Performance Management

1. Performance Management and Reward Systems in Context

Learning Objectives

By the end of this module, you will be able to:

- explain the concept of performance management;
- distinguish performance management from performance appraisal;
- explain the many advantages of and make a business case for implementing a well-designed performance management system;
- recognise the multiple negative consequences that can arise from the poor design and implementation of a performance management system, which affect all the parties involved – employees, supervisors, and the organisation as a whole;
- understand the concept of a reward system and its relationship to a performance management system;
- distinguish between the various types of employee rewards, including compensation, benefits and relational returns;
- describe the multiple purposes of a performance management system, including strategic, administrative, information, developmental, organisational maintenance and documentation purposes;
- describe and explain the key features of an ideal performance management system;
- create a presentation including persuasive arguments in support of an organisation implementing a performance management system, including the purposes that performance management systems serve and the dangers of a poorly implemented system;
- note the relationship and links between a performance management system and other HR functions including recruitment and selection, training and development, workforce planning and compensation.

Sections

1.1 Definition of Performance Management (PM)
1.2 The Performance Management Contribution
1.3 Disadvantages/Dangers of Poorly Implemented PM Systems
1.4 Definition of Reward Systems
1.5 Aims and Role of PM Systems
1.6 Characteristics of an Ideal PM System
1.7 Integration with Other Personnel and Development Activities
Learning Summary

- Performance management is a continuous process of identifying, measuring and developing performance in organisations by linking each individual’s performance and objectives to the organisation’s overall mission and goals.
- Although many organisations have systems labelled ‘performance management’ they are usually only performance appraisal systems. Performance appraisal emphasises the assessment of an employee’s strengths and weaknesses, and does not include strategic business considerations. Also, performance appraisal systems usually do not include extensive and ongoing feedback that an employee can use to improve her performance in the future. Finally, performance appraisal is a once-a-year event, often driven by the HR department, whereas performance management is a year-round way of managing business, driven by managers.
- Implementing a well-designed performance management system has many advantages. From the perspective of employees, a good system increases motivation and self-esteem, helps improve performance, clarifies job tasks and duties, provides self-insight and development opportunities, and clarifies supervisors’ expectations. From the perspective of managers, good systems allow them to gain insight about employees, allow for more fair and appropriate personnel actions, help them to communicate organisational goals more clearly, let them differentiate good and poor performers, and help drive organisational change. Finally, from the perspective of the HR function, a good system provides protection from litigation.
- Poorly designed and implemented performance management systems can have disastrous consequences for all those involved. For example, employees may quit, those who stay may be less motivated, and relationships (e.g., supervisor–subordinate) can suffer irreparable damage. Also, poorly designed systems can be biased, resulting in costly lawsuits and wasted time and resources. In the end, low-quality and poorly implemented systems can be a source of enormous frustration and cynicism for all those involved.
- Reward systems include all mechanisms for determining and distributing tangible and intangible returns as part of an employment relationship. Tangible returns are collectively referred to as compensation, and include cash compensation and benefits. Intangible returns, also referred to as relational returns, include recognition and status, employment security, challenging work and learning opportunities. Not all types of returns are directly related to performance management systems, because not all types of returns are allocated on the basis of past performance.
- Performance management systems serve multiple purposes. First, they serve a strategic purpose because they help link employee activities with the organisation’s mission and goals, they identify results and behaviours needed to carry out strategy, and they maximise the extent to which employees exhibit the desired behaviours and produce the desired results. Second, they serve an administrative purpose in that they produce information used by the reward system and other HR decision-making (e.g., promotions, termination, disciplinary actions). Third, they serve an information purpose because they are the source of information for employees to learn about their performance vis-à-vis the expectations. Fourth, they serve a developmental purpose in that performance feedback allows individuals to learn about their strengths and weaknesses, to identify training needs, and to make better decisions regarding job assignments. Fifth, performance management systems serve an organisational maintenance purpose because they provide useful information for workforce planning and for evaluating the effectiveness of other HR systems.
(e.g., comparing performance before and after an expensive training programme to see whether training made a difference). Finally, performance management systems also serve a documentation purpose – for example to support HR decisions and help meet legal requirements.

