Managing Employees' Performance

Introduction

The Zoological Society of San Diego had a problem. Its employees often didn’t know whether they were doing a good job. Even worse, the organization didn’t have a consistent method to rate job performance, and managers faced no consequences if they did not give formal appraisals. To remedy the situation, the Zoological Society set up a formal system so that each employee has individual goals that are tied to the organization’s objectives, such as visitor satisfaction and revenue. Managers use a Web-based computer system to rate employees on their progress in meeting goals and on specific areas of competence, such as teamwork and communications. Employees use online journals to record their accomplishments, so managers have easy access to that data. Managers must rate employees twice a year and then discuss the reports face-to-face with each employee. Employees appreciate the clear feedback—and the raises they get if they perform well.1

Performance management is the process through which managers ensure that employees’ activities and outputs contribute to the organization’s goals. This process requires knowing what activities and outputs are desired, observing whether they occur, and providing feedback to help employees meet expectations. In the course of providing feedback, managers and employees may identify performance problems and establish ways to resolve those problems.

What Do I Need to Know?

After reading this chapter, you should be able to:

LO1 Identify the activities involved in performance management.
LO2 Discuss the purposes of performance management systems.
LO3 Define five criteria for measuring the effectiveness of a performance management system.
LO4 Compare the major methods for measuring performance.
LO5 Describe major sources of performance information in terms of their advantages and disadvantages.
LO6 Define types of rating errors, and explain how to minimize them.
LO7 Explain how to provide performance feedback effectively.
LO8 Summarize ways to produce improvement in unsatisfactory performance.
LO9 Discuss legal and ethical issues that affect performance management.
In this chapter we examine a variety of approaches to performance management. We begin by describing the activities involved in managing performance, then discuss the purpose of carrying out this process. Next, we discuss specific approaches to performance management, including the strengths and weaknesses of each approach. We also look at various sources of performance information. The next section explores the kinds of errors that commonly occur during the assessment of performance, as well as ways to reduce those errors. Then we describe ways of giving performance feedback effectively and intervening when performance must improve. Finally, we summarize legal and ethical issues affecting performance management.

**The Process of Performance Management**

Although many employees have come to dread the annual “performance appraisal” meeting, at which a boss picks apart the employee’s behaviors and apparent attitudes from the past year, performance management can potentially deliver many benefits. Effective performance management can tell top performers that they are valued, encourage communication between managers and their employees, establish uniform standards for evaluating employees, and help the organization identify its strongest and weakest performers. Consultant Dick Grote asserts that performance appraisals, properly done, meet an “ethical obligation of leadership” by providing information that all members of an organization want to know so they can succeed: “What is it you expect of me? How am I doing at meeting your expectations?”

To meet these objectives, performance management includes several activities. As shown in Figure 8.1, these are defining performance, measuring performance, and feeding back performance information. First, the organization specifies which aspects of performance are relevant to the organization. These decisions are based on the job analysis, described in Chapter 4. Next, the organization measures the relevant aspects of performance by conducting performance appraisals. Finally, through performance feedback sessions, managers give employees information about their performance so they can adjust their behavior to meet the organization’s goals. When there are performance problems, the feedback session should include efforts to identify and resolve the underlying problems. In addition, performance feedback can come through the organization’s rewards, as described in Chapter 12. Using this performance management process helps managers and employees focus on the organization’s goals.

Computer software and Internet-based performance management systems are available to help managers at various stages of the performance management process. Software can help managers customize performance measurement forms. The manager uses the software to establish a set of performance standards for each job. The manager rates each employee according to the predetermined standards, and the software provides a report that compares the employee’s performance to the standards and identifies the employee's strengths and weaknesses. Other software offers help with diagnosing performance problems. This type of software...
Managers may dread giving criticism, but according to a survey by Leadership IQ, a research and training company, employees want to hear more about how well they're doing—even if it's unpleasant.


LO2 Discuss the purposes of performance management systems.

Employees Want More Feedback

LO2 Discuss the purposes of performance management systems.

asks questions—for example, Does the employee work under time pressure? The answers suggest reasons for performance problems and ways the manager can help the employee improve.

**Purposes of Performance Management**

Organizations establish performance management systems to meet three broad purposes: strategic, administrative, and developmental. **Strategic purpose** means effective performance management helps the organization achieve its business objectives. It does this by helping to link employees’ behavior with the organization’s goals. Performance management starts with defining what the organization expects from each employee. It measures each employee’s performance to identify where those expectations are and are not being met. This enables the organization to take corrective action, such as training, incentives, or discipline. Performance management can achieve its strategic purpose only when measurements are truly linked to the organization’s goals and when the goals and feedback about performance are communicated to employees. Just Born, the company that makes Peeps and Mike and Ike candy, meets the strategic purpose of performance management. Its system has employees and managers meet to agree on several personal objectives through which each employee will help meet the objectives of his or her department. Together, they identify whatever training the employee needs and meet regularly to discuss the employee’s progress in meeting the objectives.

The **administrative purpose** of a performance management system refers to the ways in which organizations use the system to provide information for day-to-day decisions about salary, benefits, and recognition programs. Performance management can also support decision making related to employee retention, termination for poor behavior,
and hiring or layoffs. Because performance management supports these administrative decisions, the information in a performance appraisal can have a great impact on the future of individual employees. Managers recognize this, which is the reason they may feel uncomfortable conducting performance appraisals when the appraisal information is negative and, therefore, likely to lead to a layoff, disappointing pay increase, or other negative outcome.

Finally, performance management has a developmental purpose, meaning that it serves as a basis for developing employees' knowledge and skills. Even employees who are meeting expectations can become more valuable when they hear and discuss performance feedback. Effective performance feedback makes employees aware of their strengths and of the areas in which they can improve. Discussing areas in which employees fall short can help the employees and their manager uncover the source of problems and identify steps for improvement. Although discussing weaknesses may feel uncomfortable, it is necessary when performance management has a developmental purpose.

### Criteria for Effective Performance Management

In Chapter 6, we saw that there are many ways to predict performance of a job candidate. Similarly, there are many ways to measure the performance of an employee. For performance management to achieve its goals, its methods for measuring performance must be good. Selecting these measures is a critical part of planning a performance management system. Several criteria determine the effectiveness of performance measures:

- **Fit with strategy**—A performance management system should aim at achieving employee behavior and attitudes that support the organization's strategy, goals, and culture. If a company emphasizes customer service, then its performance management system should define the kinds of behavior that contribute to good customer service. Performance appraisals should measure whether employees are engaging in those behaviors. Feedback should help employees improve in those areas. When an organization's strategy changes, human resource personnel should help managers assess how the performance management system should change to serve the new strategy.

- **Validity**—As we discussed in Chapter 6, validity is the extent to which a measurement tool actually measures what it is intended to measure. In the case of performance appraisal, validity refers to whether the appraisal measures all the relevant aspects of performance and omits irrelevant aspects of performance. Figure 8.2 shows
CONFIRMING PAGES

When performance appraisals rely heavily on managers’ ratings of their employees, concerns arise about whether managers’ opinions are too subjective to be valid and reliable. Some companies have looked for more objective kinds of data. A few have begun applying a method called data mining—using computers to sift through massive amounts of data generated by networked computers, looking for patterns.

A relatively new idea is to look for patterns in “social networks,” that is, the patterns of people that individuals interact with on a regular basis. Software collects data about employees’ online interactions, such as e-mail traffic, address books, and buddy lists, and measures the amount and frequency of contacts among employees. It creates maps showing the extent to which each employee (represented by a circle) interacts (lines on the map) with each other employee. The software also looks at outcomes, such as the sales volume or billable hours produced by each employee, in order to hunt for relationships between social activity and business outcomes.

For example, a study of consultants at IBM found that those who communicate extensively with their manager produce more revenue (through billable hours) than other consultants. In contrast, if consultants have weak ties with many managers (perhaps trying to satisfy many superiors), they tend to earn less than average. Microsoft uses a similar type of analysis to identify which employees are “superconnectors,” busily sharing ideas with others, and which are “bottlenecks,” where information flow stops. The presumption is that the superconnectors are most valuable to the organization.

Counting worker interactions certainly is more objective than asking a manager to rate someone’s communications skills. The question, of course, is whether this type of data mining is an effective performance measure. For example, is the number of e-mails a person sends and receives a valid measure of the extent of that person’s communications? Will people in the organization accept it as a performance measure? And would informing employees that they are expected to send frequent electronic messages help them produce more or better-quality work?


two sets of information. The circle on the left represents all the information in a performance appraisal; the circle on the right represents all relevant measures of job performance. The overlap of the circles contains the valid information. Information that is gathered but irrelevant is “contamination.” Comparing salespeople based on how many calls they make to customers could be a contaminated measure. Making a lot of calls does not necessarily improve sales or customer satisfaction, unless every salesperson makes only well-planned calls. Information that is not gathered but is relevant represents a deficiency of the performance measure. For example, suppose a company measures whether employees have good attendance records but not whether they work efficiently. This limited performance appraisal is unlikely to provide a full picture of employees’ contribution to the company. Performance measures should minimize both contamination and deficiency.

