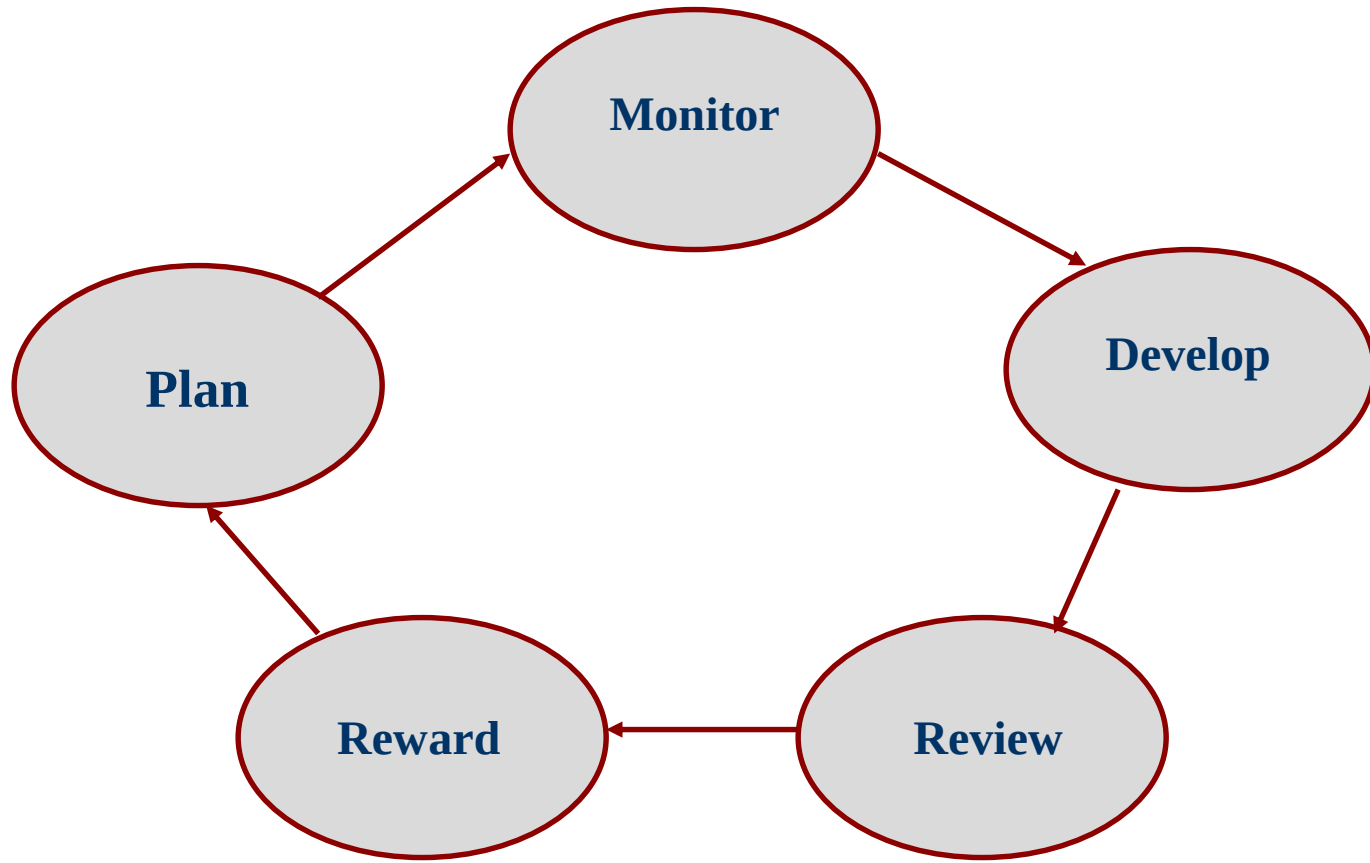
- **Inappropriate time span (either too short or too long).**
- **Organizational politics or personal relationships cloud judgments.**
- **Overemphasis on uncharacteristic performance.**
- **No thorough discussion of causes of performance problems.**
- **Subjective or vague language in written appraisals.**
- **Manager may not be trained at evaluation or giving feedback.**
- **No follow-up and coaching after the evaluation.**