- Ideal performance management systems are rare. Such ideal systems are:
  - congruent with strategy (i.e., there is a clear link between individual, unit and organisational goals);
  - thorough (e.g., they include all relevant performance dimensions);
  - practical (e.g., they do not require excessive time and resources);
  - meaningful (e.g., they have important consequences);
  - specific (e.g., they provide a concrete employee improvement agenda);
  - able to identify effective and ineffective performance (e.g., they help to distinguish employees with different performance levels);
  - reliable (e.g., the measurement of performance is consistent);
  - valid (e.g., the measures of performance are not contaminated or deficient);
  - fair (e.g., people participating in the system believe the processes and outcomes are just);
  - inclusive (i.e., they include input from multiple sources on an ongoing basis);
  - open (i.e., they are transparent and there are no secrets);
  - correctable (i.e., they include mechanisms so that errors can be corrected);
  - standardised (i.e., performance is evaluated consistently across people and time);
  - ethical (i.e., they comply with ethical standards).

Many trade-offs take place in the real-world implementation of performance management systems. However, the closer the system is to the ideal characteristics, the greater the return will be for employees, supervisors, and the organisation as a whole.

- A performance management system is the key factor determining whether an organisation can manage its human resources and talent effectively. Performance management provides information on who should be trained and in what areas, which employees should be rewarded, and what types of skill are lacking at the organisation or unit level. Therefore performance management also provides information on the types of employee who should be hired. When implemented well, performance management systems provide critical information that allows organisations to make sound decisions regarding their people resources.

As should be evident by now, implementing an ideal performance management system requires a substantial amount of work. But this does not start when the system is put into place. The process starts much earlier, because unless specific conditions are present before the system is implemented, the system will not achieve its multiple purposes. Module 2 provides a description of the entire performance management process.

### 2. Performance Management Process

#### Learning Objectives

By the end of this module, you will be able to:
understand that performance management is an ongoing process including the interrelated components of prerequisites, performance planning, performance execution, performance assessment, performance review and performance renewal and recontracting;

- conduct a job analysis to determine the job duties, needed KSAs and working conditions of a particular job;
- write a job description that incorporates the KSAs of the job and information on the organisation and unit mission;
- understand that the poor implementation of any of the performance management process components has a negative impact on the system as a whole;
- understand that a dysfunctional or disrupted link between any of the performance management process components has a negative impact on the system as a whole;
- understand important prerequisites needed before a performance management system is implemented, including knowledge of the organisation’s mission and knowledge of the job in question;
- distinguish results from behaviours, and understand the need to consider both in performance management systems;
- describe the employee’s role in performance execution, and distinguish areas over which the employee has primary responsibility from areas over which the manager has primary responsibility;
- understand the employee’s and the manager’s responsibility in the performance assessment phase;
- understand that the appraisal meeting involves the past, the present and the future;
- understand the similarities between performance planning and performance renewal and recontracting;
- create results- and behaviour-oriented performance standards.
As described in Module 1, performance management is an ongoing process. Performance management does not take place just once a year. And performance management is a continuous process including several components. These components are closely related to each other, and the poor implementation of any of them has a negative impact on the performance management system as a whole. The components in the performance management process are shown in Figure 1. This module provides a brief description of each of these components. Subsequent modules will address each of the components in greater detail. Let’s start with the prerequisites.

**Sections**

2.1 Prerequisites
2.2 Performance Planning
2.3 Performance Execution
2.4 Performance Assessment
2.5 Performance Review
2.6 Performance Renewal and Recontracting
Learning Summary

- Performance management is an ongoing process. It never ends. Once established in an organisation, it becomes part of an organisation’s culture. The performance management process includes six closely related components: (a) prerequisites, (b) performance planning, (c) performance execution, (d) performance assessment, (e) performance review, and (f) performance renewal and recontracting.

- Job analysis can be conducted using interviews, observation, or off-the-shelf questionnaires. Once a list of tasks has been compiled, all incumbents should have an opportunity to review the information and rate each task in terms of frequency and criticality.

- Each of the six components of the performance management process plays an important role. If any of these components is implemented poorly, then the entire performance management system suffers. For example, lack of knowledge of the organisation’s mission and the job in question (i.e., prerequisites) will not allow performance planning (i.e., performance roadmap) to be aligned with organisational goals. This in turn will lead to poor performance execution. In short, a performance management system is only as good as its weakest component.

- The links between the various components need to be established clearly. For example, performance planning needs to be closely related to performance execution. Performance planning is a futile exercise if execution does not follow from planning. The same applies to all the arrows linking the various components, as shown in Figure 1.