• Reliability—With regard to a performance measure, reliability describes the consistency of the results that the performance measure will deliver. Interrater reliability is consistency of results when more than one person measures performance. Simply asking a supervisor to rate an employee's performance on a scale of 1 to 5 would likely have low interrater reliability; the rating will differ depending on who
is scoring the employees. Test-retest reliability refers to consistency of results over time. If a performance measure lacks test-retest reliability, determining whether an employee’s performance has truly changed over time will be impossible.

- **Acceptability**—Whether or not a measure is valid and reliable, it must meet the practical standard of being acceptable to the people who use it. For example, the people who use a performance measure must believe that it is not too time-consuming. Likewise, if employees believe the measure is unfair, they will not use the feedback as a basis for improving their performance.

- **Specific feedback**—A performance measure should specifically tell employees what is expected of them and how they can meet those expectations. Being specific helps performance management meet the goals of supporting strategy and developing employees. If a measure does not specify what an employee must do to help the organization achieve its goals, it does not support the strategy. If the measure fails to point out employees’ performance problems, they will not know how to improve.

### Methods for Measuring Performance

Organizations have developed a wide variety of methods for measuring performance. Some methods rank each employee to compare employees’ performance. Other methods break down the evaluation into ratings of individual attributes, behaviors, or results. Many organizations use a measurement system that includes a variety of the preceding measures, as in the case of applying total quality management to performance management. Table 8.1 compares these methods in terms of our criteria for effective performance management.

### Making Comparisons

The performance appraisal method may require the rater to compare one individual’s performance with that of others. This method involves some form of ranking, in which some employees are best, some are average, and others are worst. The usual techniques for making comparisons are simple ranking, forced distribution, and paired comparison.

**Simple ranking** requires managers to rank employees in their group from the highest performer to the poorest performer. In a variation of this approach, *alternation ranking*, the manager works from a list of employees. First, the manager decides which employee is best and crosses that person’s name off the list. From the remaining names, the manager selects the worst employee and crosses off that name. The process continues with the manager selecting the second best, second worst, third best, and so on, until all the employees have been ranked. The major downside of ranking involves validity. To state a performance measure as broadly as “best” or “worst” doesn’t define what exactly is good or bad about the person’s contribution to the organization. Ranking therefore raises questions about fairness.

Another way to compare employees’ performance is with the **forced-distribution method**. This type of performance measurement assigns a certain percentage of employees to each category in a set of categories. For example, the organization might establish the following percentages and categories:

- Exceptional—5 percent
- Exceeds standards—25 percent
Table 8.1
Basic Approaches to Performance Measurement

<table>
<thead>
<tr>
<th>APPROACH</th>
<th>FIT WITH STRATEGY</th>
<th>VALIDITY</th>
<th>RELIABILITY</th>
<th>ACCEPTABILITY</th>
<th>SPECIFICITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparative</td>
<td>Poor, unless manager takes time to make link</td>
<td>Can be high if ratings are done carefully</td>
<td>Depends on rater, but usually no measure of agreement used</td>
<td>Moderate; easy to develop and use but resistant to normative standard</td>
<td>Very low</td>
</tr>
<tr>
<td>Attribute</td>
<td>Usually low; requires manager to make link</td>
<td>Usually low; can be fine if developed carefully</td>
<td>Usually low; can be improved by specific definitions of attributes</td>
<td>High; easy to develop and use</td>
<td>Very low</td>
</tr>
<tr>
<td>Behavioral</td>
<td>Can be quite high</td>
<td>Usually high; minimizes contamination and deficiency</td>
<td>Usually high</td>
<td>Moderate; difficult to develop, but accepted well for use</td>
<td>Very high</td>
</tr>
<tr>
<td>Results</td>
<td>Very high</td>
<td>Usually high; can be both contaminated and deficient</td>
<td>High; main problem can be test–retest—depends on timing of measure</td>
<td>High; usually developed with input from those to be evaluated</td>
<td>High regarding results, but low regarding behaviors necessary to achieve them</td>
</tr>
<tr>
<td>Quality</td>
<td>Very high</td>
<td>High, but can be both contaminated and deficient</td>
<td>High</td>
<td>High; usually developed with input from those to be evaluated</td>
<td>High regarding results, but low regarding behaviors necessary to achieve them</td>
</tr>
</tbody>
</table>

- Meets standards—55 percent
- Room for improvement—10 percent
- Not acceptable—5 percent

The manager completing the performance appraisal would rate 5 percent of his or her employees as exceptional, 25 percent as exceeding standards, and so on. A forced-distribution approach works best if the members of a group really do vary this much in terms of their performance. It overcomes the temptation to rate everyone high in order to avoid conflict. Research simulating some features of forced rankings found that they improved performance when combined with goals and rewards, especially in the first few years, when the system eliminated the poorest performers. However, a manager who does very well at selecting, motivating, and training employees will have a group of high performers. This manager would have difficulty assigning employees to the bottom categories. In that situation, saying that some employees require improvement or are “not acceptable” not only will be inaccurate, but will hurt morale.

Another variation on rankings is the paired-comparison method. This approach involves comparing each employee with each other employee to establish rankings.
rankings. Suppose a manager has five employees, Allen, Barbara, Caitlin, David, and Edgar. The manager compares Allen's performance to Barbara's and assigns one point to whichever employee is the higher performer. Then the manager compares Allen's performance to Caitlin's, then to David's, and finally to Edgar's. The manager repeats this process with Barbara, comparing her performance to Caitlin's, David's, and Edgar's. When the manager has compared every pair of employees, the manager counts the number of points for each employee. The employee with the most points is considered the top-ranked employee. Clearly, this method is time consuming if a group has more than a handful of employees. For a group of 15, the manager must make 105 comparisons.

In spite of the drawbacks, ranking employees offers some benefits. It counteracts the tendency to avoid controversy by rating everyone favorably or near the center of the scale. Also, if some managers tend to evaluate behavior more strictly (or more leniently) than others, a ranking system can erase that tendency from performance scores. Therefore, ranking systems can be useful for supporting decisions about how to distribute pay raises or layoffs. Some ranking systems are easy to use, which makes them acceptable to the managers who use them. A major drawback of rankings is that they often are not linked to the organization's goals. Also, a simple ranking system leaves the basis for the ranking open to interpretation. In that case, the rankings are not helpful for employee development and may hurt morale or result in legal challenges.

**Rating Individuals**

Instead of focusing on arranging a group of employees from best to worst, performance measurement can look at each employee’s performance relative to a uniform set of standards. The measurement may evaluate employees in terms of attributes (characteristics or traits) believed desirable. Or the measurements may identify whether employees have behaved in desirable ways, such as closing sales or completing assignments. For both approaches, the performance management system must identify the desired attributes or behaviors, then provide a form on which the manager can rate the employee in terms of those attributes or behaviors. Typically, the form includes a rating scale, such as a scale from 1 to 5, where 1 is the worst performance and 5 is the best.

**Rating Attributes**

The most widely used method for rating attributes is the **graphic rating scale**. This method lists traits and provides a rating scale for each trait. The employer uses the scale to indicate the extent to which the employee being rated displays the traits. The rating scale may provide points to circle (as on a scale going from 1 for poor to 5 for excellent), or it may provide a line representing a range of scores, with the manager marking a place along the line. Figure 8.3 shows an example of a graphic rating scale that uses a set of ratings from 1 to 5. A drawback of this approach is that it leaves to the particular manager the decisions about what is “excellent knowledge” or “commendable judgment” or “poor interpersonal skills.” The result is low reliability, because managers are likely to arrive at different judgments.

To get around this problem, some organizations use **mixed-standard scales**, which use several statements describing each trait to produce a final score for that trait. The manager scores the employee in terms of how the employee compares to...
each statement. Consider the sample mixed-standard scale in Figure 8.4. To create this scale, the organization determined that the relevant traits are initiative, intelligence, and relations with others. For each trait, sentences were written to describe a person having a high level of that trait, a medium level, and a low level. The sentences for the traits were rearranged so that the nine statements about the three traits are mixed together. The manager who uses this scale reads each sentence, then indicates whether the employee performs above (+), at (0), or below (−) the level described. The key in the middle section of Figure 8.4 tells how to use the pluses, zeros, and minuses to score performance. Someone who excels at every level of performance (pluses for high, medium, and low performance) receives a score of 7 for that trait. Someone who fails to live up to every description of performance (minuses for high, medium, and low) receives a score of 1 for that trait. The bottom of Figure 8.4 calculates the scores for the ratings used in this example.

Rating attributes is the most popular way to measure performance in organizations. In general, attribute-based performance methods are easy to develop and can be applied to a wide variety of jobs and organizations. If the organization is careful to identify which attributes are associated with high performance, and to define them carefully on the appraisal form, these methods can be reliable and valid. However, appraisal forms often fail to meet this standard. In addition, measurement of attributes is rarely linked to the organization’s strategy. Furthermore, employees tend perhaps rightly to be defensive about receiving a mere numerical rating on some attribute. How would you feel if you were told you scored 2 on a 5-point scale of initiative or communication skill? The number might seem arbitrary, and it doesn’t tell you how to improve.

Figure 8.3
Example of a Graphic Rating Scale

The following areas of performance are significant to most positions. Indicate your assessment of performance on each dimension by circling the appropriate rating.