Conflicts in Performance Appraisal

Conflicting Goals of Appraisal Create Problems



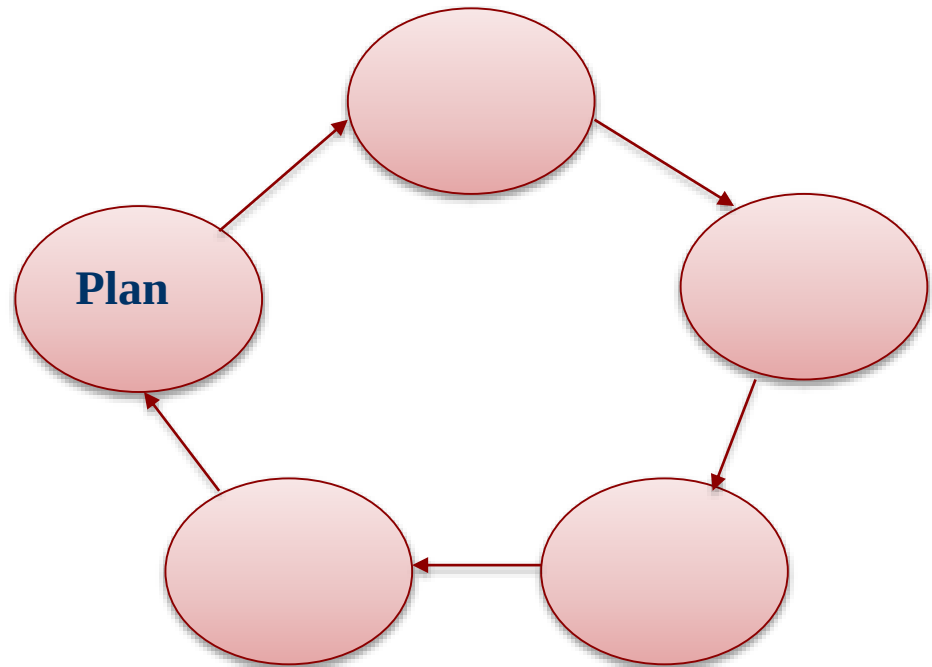
Stages of Performance Management



Stage 1 – Individual Performance Planning

Stage 1 – Planning

- Work goals
- Competencies
- Learning



Performance planning at the start of the year and then periodically is the core of the performance management process. The performance plan should be a written document.

Performance planning

- **How is what I do on a daily basis tied to the success of this organization?**
- **What are my performance goals for the next time period?**
- **How are my goals aligned with the organizational goals?**



Performance Planning

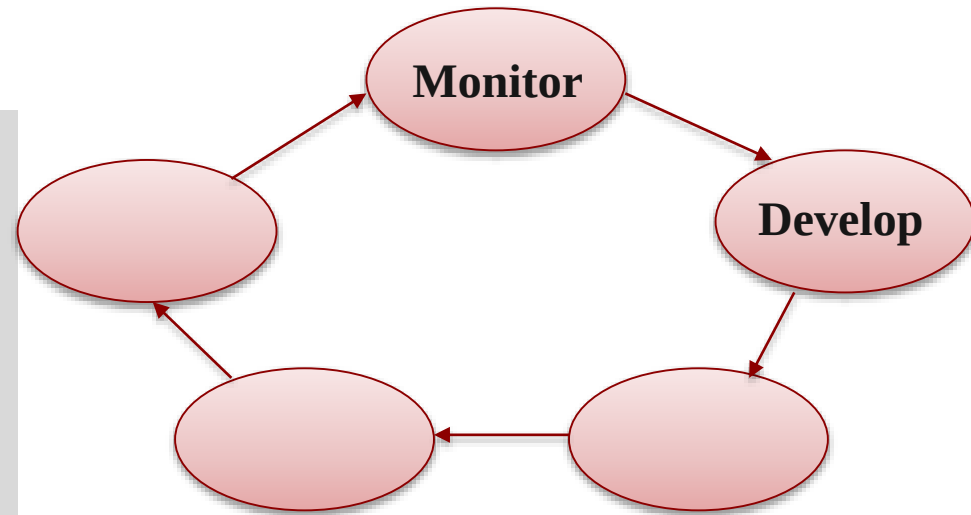
- ❑ **Performance results – the what**
 - **Performance outcomes or standards – from job description**
 - **Performance objectives for the next time period**
- ❑ **Performance behavior – the how**
 - **Competencies, performance factors, or behavior expectations**
- ❑ **Development objectives**

Stage 2/3 – Monitor and Develop

Daily performance management!

Monitoring includes measuring performance and giving feedback.

Two way communication between the manager and employee throughout the performance period is critical to the performance management process.