- The first component of the performance management process involves two prerequisites. First, there is a need to have good knowledge of the organisation’s mission. This knowledge, combined with knowledge regarding the mission of one’s unit, allows employees to make contributions with a positive impact on their unit and on the organisation as a whole. Second, there is a need to have good knowledge of the job in question. A job analysis allows for the determination of the key components of a particular job: what tasks need to be done, how and what KSAs are needed. If we have good information regarding a job, then it is easier to establish criteria for job success.

- The second component of the performance management process involves performance planning. Performance planning includes the consideration of results and behaviour, as well as a development plan. A discussion of results needs to include key accountabilities (i.e., broad areas for which an employee is responsible), specific objectives for each key accountability (i.e., goals to be reached), and performance standards (i.e., what are acceptable and unacceptable levels of performance). A discussion of behaviours needs to include competencies (i.e., clusters of KSAs). Finally, the developmental plan includes a description of areas that need improving and goals to be achieved in each area.

- The third component involves performance execution. Both the employee and the manager are responsible for performance execution. For example, the employee needs to be committed to goal achievement, and should take a proactive role in seeking feedback from his or her supervisor. The burden is on the employee to communicate openly and regularly with the supervisor. Also, the employee has a responsibility to be prepared for the performance review by conducting regular and realistic self-appraisals. On the other hand, the supervisor also has important responsibilities. These include observing and documenting performance, updating the employee on any changes in the goals of the organisation, and providing resources and reinforcement so that the employee can succeed and continues to be motivated.
The fourth component involves performance assessment. Both the employee and the supervisor must evaluate employee performance. Involvement of the employee in the process increases his or her ownership and commitment to the system. In addition, it provides important information to be discussed during the performance review. In the absence of self-appraisals, it is often not clear to supervisors whether employees have a real understanding of what is expected of them.

The fifth component involves performance review. This is when the employee and manager meet to discuss employee performance; this meeting is usually called the appraisal meeting. This meeting usually emphasises the past: what the employee has done and how. However, an effective appraisal meeting also focuses on the present and the future. The present involves the changes in compensation that may be a product of the results obtained. The future involves a discussion of goals and development plans the employee will be expected to achieve during the next review period.

The final component involves performance renewal and recontracting. Essentially, this component is identical to the performance planning stage. However, performance renewal and recontracting uses information gathered during the review period to make adjustments as needed. For example, some new key accountabilities and competencies may be included, or some goals may have to be adjusted either upwards or downwards.

3. Performance Management and Strategic Planning

Learning Objectives

By the end of this module, you will be able to:

- define strategic planning and its overall goal;
- describe the various specific purposes of a strategic plan;
- explain why the usefulness of a performance management system relies to a large degree on its relationship with the organisation’s and unit's strategic plans;
- understand how to create an organisation’s strategic plan including an environmental analysis resulting in a mission statement, vision statement, goals and strategies;
- conduct an environmental analysis that includes a consideration of both internal (strengths and weaknesses) and external (opportunities and threats) trends;
- understand how a gap analysis resulting from a consideration of internal and external trends dictates an organisation’s mission;
- define the concept of a mission statement and describe the necessary components of a good mission statement;
- define the concept of a vision statement and understand its relationship to the mission statement;
- describe the basic components of a good vision statement;
- create organisation- and unit-level mission and vision statements;
- understand the relationship between mission and vision statements, goals and strategies;
- understand the relationship between an organisation’s vision, mission, goals and strategies and each of its divisions/units’ vision, mission, goals and strategies;
• understand the relationship between a unit’s vision, mission, goals and strategies and individual job descriptions;
• explain why job descriptions must be linked to the organisation’s and unit’s strategic plans;
• understand how a strategic plan determines various choices regarding performance management system design;
• explain why a consideration of strategic issues is a building block for creating support for a performance management system.

In Modules 1–2 we discussed the fact that good performance management systems encourage employees to make tangible and important contributions towards the organisation’s strategic objectives. When these contributions to the top organisational and unit priorities are made clear, performance management systems are likely to receive crucial top management support. Without this support, it is unlikely that a performance management system will be successful. So, how are these strategic organisational objectives identified? How does an organisation know what the ‘target’ should be, what it is trying to accomplish, and how to do it? These questions are answered by considering an organisation’s strategic plan.