<table>
<thead>
<tr>
<th>PERFORMANCE DIMENSION</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DISTINGUISHED</td>
</tr>
<tr>
<td>Knowledge</td>
<td>5</td>
</tr>
<tr>
<td>Communication</td>
<td>5</td>
</tr>
<tr>
<td>Judgment</td>
<td>5</td>
</tr>
<tr>
<td>Managerial skill</td>
<td>5</td>
</tr>
<tr>
<td>Quality performance</td>
<td>5</td>
</tr>
<tr>
<td>Teamwork</td>
<td>5</td>
</tr>
<tr>
<td>Interpersonal skills</td>
<td>5</td>
</tr>
<tr>
<td>Initiative</td>
<td>5</td>
</tr>
<tr>
<td>Creativity</td>
<td>5</td>
</tr>
<tr>
<td>Problem solving</td>
<td>5</td>
</tr>
</tbody>
</table>
Figure 8.4
Example of a Mixed-Standard Scale

<table>
<thead>
<tr>
<th>Three traits being assessed:</th>
<th>Levels of performance in statements:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative (INTV)</td>
<td>High (H)</td>
</tr>
<tr>
<td>Intelligence (INTG)</td>
<td>Medium (M)</td>
</tr>
<tr>
<td>Relations with others (RWO)</td>
<td>Low (L)</td>
</tr>
</tbody>
</table>

Instructions: Please indicate next to each statement whether the employee’s performance is above (+), equal to (0), or below (−) the statement.

<table>
<thead>
<tr>
<th>STATEMENTS</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>INITV H 1.</td>
<td>+</td>
</tr>
<tr>
<td>INTG M 2.</td>
<td>+</td>
</tr>
<tr>
<td>RWO L 3.</td>
<td>0</td>
</tr>
<tr>
<td>INTV M 4.</td>
<td>+</td>
</tr>
<tr>
<td>INTG L 5.</td>
<td>+</td>
</tr>
<tr>
<td>RWO H 6.</td>
<td>−</td>
</tr>
<tr>
<td>INTV L 7.</td>
<td>+</td>
</tr>
<tr>
<td>INTG H 8.</td>
<td>−</td>
</tr>
<tr>
<td>RWO M 9.</td>
<td>−</td>
</tr>
</tbody>
</table>

Scoring Key:

<table>
<thead>
<tr>
<th>STATEMENTS</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>0</td>
<td>+</td>
</tr>
<tr>
<td>−</td>
<td>+</td>
</tr>
<tr>
<td>−</td>
<td>0</td>
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<td>−</td>
<td>−</td>
</tr>
<tr>
<td>−</td>
<td>−</td>
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<tr>
<td>−</td>
<td>−</td>
</tr>
</tbody>
</table>

Example score from preceding ratings:

<table>
<thead>
<tr>
<th>STATEMENTS</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative</td>
<td>+</td>
</tr>
<tr>
<td>Intelligence</td>
<td>0</td>
</tr>
<tr>
<td>Relations with others</td>
<td>−</td>
</tr>
</tbody>
</table>

Rating Behaviors
One way to overcome the drawbacks of rating attributes is to measure employees' behavior. To rate behaviors, the organization begins by defining which behaviors are associated with success on the job. Which kinds of employee behavior help
Confirming Pages

PART 3 Assessing Performance and Developing Employees

the organization achieve its goals? The appraisal form asks the manager to rate an employee in terms of each of the identified behaviors.

One way to rate behaviors is with the **critical-incident method**. This approach requires managers to keep a record of specific examples of the employee acting in ways that are either effective or ineffective. Here’s an example of a critical incident in the performance evaluation of an appliance repairperson:

A customer called in about a refrigerator that was not cooling and was making a clicking noise every few minutes. The technician prediagnosed the cause of the problem and checked his truck for the necessary parts. When he found he did not have them, he checked the parts out from inventory so that the customer’s refrigerator would be repaired on his first visit and the customer would be satisfied promptly.

This incident provides evidence of the employee’s knowledge of refrigerator repair and concern for efficiency and customer satisfaction. Evaluating performance in this specific way gives employees feedback about what they do well and what they do poorly. The manager can also relate the incidents to how the employee is helping the company achieve its goals. Keeping a daily or weekly log of critical incidents requires significant effort, however, and managers may resist this requirement. Also, critical incidents may be unique, so they may not support comparisons among employees.

A **behaviorally anchored rating scale (BARS)** builds on the critical-incidents approach. The BARS method is intended to define performance dimensions specifically, using statements of behavior that describe different levels of performance.(points are "anchors" of the performance levels.) The scale in Figure 8.5 shows various performance levels for the behavior of “preparing for duty.” The statement at the top (rating 7) describes the highest level of preparing for duty. The statement at the bottom describes behavior associated with poor performance. These statements are based on data about past performance. The organization gathers many critical incidents representing effective and ineffective performance, then classifies them from most to least effective. When experts about the job agree the statements clearly represent levels of performance, they are used as anchors to guide the rater. Although BARS can improve interrater reliability, this method can bias the manager’s memory. The statements used as anchors can help managers remember similar behaviors, at the expense of other critical incidents.

A **behavioral observation scale (BOS)** is a variation of a BARS. Like a BARS, a BOS is developed from critical incidents. However, while a BARS discards many examples in creating the rating scale, a BOS uses many of them to define all behaviors necessary for effective performance (or behaviors that signal ineffective performance). As a result, a BOS may use 15 behaviors to define levels of performance. Also, a BOS asks the manager to rate the frequency with which the employee has exhibited the behavior during the rating period. These ratings are averaged to compute an overall performance rating. Figure 8.6 provides a simplified example of a BOS for measuring the behavior “overcoming resistance to change.”

A major drawback of this method is the amount of information required. A BOS can have 80 or more behaviors, and the manager must remember how often the employee exhibited each behavior in a 6- to 12-month rating period. This is taxing enough for one employee, but managers often must rate 10 or more employees. Even so, compared to BARS and graphic rating scales, managers and employees have said they prefer BOS for ease of use, providing feedback, maintaining objectivity, and suggesting training needs.
Another approach to assessment builds directly on a branch of psychology called behaviorism, which holds that individuals’ future behavior is determined by their past experiences—specifically, the ways in which past behaviors have been reinforced. People tend to repeat behaviors that have been rewarded in the past. Providing feedback and reinforcement can therefore modify individuals’ future behavior. Applied to behavior in organizations, organizational behavior modification (OBM) is a plan for managing the behavior of employees through a formal system of feedback and reinforcement. Specific OBM techniques vary, but most have four components:

1. Define a set of key behaviors necessary for job performance.
2. Use a measurement system to assess whether the employee exhibits the key behaviors.
3. Inform employees of the key behaviors, perhaps in terms of goals for how often to exhibit the behaviors.

4. Provide feedback and reinforcement based on employees’ behavior.

OBM techniques have been used in a variety of settings. For example, a community mental health agency used OBM to increase the rates and timeliness of critical job behaviors by showing employees the connection between job behaviors and the agency’s accomplishments. This process identified job behaviors related to administration, record keeping, and service provided to clients. Feedback and reinforcement improved staff performance. OBM also increased the frequency of safety behaviors in a processing plant.

Behavioral approaches such as organizational behavior modification and rating scales can be very effective. These methods can link the company’s goals to the specific behavior required to achieve those goals. Behavioral methods also can generate specific feedback, along with guidance in areas requiring improvements. As a result, these methods tend to be valid. The people to be measured often help in developing the measures, so acceptance tends to be high as well. When raters are well trained, reliability also tends to be high. However, behavioral methods do not work as well for complex jobs in which it is difficult to see a link between behavior and results or there is more than one good way to achieve success.
Measuring Results

Performance measurement can focus on managing the objective, measurable results of a job or work group. Results might include sales, costs, or productivity (output per worker or per dollar spent on production), among many possible measures. Two of the most popular methods for measuring results are measurement of productivity and management by objectives.

Productivity is an important measure of success, because getting more done with a smaller amount of resources (money or people) increases the company’s profits. Productivity usually refers to the output of production workers, but it can be used more generally as a performance measure. To do this, the organization identifies the products—set of activities or objectives—it expects a group or individual to accomplish. At a repair shop, for instance, a product might be something like “quality of repair.” The next step is to define how to measure production of these products. For quality of repair, the repair shop could track the percentage of items returned because they still do not work after a repair and the percentage of quality-control inspections passed. For each measure, the organization decides what level of performance is desired. Finally, the organization sets up a system for tracking these measures and giving employees feedback about their performance in terms of these measures. This type of performance measurement can be time consuming to set up, but research suggests it can improve productivity. 13

Management by objectives (MBO) is a system in which people at each level of the organization set goals in a process that flows from top to bottom, so employees at all levels are contributing to the organization’s overall goals. These goals become the standards for evaluating each employee’s performance. An MBO system has three components: 14

1. Goals are specific, difficult, and objective. The goals listed in the second column of Table 8.2 provide two examples for a bank.
2. Managers and their employees work together to set the goals.
3. The manager gives objective feedback through the rating period to monitor progress toward the goals. The two right-hand columns in Table 8.2 are examples of feedback given after one year.