Stage 2/3 – Monitor and Develop

- Feedback
- Coach
- Adjust goals

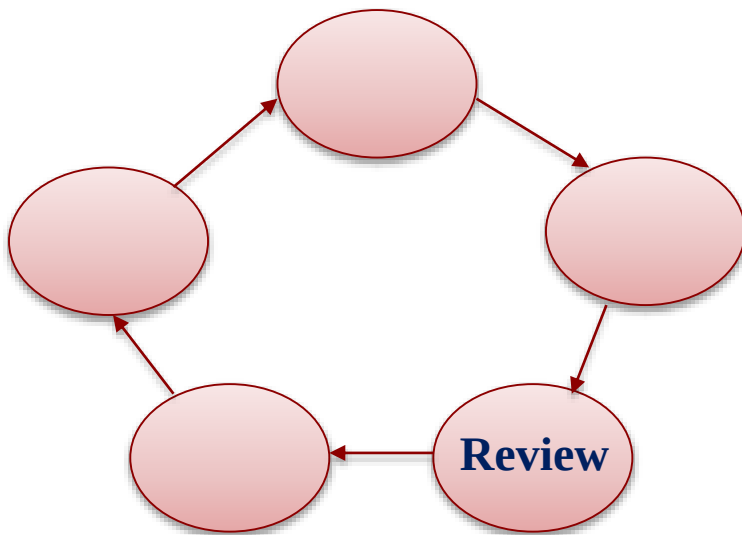
Daily performance management

- Feedback and coaching – informal
- Monitoring and tracking performance against standards and progress toward goals.
- Quarterly performance planning and performance discussions
- Development through coaching, training, challenging or visible assignments, improving work processes

What performance will be measured?

- Behaviors – how the work is done
 - Performance factors / competencies
 - Required behaviors
 - Behaviors supporting desired organizational culture
- Results – what is achieved
 - Performance outcomes
 - Performance compared to job standards
 - Performance goals and/or objectives

Stage 4 – Performance Review



The formal process of documenting results the employee has achieved and behaviors and /or competencies displayed should occur at least once a year.

Stage 4 – Review

- At least annually
- Discuss
- Document

Performance Review

- Summary of performance over a period of time
- Evaluate performance results and behaviors
- Conducted face-to-face with a written record.
- While rating and ranking has both pros and cons, a summary rating of each employee may be useful.



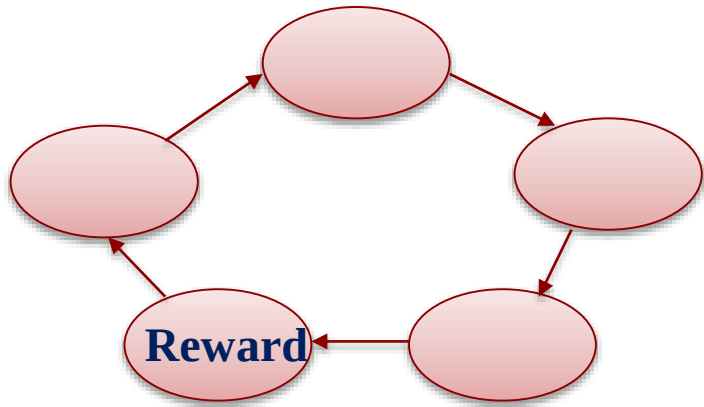
What will be on the form?

- **Identifying information**
- **Instructions**
- **Performance outcomes and/or results achieved (or not achieved) on objectives**
- **Performance factors / competencies / work behaviors**
- **Employee signature and approvals**

Other information

- Employee comments
- Summary of one to three major achievements
- Strengths / areas for development
- Overall rating
- Plan for development (if not elsewhere)
- Performance plan for next period (if not elsewhere)

Stage 5 – Reward



Stage 5 – Reward

- Monetary
- Non-monetary
- Recognition

- Good performance should be rewarded.
- Recognition and non-monetary rewards are an important part of the reward structure.
- These include job-related rewards such as visible project assignments. Even thank you and recognition for a job well done are rewards!!

Rewards, recognition, and compensation

- ❑ **Recognizing employees for performance**
 - Non-monetary rewards
 - Informal and ongoing acknowledgements of good work
- ❑ **Compensation**
 - Merit increases?
 - Pay to market?
 - Increases added to base pay or lump sum?

What support systems need to be in place?

- **Senior management support**
- **Management accountability**
- **Communication about the process**
- **Training**
- **Process for new employees**
- **Process for dealing with poor performance**
- **Monitoring and evaluating the process (HR)**
- **Appeals process (HR)**

Common Rating Errors

Halo/horn

- Overly focusing on specific performance ratings or stereotyping employee by a single personal characteristic (positive or negative).

Leniency

- Rating all employees higher than they should be.

Strictness

- Rating all employees lower than they should be.

Stereotyping

- a mental picture of a person on the basis of his age, sex, caste or religion

Central tendency

- Rating all employees as average when individual employee performance actually varies.

Contd...

Primacy (first impressions)

- **Using initial information that supports the rating decision while ignoring later information that does not.**

Recency effect

- **Basing the rating decision primarily on the most recent performance information while placing much less emphasis on past performance.**

Contrast effects

- **Comparing one employee to another rather than applying a common standard to all employees.**

Spill over effect

- **When past performance affects assessment of present performance**