Sections

3.1 Definition and Purposes of Strategic Planning
3.2 Process of Linking Performance Management to the Strategic Plan
3.3 Building Support

Learning Summary

• Strategic planning involves defining the organisation’s present and future identity. The overall purpose of a strategic plan is to serve as a blueprint allowing organisations to allocate resources in a way that provides the organisation with a competitive advantage.
• Strategic planning serves several purposes, including defining an organisation’s identity, preparing for the future, analysing the environment, providing focus, creating a culture of cooperation, generating new options, and serving as a guide for the daily activities of all organisational members.
• Performance management systems must rely on the strategic plan to be useful. The behaviours, results and development plans of all employees must be aligned with the vision, mission, goals and strategies of the organisation and unit.
• The process of creating a strategic plan begins with an environmental analysis, which considers both internal (e.g., organisational structure, processes, etc.) and external (e.g., economic, technological, etc.) trends. Internal trends can be classified as either strengths or weaknesses, and external trends can be classified as either opportunities or threats. A gap analysis consists of pairing strengths/weaknesses with opportunities/threats and determining whether the situation is advantageous (i.e., leverage), disadvantageous (i.e., problem), or somewhere in between (i.e., constraint and vulnerability).
• The second step in creating a strategic plan is to write a mission statement based on the results of the gap analysis. A mission statement defines why the organisation exists, the scope of its activities, the customers served, and the products and services offered. Mission statements also include information such as what technology is used in production or delivery, and the unique benefits or advantages of the organisation’s products and
services. Finally, a mission statement can include a statement of values and beliefs, such as the organisation’s managerial philosophy.

- The third component of a strategic plan is the vision statement, which includes a description of future aspirations. Whereas the mission statement emphasises the present, the vision statement emphasises the future. However, in many cases the mission and vision statements are combined into one. For vision statements to be most useful they must be: (a) brief, (b) verifiable, (c) bound by a timeline, (d) current, (e) focused, (f) understandable, (g) inspiring, and (f) a stretch.

- Once the mission and vision statements are created, the next step in the strategic planning process is to generate specific goals to help fulfil the mission and vision. Goals provide more specific information regarding how the mission and vision will be implemented. Typically, goals span a 5-year period.

- The final step in the strategic planning process is to identify strategies that will help achieve the stated goals. These strategies are game plans, and usually address issues around growth, survival, turnaround, stability, innovation and leadership. The HR function plays an important role in identifying strategies because they have knowledge of the organisation’s mission and vision as well as the organisation’s internal capabilities, or what is called an organisation’s human capital.

- The organisation’s strategic plan, including the mission, vision, goals and strategies, cascades down to all organisational levels. Thus each division/unit also creates its own strategic plan, which should be consistent with the organisation’s plan.

- The tasks and KSAs included in individual job descriptions must be congruent with the organisation’s and unit’s strategic plans. In other words, job descriptions should include activities that, if executed well, will help fulfil the mission and vision. Job descriptions detached from strategic priorities will lead to performance evaluations focused on behaviours and results that are not central to an organisation’s success.

- The various choices in designing the performance management system are directly affected by an organisation’s strategic plan. Different missions and visions lead to different types of system, for example emphasising behaviours (i.e., processes) as opposed to results (i.e., outcomes).

- Top management must be aware that the performance management system is a primary tool to execute an organisation’s strategic plan. This awareness will lead to top management supporting the system. In addition, all organisational members need to be able to answer the ‘what’s in it for me’ question regarding the system. Implementing the performance management system will require considerable effort on the part of all those involved. For this reason, those doing the evaluation and those being evaluated should know how the system will benefit them directly.

### 4. Defining Performance and Choosing a Measurement Approach

#### Learning Objectives

By the end of this module, you will be able to:

- define what is and is not performance;
- understand the evaluative and multidimensional nature of performance;
identify the various factors that determine performance, including declarative knowledge, procedural knowledge and motivation;
gather information about a performance problem and understand which of the three main determinants of performance need to be addressed to solve the problem;
design a performance management system that includes both task and contextual performance dimensions;
understand that performers should be placed within a context: a performer in a specific situation engaging in behaviours leading to specific results;
adopt a trait approach to measuring performance that basically focuses on the performer and ignores the situation, his or her behaviours and the results produced;
adopt a behaviour approach to measuring performance that basically focuses on how the job is done and ignores the performer's traits and results produced;
adopt a results approach to measuring performance that basically focuses on the outcomes of work and ignores both the performer's traits and the how of the work done;
understand the situations under which a trait, behaviour or results approach to measuring performance may be most appropriate.

This module marks the beginning of Part Two, which describes how to implement a performance management system. Whereas Part One addressed strategic and more macro-organisational issues, Part Two addresses more operational concerns, such as what are the determinants of performance and how to measure performance. Let's begin by defining performance.