MBO can have a very positive effect on an organization’s performance. In 70 studies of MBO’s performance, 68 showed that productivity improved. 15 The productivity gains tended to be greatest when top management was highly committed to MBO. Also, because staff members are involved in setting goals, it is likely that MBO systems effectively link individual employees’ performance with the organization’s overall goals.

<table>
<thead>
<tr>
<th>KEY RESULT AREA</th>
<th>OBJECTIVE</th>
<th>% COMPLETE</th>
<th>ACTUAL PERFORMANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan portfolio management</td>
<td>Increase portfolio value by 10% over the next 12 months</td>
<td>90</td>
<td>Increased portfolio value by 9% over the past 12 months</td>
</tr>
<tr>
<td>Sales</td>
<td>Generate fee income of $30,000 over the next 12 months</td>
<td>150</td>
<td>Generated fee income of $45,000 over the past 12 months</td>
</tr>
</tbody>
</table>

Table 8.2
Management by Objectives: Two Objectives for a Bank
In general, evaluation of results can be less subjective than other kinds of performance measurement. This makes measuring results highly acceptable to employees and managers alike. Results-oriented performance measurement is also relatively easy to link to the organization's goals. However, measuring results has problems with validity, because results may be affected by circumstances beyond each employee's performance. Also, if the organization measures only final results, it may fail to measure significant aspects of performance that are not directly related to those results. If individuals focus only on aspects of performance that are measured, they may neglect significant skills or behaviors. For example, if the organization measures only productivity, employees may not be concerned enough with customer service. The outcome may be high efficiency (costs are low) but low effectiveness (sales are low, too). Finally, focusing strictly on results does not provide guidance on how to improve.

**Total Quality Management**

The principles of total quality management, introduced in Chapter 2, provide methods for performance measurement and management. Total quality management (TQM) differs from traditional performance measurement in that it assesses both individual performance and the system within which the individual works. This assessment is a process through which employees and their customers work together to set standards and measure performance, with the overall goal being to improve customer satisfaction. In this sense, an employee's customers may be inside or outside the organization; a “customer” is whoever uses the goods or services produced by the employee. The
feedback aims at helping employees continuously improve the satisfaction of their customers. The focus on continuously improving customer satisfaction is intended to avoid the pitfall of rating individuals on outcomes, such as sales or profits, over which they do not have complete control.

With TQM, performance measurement essentially combines measurements of attributes and results. The feedback in TQM is of two kinds: (1) subjective feedback from managers, peers, and customers about the employee’s personal qualities such as cooperation and initiative; and (2) objective feedback based on the work process. The second kind of feedback comes from a variety of methods called statistical quality control. These methods use charts to detail causes of problems, measures of performance, or relationships between work-related variables. Employees are responsible for tracking these measures to identify areas where they can avoid or correct problems. Because of the focus on systems, this feedback may result in changes to a work process, rather than assuming that a performance problem is the fault of an employee. The TQM system’s focus has practical benefits, but it does not serve as well to support decisions about work assignments, training, or compensation.

Sources of Performance Information

All the methods of performance measurement require decisions about who will collect and analyze the performance information. To qualify for this task, a person should have an understanding of the job requirements and the opportunity to see the employee doing the job. The traditional approach is for managers to gather information about their employees’ performance and arrive at performance ratings. However, many sources are possible. Possibilities of information sources include managers, peers, subordinates, self, and customers.

Using just one person as a source of information poses certain problems. People tend to like some people more than others, and those feelings can bias how an employee’s efforts are perceived. Also, one person is likely to see an employee in a limited number of situations. A supervisor, for example, cannot see how an employee behaves when the supervisor is not watching—for example, when a service technician is at the customer’s facility. To get as complete an assessment as possible, some organizations combine information from most or all of the possible sources, in what is called a 360-degree performance appraisal.

Managers

The most-used source of performance information is the employee’s manager. For example, at YMCA of Greater Rochester, New York, managers rate the performance of the organization’s 2,900 employees. The YMCA also reviews the managers’ performance in evaluating employees. The vice president of human resources and the chief operating officer go over each performance appraisal together. When they identify reports in which feedback is vague or seems to be the first conversation a manager and employee have had about an issue, they work with the manager to improve the reviewing process. It is usually safe for organizations to assume that supervisors have extensive knowledge of the job requirements and that they have enough opportunity to observe their employees. In other words, managers possess the basic qualifications for this responsibility. Another advantage of using managers to evaluate performance is that they have an incentive to provide accurate and helpful feedback, because their own

**LO5** Describe major sources of performance information in terms of their advantages and disadvantages.
success depends so much on their employees’ performance.\footnote{18} Finally, when managers try to observe employee behavior or discuss performance issues in the feedback session, their feedback can improve performance, and employees tend to perceive the appraisal as accurate.\footnote{19}

Still, in some situations, problems can occur with using supervisors as the source of performance information. For employees in some jobs, the supervisor does not have enough opportunity to observe the employee performing job duties. A sales manager with many outside salespeople cannot be with the salespeople on many visits to customers. Even if the sales manager does make a point of traveling with salespeople for a few days, they are likely to be on their best behavior while the manager is there. The manager cannot observe how they perform at other times.

Peers
Another source of performance information is the employee’s peers or co-workers. Peers are an excellent source of information about performance in a job where the supervisor does not often observe the employee. Examples include law enforcement and sales. For these and other jobs, peers may have the most opportunity to observe the employee in day-to-day activities. Peers have expert knowledge of job requirements. They also bring a different perspective to the evaluation and can provide extremely valid assessments of performance.\footnote{20}

Peer evaluations obviously have some potential disadvantages. Friendships (or rivalries) have the potential to bias ratings. Research, however, has provided little evidence that this is a problem.\footnote{21} Another disadvantage is that when the evaluations are done to support administrative decisions, peers are uncomfortable with rating employees for decisions that may affect themselves. Generally, peers are more favorable toward participating in reviews to be used for employee development.\footnote{22}

Subordinates
For evaluating the performance of managers, subordinates are an especially valuable source of information. Subordinates—the people reporting to the manager—often have the best chance to see how well a manager treats employees. Dell, for example, asks employees to rate their manager in terms of measures such as whether the employee receives ongoing performance feedback and whether the supervisor “is effective at managing people.”\footnote{23}

Subordinate evaluations have some potential problems because of the power relationships involved. Subordinates are reluctant to say negative things about the person to whom they report; they prefer to provide feedback anonymously. Managers, however, have a more positive reaction to this type of feedback when the subordinates are identified. When feedback forms require that the subordinates identify themselves, they tend to give the manager higher ratings.\footnote{24} Another problem is that when
managers receive ratings from their subordinates, the employees have more power, so managers tend to emphasize employee satisfaction, even at the expense of productivity. This issue arises primarily when the evaluations are used for administrative decisions. Therefore, as with peer evaluations, subordinate evaluations are most appropriate for developmental purposes. To protect employees, the process should be anonymous and use at least three employees to rate each manager.

**Self**

No one has a greater chance to observe the employee’s behavior on the job than does the employee himself or herself. Self-ratings are rarely used alone, but they can contribute valuable information. A common approach is to have employees evaluate their own performance before the feedback session. This activity gets employees thinking about their performance. Areas of disagreement between the self-appraisal and other evaluations can be fruitful topics for the feedback session. YMCA of Greater Rochester introduced self-appraisals in response to complaints that ratings by the managers weren’t an effective tool for employee development. Employees report that the opportunity to give examples of their successes and request training has sparked more helpful conversations with their managers. Managers, in turn, feel that the employee-provided information makes the evaluation process easier.

The obvious problem with self-ratings is that individuals have a tendency to inflate assessments of their performance. Especially if the ratings will be used for administrative decisions, exaggerating one’s contributions has practical benefits. Also, social psychologists have found that, in general, people tend to blame outside circumstances for their failures while taking a large part of the credit for their successes. Supervisors can soften this tendency by providing frequent feedback, but because people tend to perceive situations this way, self-appraisals are not appropriate as the basis for administrative decisions.

**Customers**

Services are often produced and consumed on the spot, so the customer is often the only person who directly observes the service performance and may be the best source of performance information. Many companies in service industries have introduced customer evaluations of employee performance. Marriott Corporation provides a customer satisfaction card in every room and mails surveys to a random sample of its hotel customers. Whirlpool’s Consumer Services Division conducts mail and telephone surveys of customers after factory technicians have serviced their appliances. These surveys allow the company to evaluate an individual technician’s customer-service behaviors while in the customer’s home. The “Best Practices” box provides another example of a company that effectively uses customer feedback to support better employee performance.

Using customer evaluations of employee performance is appropriate in two situations. The first is when an employee’s job requires direct service to the customer or linking the customer to other services within the organization. Second, customer evaluations are appropriate when the organization is interested in gathering information to determine what products and services the customer wants. That is, customer evaluations contribute to the organization’s goals by enabling HRM to support the organization’s marketing activities. In this regard, customer evaluations are useful both for evaluating an employee’s performance and for helping to determine whether
Best Practices

CUSTOMER FEEDBACK FUELS CUSTOMER SATISFACTION AT UNITED COMMUNITY BANK

United Community Bank (UCB), which describes itself as the “third-largest traditional bank holding company in Georgia,” has employees in over a hundred facilities throughout Georgia, North Carolina, and Tennessee. To fulfill the bank’s mission of providing high-quality financial services to its communities, UCB’s management knows the bank needs highly qualified, well-motivated employees with a commitment to customer service.

In support of this strategy, UCB’s performance measures include feedback from customers. UCB contracts with a research company known as Customer Service Profiles to obtain data on customer satisfaction. The organization contacts customers who have used particular services and obtains their impressions about the quality of service they received from the bank’s employees.

The reason the customer service data provide feedback in support of employee development is that the bank uses the research as part of a complete process of goal setting and coaching. UCB sets performance standards for how to satisfy customers, and it informs employees about what customers want from people in their position at the bank.

In general, customer responses are used as a coaching tool. Employees discuss evaluations with their supervisor. If a customer reports dissatisfaction with a particular employee, the discussion focuses on how the employee can do his or her job better in the future. In the unusual case of an employee who has a pattern of poor scores, the performance information would make its way into the organization’s formal performance review process. But typically, says Craig Metz, UCB’s vice president of marketing, employees “want to know what they can do to improve.”

The drive to use customer evaluations as a tool for measuring employee performance and coaching employees bears fruit. Customer Service Profiles measures overall customer satisfaction with UCB and other banks. While banks typically score between 70 and 79 percent out of a perfect 100, UCB routinely scores in the high nineties.


the organization can improve customer service by making changes in HRM activities such as training or compensation.

The weakness of customer surveys for performance measurement is their expense. The expenses of a traditional survey can add up to hundreds of dollars to evaluate one individual. Many organizations therefore limit the information gathering to short periods once a year.

Errors in Performance Measurement

As we noted in the previous section, one reason for gathering information from several sources is that performance measurements are not completely objective, and errors can occur. People observe behavior, and they have no practical way of knowing all the circumstances, intentions, and outcomes related to that behavior, so they interpret what they see. In doing so, observers make a number of judgment calls, and in some situations may even distort information on purpose. Therefore, fairness in rating performance and interpreting performance appraisals requires that managers understand the kinds of distortions that commonly occur.
Types of Rating Errors

Several kinds of errors and biases commonly influence performance measurements:

• People often tend to give a higher evaluation to people they consider similar to themselves. Most of us think of ourselves as effective, so if others are like us, they must be effective, too. Research has demonstrated that this effect is strong. Unfortunately, it is sometimes wrong, and when similarity is based on characteristics such as race or sex, the decisions may be discriminatory.  

• If the rater compares an individual, not against an objective standard, but against other employees, contrast errors occur. A competent performer who works with exceptional people may be rated lower than competent, simply because of the contrast.

• Raters make distributional errors when they tend to use only one part of a rating scale. The error is called leniency when the reviewer rates everyone near the top, strictness when the rater favors lower rankings, and central tendency when the rater puts everyone near the middle of the scale. Distributional errors make it difficult to compare employees rated by the same person. Also, if different raters make different kinds of distributional errors, scores by these raters cannot be compared.

• Raters often let their opinion of one quality color their opinion of others. For example, someone who speaks well might be seen as helpful or talented in other areas, simply because of the overall good impression created by this one quality. Or someone who is occasionally tardy might be seen as lacking in motivation. When the bias is in a favorable direction, this is called the halo error. When it involves negative ratings, it is called the horns error. Halo error can mistakenly tell employees they don’t need to improve in any area, while horns error can cause employees to feel frustrated and defensive.

Ways to Reduce Errors

Usually people make these errors unintentionally, especially when the criteria for measuring performance are not very specific. Raters can be trained how to avoid rating errors.  

Prospective raters watch videos whose scripts or storylines are designed to lead them to make specific rating errors. After rating the fictional employees in the videos, raters discuss their rating decisions and how such errors affected their rating decisions. Training programs offer tips for avoiding the errors in the future.

Another training method is for raters to focus on the complex nature of employee performance. Raters learn to look at many aspects of performance that deserve their attention. Actual examples of performance are studied to bring out various performance dimensions and the standards for those dimensions. This training aims to help raters evaluate employees’ performance more thoroughly and accurately.

Political Behavior in Performance Appraisals

Unintentional errors are not the only cause of inaccurate performance measurement. Sometimes the people rating performance distort an evaluation on purpose to advance their personal goals. This kind of appraisal politics is unhealthy especially because the resulting feedback does not focus on helping employees contribute to the organization’s goals. High-performing employees who are rated unfairly will become frustrated, and low-performing employees who are overrated will be rewarded rather than encouraged to improve. Therefore, organizations try to identify and discourage appraisal politics.
Several characteristics of appraisal systems and company culture tend to encourage appraisal politics. Appraisal politics are most likely to occur when raters are accountable to the employee being rated, the goals of rating are not compatible with one another, performance appraisal is directly linked to highly desirable rewards, top executives tolerate or ignore distorted ratings, and senior employees tell newcomers company “folklore” that includes stories about distorted ratings.

Political behavior occurs in every organization. Organizations can minimize appraisal politics by establishing an appraisal system that is fair. One technique is to hold a **calibration meeting**, a gathering at which managers discuss employee performance ratings and provide evidence supporting their ratings with the goal of eliminating the influence of rating errors. As they discuss ratings and the ways they arrive at ratings, managers may identify undervalued employees, notice whether they are much harsher or more lenient than other managers, and help each other focus on how well ratings are associated with relevant performance outcomes. For example, when consultant Dick Grote leads calibration meetings for his clients, he often displays flip charts, one for each rating on a scale, and gives each manager a different-colored Post-it Note pad. On their Post-It Notes, the managers write the names of each employee they rate, and they attach a note for the rating they would give that employee. The distribution of colors on the flip charts provides visually strong information about how the different managers think about their employees. A cluster of green notes on “outstanding” and yellow notes on “meets expectations” would suggest that one manager is a much tougher rater than others, and they could then discuss how they arrive at these different conclusions. The organization can also help managers give accurate and fair appraisals by training them to use the appraisal process, encouraging them to recognize accomplishments that the employees themselves have not identified, and fostering a climate of openness in which employees feel they can be honest about their weaknesses.

**Giving Performance Feedback**

Once the manager and others have measured an employee's performance, this information must be given to the employee. Only after the employee has received feedback can he or she begin to plan how to correct any shortcomings. Although the feedback stage of performance management is essential, it is uncomfortable to managers and employees. Delivering feedback feels to the manager as if he or she is standing in judgment of others—a role few people enjoy. Receiving criticism feels even worse. Fortunately, managers can do much to smooth the feedback process and make it effective.

**Scheduling Performance Feedback**

Performance feedback should be a regular, expected management activity. The custom or policy at many organizations is to give formal performance feedback once a year. But annual feedback is not enough. One reason is that managers are responsible for correcting performance deficiencies as soon as they occur. If the manager notices a problem with an employee's behavior in June, but the annual appraisal is scheduled for November, the employee will miss months of opportunities for improvement.

Another reason for frequent performance feedback is that feedback is most effective when the information does not surprise the employee. If an employee has to wait for up to a year to learn what the manager thinks of his work, the employee
will wonder whether he is meeting expectations. Employees should instead receive feedback so often that they know what the manager will say during their annual performance review.

Finally, employees have indicated that they are motivated and directed by regular feedback; they want to know if they are on the right track. Managers have found that young employees in particular are looking for frequent and candid performance feedback from their managers. In response, Ernst & Young created an online “Feedback Zone,” where employees can request or submit performance feedback at any time beyond the formal evaluations required twice a year.

Preparing for a Feedback Session
Managers should be well prepared for each formal feedback session. The manager should create the right context for the meeting. The location should be neutral. If the manager’s office is the site of unpleasant conversations, a conference room may be more appropriate. In announcing the meeting to an employee, the manager should describe it as a chance to discuss the role of the employee, the role of the manager, and the relationship between them. Managers should also say (and believe) that they would like the meeting to be an open dialogue. As discussed in the “HR How To” box, the content of the feedback session and the type of language used can determine the success of this meeting.

Managers should also enable the employee to be well prepared. The manager should ask the employee to complete a self-assessment ahead of time. The self-assessment requires employees to think about their performance over the past rating period and to be aware of their strengths and weaknesses, so they can participate more fully in the discussion. Even though employees may tend to overstate their accomplishments, the self-assessment can help the manager and employee identify areas for discussion. When the purpose of the assessment is to define areas for development, employees may actually understate their performance. Also, differences between the manager’s and the employee’s rating may be fruitful areas for discussion.

Conducting the Feedback Session
During the feedback session, managers can take any of three approaches. In the “tell-and-sell” approach, managers tell the employees their ratings and then justify those ratings. In the “tell-and-listen” approach, managers tell employees their ratings and then let the employees explain their side of the story. In the “problem-solving” approach, managers and employees work together to solve performance problems in an atmosphere of respect and encouragement. Not surprisingly, research demonstrates that the problem-solving approach is superior. Perhaps surprisingly, most managers rely on the tell-and-sell approach. Managers can improve employee satisfaction with the feedback process by letting employees voice their opinions and discuss performance goals.
Employees and managers often dread feedback sessions, because they expect some level of criticism, and criticism feels uncomfortable. However, there are ways to structure communication about employee performance so that it feels more constructive.

Most important, ensure that communication flows in both directions. It should begin with clear expectations laid out—sometimes in detail—well before the feedback session, so that employees have a fair chance to succeed. Employees should know what “fair” and “outstanding” performance look like, if those are the terms used in rating their performance. Employees should be so clear about what is desired that during the time leading up to the meeting, they can be gathering examples of situations in which they met or exceeded expectations. Managers also should be gathering these examples. The meeting should allow enough time for both participants to present, discuss, and learn from the examples they have identified. Based on what this discussion reveals, the employee or manager should discuss revising goals, setting new goals, or figuring out how to meet unfulfilled goals.

Discussions should consider how the employee’s actions have (or have not) been contributing to the employee’s, group’s, and company’s business objectives. This helps the conversation move away from vague discussion of personality toward goal-oriented, objective performance measures.

When an employee’s performance falls below expectations, the manager should prepare ahead of time to be sure the facts of the situation are clear and complete. The employee and manager should discuss the problem before the manager writes conclusions on the appraisal form, to ensure that the report will be fair. Whether performance is disappointing or delightful, the manager should be direct and clear in focusing on observable behaviors.

The content of the feedback should emphasize behavior, not personalities. For example, “You did not meet the deadline” can open a conversation about what needs to change, but “You’re not motivated” may make the employee feel defensive and angry. As the “HR Oops!” box shows, even employees who are told they are meeting performance goals may not see this as a compliment. The feedback session should end with goal setting and a decision about when to follow up.

Finding Solutions to Performance Problems

When performance evaluation indicates that an employee’s performance is below standard, the feedback process should launch an effort to correct the problem. Even when the employee is meeting current standards, the feedback session may identify areas in which the employee can improve in order to contribute more to the organization in a current or future job. In sum, the final, feedback stage of performance
HR Oops!

We’re All Above Average

For all the worries about delivering criticism, it turns out that poor performance isn’t the only problem: employees don’t want to hear they’re doing their jobs if it means they sound “average.” Although the very idea of average would imply that many employees rate near the middle, and the very idea of goal setting would be that you want employees to meet a challenge, managers and HR experts report that most employees think they’re above average and exceed expectations.

Penny Wilson, director of corporate learning and development at Talecris Biotherapeutics, suggests that HR departments “could do a better job of explaining that ‘meets’ is a good rating, and that we need those solid performers.” But John Lewison, director of human resources at MDRC, says that over his career at six different companies, “I’ve seen every word used for every category. And no matter what you do, people figure out pretty quickly what ‘average’ is and don’t want to be in that category.”

Part of the problem may be that the use of forced-distribution methods and links between appraisals and compensation have created a climate in which employees are afraid they won’t be rewarded (or will be let go) if they get anything but a stellar review.

Questions
1. If an employee receives performance feedback that implies the employee is “average” or has met (but not exceeded) expectations, how would you expect the employee to react to the feedback during an appraisal interview? How well would this feedback affect the strategic and developmental purposes of performance management?

2. How could performance appraisals or feedback interviews be modified to address employees’ resistance to being considered average?

Management involves identifying areas for improvement and ways to improve performance in those areas.

As shown in Figure 8.7, the most effective way to improve performance varies according to the employee’s ability and motivation. In general, when employees have high levels of ability and motivation, they perform at or above standards. But when they lack ability, motivation, or both, corrective action is needed. The type of action called for depends on what the employee lacks:

- **Lack of ability**—When a motivated employee lacks knowledge, skills, or abilities in some area, the manager may offer coaching, training, and more detailed feedback. Sometimes it is appropriate to restructure the job so the employee can handle it.
- **Lack of motivation**—Managers with an unmotivated employee can explore ways to demonstrate that the employee is being treated fairly and rewarded adequately. The solution may be as simple as more positive feedback (praise). Employees may need a referral for counseling or help with stress management.
- **Lack of both**—Performance may improve if the manager directs the employee’s attention to the significance of the problem by withholding rewards or providing specific feedback. If the employee does not respond, the manager may have to demote or terminate the employee.

As a rule, employees who combine high ability with high motivation are solid performers. As Figure 8.7 indicates, managers should by no means ignore these employees.
on the grounds of leaving well enough alone. Rather, such employees are likely to appreciate opportunities for further development. Rewards and direct feedback help to maintain these employees’ high motivation levels.

**Legal and Ethical Issues in Performance Management**

In developing and using performance management systems, human resource professionals need to ensure that these systems meet legal requirements, such as the avoidance of discrimination. In addition, performance management systems should meet ethical standards, such as protection of employees’ privacy.

**Legal Requirements for Performance Management**

Because performance measures play a central role in decisions about pay, promotions, and discipline, employment-related lawsuits often challenge an organization’s performance management system. Lawsuits related to performance management usually involve charges of discrimination or unjust dismissal. Discrimination claims often allege that the performance management system discriminated against employees on the basis of their race or sex. Many performance

**Figure 8.7**

Improving Performance

<table>
<thead>
<tr>
<th>Ability</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misdirected effort</td>
<td></td>
</tr>
<tr>
<td>Coaching</td>
<td></td>
</tr>
<tr>
<td>Frequent performance feedback</td>
<td></td>
</tr>
<tr>
<td>Goal setting</td>
<td></td>
</tr>
<tr>
<td>Training or temporary assignment for skill development</td>
<td></td>
</tr>
<tr>
<td>Structured job assignment</td>
<td></td>
</tr>
<tr>
<td>Solid performers</td>
<td></td>
</tr>
<tr>
<td>Reward good performance</td>
<td></td>
</tr>
<tr>
<td>Identify development opportunities</td>
<td></td>
</tr>
<tr>
<td>Provide honest, direct feedback</td>
<td></td>
</tr>
<tr>
<td>Underutilizers</td>
<td></td>
</tr>
<tr>
<td>Give honest, direct feedback</td>
<td></td>
</tr>
<tr>
<td>Provide counseling</td>
<td></td>
</tr>
<tr>
<td>Use team building and conflict resolution</td>
<td></td>
</tr>
<tr>
<td>Link rewards to performance outcomes</td>
<td></td>
</tr>
<tr>
<td>Offer training for needed knowledge or skills</td>
<td></td>
</tr>
<tr>
<td>Manage stress levels</td>
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</tbody>
</table>

measures are subjective, and measurement errors, such as those described earlier in the chapter, can easily occur. The Supreme Court has held that the selection guidelines in the federal government’s Uniform Guidelines on Employee Selection Procedures also apply to performance measurement. In general, these guidelines (discussed in Chapters 3 and 6) require that organizations avoid using criteria such as race and age as a basis for employment decisions. This requires overcoming widespread rating errors. A substantial body of evidence has shown that white and black raters tend to give higher ratings to members of their own racial group, even after rater training. In addition, evidence suggests that this tendency is strongest when one group is only a small percentage of the total work group. When the vast majority of the group is male, females receive lower ratings; when the minority is male, males receive lower ratings.

With regard to lawsuits filed on the grounds of unjust dismissal, the usual claim is that the person was dismissed for reasons besides the ones that the employer states. Suppose an employee who works for a defense contractor discloses that the company defrauded the government. If the company fires the employee, the employee might argue that the firing was a way to punish the employee for blowing the whistle. In this type of situation, courts generally focus on the employer’s performance management system, looking to see whether the firing could have been based on poor performance. To defend itself, the employer would need a performance management system that provides evidence to support its employment decisions.

To protect against both kinds of lawsuits, it is important to have a legally defensible performance management system. Such a system would be based on valid job analyses, as described in Chapter 4, with the requirements for job success clearly communicated to employees. Performance measurement should evaluate behaviors or results, rather than traits. The organization should use multiple raters (including self-appraisals) and train raters in how to use the system. The organization should provide for a review of all performance ratings by upper-level managers and set up a system for employees to appeal when they believe they were evaluated unfairly. Along with feedback, the system should include a process for coaching or training employees to help them improve, rather than simply dismissing poor performers.

Electronic Monitoring and Employee Privacy

Computer technology now supports many performance management systems. Organizations often store records of employees’ performance ratings, disciplinary actions, and work-rule violations in electronic databases. Many companies use computers to monitor productivity and other performance measures electronically. Meijer, a retail supercenter offering groceries and 40 other departments, is one of several retailers using software designed to improve the efficiency of cashiers. The store’s computer times how long it takes to complete each customer transaction, taking into account the kinds of merchandise being purchased as well as whether customers are paying with cash, credit, gifts cards, or store credit. Each week the cashiers receive scores. If a cashier falls below the baseline score too many times, he or she may be carefully monitored by a manager, moved to a lower-paying job, or even be let go. Meijer reports that the system has helped managers identify and coach slow cashiers, but cashiers have complained that it forces them to hurry customers along, rather than pay attention to them and help them through the checkout line. Whether customers win depends on whether they prefer a speedy cashier or a friendly one.

Although electronic monitoring can improve productivity, it also generates privacy concerns. Critics point out that an employer should not monitor employees...
when it has no reason to believe anything is wrong. They complain that monitoring systems threaten to make the workplace an electronic sweatshop in which employees are treated as robots, robbing them of dignity. Some note that employees' performance should be measured by accomplishments, not just time spent at a desk or workbench. Electronic systems should not be a substitute for careful management. When monitoring is necessary, managers should communicate the reasons for using it. Monitoring may be used more positively to gather information for coaching employees and helping them develop their skills. Finally, organizations must protect the privacy of performance measurements, as they must do with other employee records.

**thinking ethically**

**DID WE GET BURNED BY SHORT-TERM GOALS?**

In 2008, the business world and government leaders were in shock. Lehman Brothers, an investment bank with a 150-year history, folded, investment giant Merrill Lynch seemed poised to follow, and only a massive bailout by the U.S. government saved AIG, a huge insurance company. It appeared that the entire financial system could collapse, effectively bringing commerce to a halt.

As we slowly recover from the economic slump that followed these events, many are asking what caused the crisis, hoping to prevent such events from recurring. The picture is complicated, but observers place some of the blame at the feet of management, including human resource management.

One source of trouble seems to have been performance management in the mortgage lending industry. Lending companies set goals based on what would help them grow in the near term: make more and more loans to homebuyers. To back up that strategy, they measured the performance of loan officers (who approve loans) and mortgage brokers (who bring together borrowers and lenders) by counting the number of loans they made and adding up the total dollars in those deals. The more loans these employees made, the more money they earned. There were no rewards for turning down risky borrowers or penalties for making bad loans, because the lenders typically sold the loan contracts to other financial companies. When the “bubble” of fast-rising housing prices burst and the slowing economy caused many borrowers to lose jobs, the loan deals went bad on a massive scale, fueling the financial crisis.


**Questions**

1. If performance management practices at mortgage companies helped the companies earn impressive profits for a time, would you rate that as a business success? An ethical success? Why or why not?
2. If those same practices made mortgage companies more vulnerable after the real estate bubble burst and the financial crisis occurred, would you rate that as a business failure? An ethical failure? Why or why not?
3. In general, how could performance management at mortgage brokers be adjusted so that the companies treat their employees, customers, investors, and communities more ethically? Explain whether you think your recommendations would help or hurt the companies.

**SUMMARY**

**LO1** Identify the activities involved in performance management.

Performance management is the process through which managers ensure that employees' activities and outputs contribute to the organization's goals. The organization begins by specifying which aspects of performance are relevant to the organization. Next, the organization measures the relevant aspects of performance through performance appraisal. Finally, in performance feedback sessions,
managers provide employees with information about their performance so they can adjust their behavior to meet the organization's goals. Feedback includes efforts to identify and solve problems.

**LO2** Discuss the purposes of performance management systems.

Organizations establish performance management systems to meet three broad purposes. Effective performance management helps the organization with strategic purposes, that is, meeting business objectives. It does this by helping to link employees' behavior with the organization's goals. The administrative purpose of performance management is to provide information for day-to-day decisions about salary, benefits, recognition, and retention or termination. The developmental purpose of performance management is using the system as a basis for developing employees' knowledge and skills.

**LO3** Define five criteria for measuring the effectiveness of a performance management system.

Performance measures should fit with the organization's strategy by supporting its goals and culture. Performance measures should be valid, so they measure all the relevant aspects of performance and do not measure irrelevant aspects of performance. These measures should also provide interrater and test-retest reliability, so that appraisals are consistent among raters and over time. Performance measurement systems should be acceptable to the people who use them or receive feedback from them. Finally, a performance measure should specifically tell employees what is expected of them and how they can meet those expectations.

**LO4** Compare the major methods for measuring performance.

Performance measurement may use ranking systems such as simple ranking, forced distribution, or paired comparisons to compare one individual's performance with that of other employees. These methods may be time-consuming, and they will be seen as unfair if actual performance is not distributed in the same way as the ranking system requires. However, ranking counteracts some forms of rater bias and helps distinguish employees for administrative decisions. Other approaches involve rating employees' attributes, behaviors, or outcomes. Rating attributes is relatively simple but not always valid, unless attributes are specifically defined. Rating behaviors requires a great deal of information, but these methods can be very effective. They can link behaviors to goals, and ratings by trained raters may be highly reliable. Rating results, such as productivity or achievement of objectives, tends to be less subjective than other kinds of rating, making this approach highly acceptable. Validity may be a problem because of factors outside the employee's control. This method also tends not to provide much basis for determining how to improve. Focusing on quality can provide practical benefits but is not as useful for administrative and developmental decisions.

**LO5** Describe major sources of performance information in terms of their advantages and disadvantages.

Performance information may come from an employee's self-appraisal and from appraisals by the employee's supervisor, employees, peers, and customers. Using only one source makes the appraisal more subjective. Organizations may combine many sources into a 360-degree performance appraisal. Gathering information from each employee's manager may produce accurate information, unless the supervisor has little opportunity to observe the employee. Peers are an excellent source of information about performance in a job where the supervisor does not often observe the employee. Disadvantages are that friendships (or rivalries) may bias ratings and peers may be uncomfortable with the role of rating a friend. Subordinates often have the best chance to see how a manager treats employees. Employees may be reluctant to contribute honest opinions about a supervisor unless they can provide information anonymously. Self-appraisals may be biased, but they do come from the person with the most knowledge of the employee's behavior on the job, and they provide a basis for discussion in feedback sessions, opening up fruitful comparisons and areas of disagreement between the self-appraisal and other appraisals. Customers may be an excellent source of performance information, although obtaining customer feedback tends to be expensive.

**LO6** Define types of rating errors, and explain how to minimize them.

People observe behavior often without a practical way of knowing all the relevant circumstances and outcomes, so they necessarily interpret what they see. A common tendency is to give higher evaluations to people we consider similar to ourselves. Other errors involve using only part of the rating scale: Giving all employees ratings at the high end of the scale is called leniency error. Rating everyone at the low end of the scale is called strictness error. Rating all employees at or near the middle is called central tendency. The halo error refers to rating employees positively in all areas
because of strong performance observed in one area. The horns error is rating employees negatively in all areas because of weak performance observed in one area. Ways to reduce rater error are training raters to be aware of their tendencies to make rating errors and training them to be sensitive to the complex nature of employee performance so they will consider many aspects of performance in greater depth. Politics also may influence ratings. Organizations can minimize appraisal politics by establishing a fair appraisal system and bringing managers together to discuss ratings in calibration meetings.

LO7 Explain how to provide performance feedback effectively.
Performance feedback should be a regular, scheduled management activity, so that employees can correct problems as soon as they occur. Managers should prepare by establishing a neutral location, emphasizing that the feedback session will be a chance for discussion, and asking the employee to prepare a self-assessment. During the feedback session, managers should strive for a problem-solving approach and encourage employees to voice their opinions and discuss performance goals. The manager should look for opportunities to praise and should limit criticism. The discussion should focus on behavior and results rather than on personalities.

LO8 Summarize ways to produce improvement in unsatisfactory performance.
For an employee who is motivated but lacks ability, the manager should provide coaching and training, give detailed feedback about performance, and consider restructuring the job. For an employee who has ability but lacks motivation, the manager should investigate whether outside problems are a distraction and if so, refer the employee for help. If the problem has to do with the employee's not feeling appreciated or rewarded, the manager should try to deliver more praise and evaluate whether additional pay and other rewards are appropriate. For an employee lacking both ability and motivation, the manager should consider whether the employee is a good fit for the position. Specific feedback or withholding rewards may spur improvement, or the employee may have to be demoted or terminated. Solid employees who are high in ability and motivation will continue so and may be able to contribute even more if the manager provides appropriate direct feedback, rewards, and opportunities for development.

LO9 Discuss legal and ethical issues that affect performance management.
Lawsuits related to performance management usually involve charges of discrimination or unjust dismissal. Managers must make sure that performance management systems and decisions treat employees equally, without regard to their race, sex, or other protected status. Organizations can do this by establishing and using valid performance measures and by training raters to evaluate performance accurately. A system is more likely to be legally defensible if it is based on behaviors and results, rather than on traits, and if multiple raters evaluate each person's performance. The system should include a process for coaching or training employees to help them improve, rather than simply dismissing poor performers. An ethical issue of performance management is the use of electronic monitoring. This type of performance measurement provides detailed, accurate information, but employees may find it demoralizing, degrading, and stressful. They are more likely to accept it if the organization explains its purpose, links it to help in improving performance, and keeps the performance data private.

KEY TERMS
360-degree performance appraisal, p. 239
behavioral observation scale (BOS), p. 234
behaviorally anchored rating scale (BARS), p. 234
calibration meeting, p. 244
critical-incident method, p. 234
forced-distribution method, p. 229
graphic rating scale, p. 231
management by objectives (MBO), p. 237
mixed-standard scales, p. 231
organizational behavior modification (OBM), p. 235
paired-comparison method, p. 230
performance management, p. 224
simple ranking, p. 229
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REVIEW AND DISCUSSION QUESTIONS

1. How does a complete performance management system differ from the use of annual performance appraisals?

2. Give two examples of an administrative decision that would be based on performance management information. Give two examples of developmental decisions based on this type of information.

3. How can involving employees in the creation of performance standards improve the effectiveness of a performance management system? (Consider the criteria for effectiveness listed in the chapter.)

4. Consider how you might rate the performance of three instructors from whom you are currently taking a course. (If you are currently taking only one or two courses, consider this course and two you recently completed.)
   a. Would it be harder to rate the instructors’ performance or to rank their performance? Why?
   b. Write three items to use in rating the instructors—one each to rate them in terms of an attribute, a behavior, and an outcome.
   c. Which measure in (b) do you think is most valid? Most reliable? Why?
   d. Many colleges use questionnaires to gather data from students about their instructors’ performance. Would it be appropriate to use the data for administrative decisions? Developmental decisions? Other decisions? Why or why not?

5. Imagine that a pet supply store is establishing a new performance management system to help employees provide better customer service. Management needs to decide who should participate in measuring the performance of each of the store’s salespeople. From what sources should the store gather information? Why?

6. Would the same sources be appropriate if the store in Question 5 used the performance appraisals to support decisions about which employees to promote? Explain.

7. Suppose you were recently promoted to a supervisory job in a company where you have worked for two years. You genuinely like almost all your co-workers, who now report to you. The only exception is one employee, who dresses more formally than the others and frequently tells jokes that embarrass you and the other workers. Given your preexisting feelings for the employees, how can you measure their performance fairly and effectively?

8. Continuing the example in Question 7, imagine that you are preparing for your first performance feedback session. You want the feedback to be effective—that is, you want the feedback to result in improved performance. List five or six steps you can take to achieve your goal.

9. Besides giving employees feedback, what steps can a manager take to improve employees’ performance?

10. Suppose you are a human resource professional helping to improve the performance management system of a company that sells and services office equipment. The company operates a call center that takes calls from customers who are having problems with their equipment. Call center employees are supposed to verify that the problem is not one the customer can easily handle (for example, equipment that will not operate because it has come unplugged). Then, if the problem is not resolved over the phone, the employees arrange for service technicians to visit the customer. The company can charge the customer only if a service technician visits, so performance management of the call center employees focuses on productivity—how quickly they can complete a call and move on to the next caller. To measure this performance efficiently and accurately, the company uses electronic monitoring.
   a. How would you expect the employees to react to the electronic monitoring? How might the organization address the employees’ concerns?
   b. Besides productivity in terms of number of calls, what other performance measures should the performance management system include?
   c. How should the organization gather information about the other performance measures?

BUSINESSWEEK CASE

**BusinessWeek Performance Review Takes a Page from Facebook**

In the world of Facebook or Twitter, people love to hear feedback about what they’re up to. But sit them down for a performance review, and suddenly the experience becomes traumatic.

Now companies are taking a page from social networking sites to make the performance evaluation process more fun and useful. Accenture has developed a Facebook-style program called Performance Multiplier in
which, among other things, employees post status updates, photos, and two or three weekly goals that can be viewed by fellow staffers. Even more immediate: new software from a Toronto startup called Rypple that lets people post Twitter-length questions about their performance in exchange for anonymous feedback. Companies ranging from sandwich chain Great Harvest Bread Company to Firefox developer Mozilla have signed on as clients.

Such initiatives upend the dreaded rite of annual reviews by making performance feedback a much more real-time and ongoing process. Stanford University management professor Robert Sutton argues that performance reviews “mostly suck” because they’re conceived from the top rather than designed with employees’ needs in mind. “If you have regular conversations with people, and they know where they stand, then the performance evaluation is maybe unnecessary,” says Sutton.

What Rypple’s and Accenture’s tools do is create a process in which evaluations become dynamic—and more democratic. Rypple, for example, gives employees the chance to post brief, 140-character questions, such as “What did you think of my presentation?” or “How can I run meetings better?” The queries are e-mailed to managers, peers, or anyone else the user selects. Short anonymous responses are then aggregated and sent back, providing a quick-and-dirty 360-degree review. The basic service is free. But corporate clients can pay for a premium version that includes tech support, extra security, and analysis of which topics figure highest in employee posts. Rypple’s co-founders have also launched software called TouchBase that’s meant to replace the standard annual review with quick monthly surveys and discussions.

Accenture’s software, which it’s using internally and hoping to sell to outside clients, is more about motivating employees than it is about measuring them. With help from management guru Marcus Buckingham, the consultancy’s product has a similar look and feel to other corporate social networks. The major difference is that users are expected to post brief goals for the week on their profile page, as well as a couple for each quarter. If they don’t, the lack of goals is visible to their managers, who are also alerted of the omission by e-mail. By prompting people to document and adjust their goals constantly, Accenture hopes the formal discussion will improve. “You don’t have to desperately re-create examples of what you’ve done,” says Buckingham. Typically, “managers and employees are scrambling to fill [evaluation forms] out in the 24 hours before HR calls saying ‘where’s yours?’”

If having your performance goals posted for the world to see sounds a bit Orwellian, consider this: Rypple reports that some two-thirds of the questions posted on its service come from managers wanting feedback about business questions or their own performance. The biggest payoff of these social-network-style tools may prove to be better performance by the boss.


Questions

1. Based on the information given, discuss how well Performance Multiplier and Rypple meet the criteria for effective performance management: fit with strategy, validity, reliability, acceptability, and specific feedback.
2. How suitable would these tools be for fulfilling the strategic, administrative, and developmental purposes of performance management?
3. Think of a job you currently hold, used to have, or would like to have. Imagine that this employer introduced Performance Multiplier or Rypple to your workplace. Describe one area of your performance you would like to seek feedback about, and identify which people you would ask to provide that feedback. What concerns, if any, would you have about using this system to seek feedback about your performance?

Case: When Good Reviews Go Bad

Based on her performance reviews at Merrill Lynch, Kathleen Bostjancic was amazing, at least for a few years. In one appraisal report, her boss said Bostjancic “continues to deliver top-caliber product,” and he wrote, “Her judgment is impeccable.” After three years, her pay more than doubled to reflect her apparent value to the company.

Then something changed; Bostjancic noticed the difference around the time she took a maternity leave. Her economist boss phoned and asked her to take on a newly created position, Washington policy analyst. But when she returned to work with a plan for the position, her plan was rejected, and tension grew. A year later, Bostjancic’s boss issued a memo advising her that her work must “improve dramatically.” Seven months later, she was told that she was being laid off in a downsizing effort; the company hired a replacement two months afterward.

A former Citigroup employee also recalls that good reviews before maternity leave didn’t do much to help her situation when she returned to work. Wan Li says one performance appraisal after another reported that she was exceeding expectations. Then as she neared maternity
leave, she was transferred from a key job in the Structured Trade Finance Group to a support position that would (Li recalls being told) be “more manageable” for her. Upon her return from maternity leave, Li tried to transfer from her temporary support post to a revenue-generating job, but she was instead transferred to another support role. Three years later, following a second maternity leave, Li received a call announcing that her job had been eliminated in a “restructuring.”

At Bank of Tokyo-Mitsubishi, Paula Best was progressing well in her career. She was responsible for securities lending and apparently handled the responsibility well enough that the bank added management of international lending to the scope of her job. Best thought she should be made a vice president, like the other employees who reported to the department manager of securities lending. What was holding back her promotion? It wasn’t her performance, according to the appraisals; she was rated at the level of “Achieves +,” and Best recalls that her vice president promised her a promotion. After two more years and still no promotion, Best, who is African American, complained to the bank’s personnel department and then to the Equal Employment Opportunity Commission that she believed she was a victim of sex and race discrimination. Soon thereafter, Best and four other employees in her department were laid off.

How could three employees with glowing performance appraisals be laid off by the institutions that once seemed to value them? Of course, one possibility is that the recent financial crisis required all of these institutions to make hard choices among many valued employees. It’s also possible that the three women’s performance deteriorated in the time after their last favorable review. Two of the three employers have publicly claimed that their decisions were justified. Merrill Lynch has said that Bostjancic’s manager treated her appropriately after her maternity leave; Bank of Tokyo says it fully investigated Best’s complaints and found that management had made appropriate decisions, given her level of responsibility.

Whether or not these decisions were justified, they have proved costly in terms of negative publicity and legal actions. Bostjancic filed a discrimination lawsuit, which is ongoing as of this writing. Li filed a discrimination lawsuit against Citigroup, which was settled to avoid further expense. Best is part of a class-action lawsuit filed against Bank of Tokyo. Meanwhile, among the hundreds of thousands of financial-industry jobs lost in the financial crisis, almost three-quarters of the layoffs have involved women. Notable examples include Zoe Cruz, who had been co-president at Morgan Stanley, and Erin Callan, formerly chief financial officer at Lehman Brothers. The impact is especially dramatic in top-level jobs, where women were already scarce. In one recent survey of executives across industries, 19 percent of women said they’d been laid off in the past two years, compared with 6 percent of male executives.

Sources:

Questions
1. Which purposes of performance management did the appraisals described in this case fulfill? Which purposes did they not fulfill?
2. How can managers and HR departments minimize the likelihood of disputes arising over whether employees are continuing to perform at the same level?
3. If you had been in the HR departments of the companies described in this case, and the employees had come to you with their concerns, what would you have done in each situation?

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Review
- Chapter learning objectives
- Test Your Knowledge: Appraisal Methods and Potential Errors in the Rating Process

Application
- Manager’s Hot Seat segment: “Project Management: Steering the Committee”
- Video case and quiz: “Now Who’s Boss?”
- Self-Assessment: Conduct an Assessment of Your Job or Project
- Web exercise: Visit HRNet
- Small-business case: Appraisals Matter at Meadow Hills Veterinary Center

Practice
- Chapter quiz
NOTES

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