**Sections**

4.1 Defining Performance
4.2 Determinants of Performance
4.3 Performance Dimensions
4.4 Measuring Performance

**Learning Summary**

- Performance is about behaviours or what employees do, and not about what employees produce or the outcomes of their work. However, performance management systems typically include the measurement both of behaviours (how the work is done) and of results (the outcomes of one’s work). Performance is evaluative (i.e., we judge it based on whether it helps advance or hinder organisational goals) and multidimensional (i.e., many behaviours are needed to describe an employee’s performance).
- Performance is determined by a combination of declarative knowledge (i.e., information), procedural knowledge (i.e., know-how), and motivation (willingness to perform). Thus

\[
\text{Performance} = \text{Declarative knowledge} \times \text{Procedural knowledge} \times \text{Motivation}
\]

If any of the three determinants of performance has a very small value (e.g., very little procedural knowledge), then performance will have a low level also. All three determinants of performance must be present for performance to reach satisfactory (and better) levels.
There are two important facets of performance: task and contextual. Task performance refers to the specific activities required by one’s job. Contextual performance refers to the activities required to be a good ‘organisational citizen’ (i.e., helping co-workers, supporting company initiatives, etc.). Both task and contextual performance are needed for organisational success, and both should be included in a performance management system.

Employees’ performance does not take place in a vacuum. Employees are in a specific situation, engaging in specific behaviours that produce certain results. An emphasis on the employee leads to a trait-based approach to assessing performance. An emphasis on behaviours leads to a behaviour-based approach to assessing performance. An emphasis on results leads to a results-based approach to assessing performance.

A traits approach emphasises individual traits that remain fairly stable throughout an individual’s lifespan (e.g., cognitive abilities or personality). This approach may be most appropriate when an organisation anticipates drastic structural changes. A major disadvantage of this approach is that traits are not under the control of individuals, and, even when individuals possess a specific positive trait (e.g., high intelligence), this does not necessarily mean that the employee will engage in productive behaviours leading to desired results.

A behaviour approach emphasises what employees do (i.e., how work is done). This approach is most appropriate when (a) it will take a long time to achieve the desired outcomes, (b) the link between behaviours and results is not obvious, (c) outcomes are distant in the future, or (d) poor results are due to causes beyond the employee’s control. A behaviour approach may not be the best choice if most of these conditions are not present. In most situations, however, the inclusion of at least some behaviour-based measures is beneficial.

A results approach emphasises the outcomes and results produced by employees. This is basically a bottom-line approach that is not concerned about how the work is done as long as certain specific results are obtained. This approach is most appropriate when (a) workers are skilled in the needed behaviours, (b) behaviours and results are obviously related, (c) results show consistent improvement over time, or (d) there are many ways to do the job right. An emphasis on results can be beneficial because it could encourage employees to achieve the desired outcomes in creative and innovative ways. On the other hand, measuring only results is typically not welcomed by employees, even in types of jobs for which the expected result is very clear (e.g., as in the case of sales jobs such as at The Limited).

5. Measuring Results and Behaviours

Learning Objectives

By the end of this module, you will be able to:

- adopt a results approach to measuring performance, including the development of accountabilities, objectives and standards;
- determine accountabilities and their relative importance;
• identify objectives that are specific and clear, challenging, agreed upon, significant, prioritised, bound by time, achievable, fully communicated, flexible and limited in number;
• identify performance standards that are related to the position, concrete, specific, measurable, meaningful, realistic and achievable and reviewed regularly;
• adopt a behaviour approach to measuring performance, including the identification and assessment of competencies;
• develop competencies that are defined clearly, provide a description of specific behavioural indicators that can be observed when someone demonstrates a competency effectively, provide a description of specific behaviours likely to occur when someone doesn’t demonstrate a competency effectively (what a competency is not), and include suggestions for developing them further;
• develop comparative performance measurement systems such as simple rank order, alternation rank order, paired comparisons and forced distribution, being aware of the relative advantages and disadvantages of each;
• develop absolute performance measurement systems such as essays, behaviour checklists, critical incidents and graphic rating scales, and understand their advantages and disadvantages.

Module 4 defined performance and described the trait, results and behaviour approaches to measuring performance. In this module we provide a more detailed description of how to use performance, by adopting the two most common approaches: results and behaviour.

Sections

5.1 Measuring Results
5.2 Measuring Behaviours

Learning Summary

• In measuring performance adopting a results approach, the first step is to identify accountabilities. These are the various areas in which an individual is expected to focus.
• Once all key accountabilities are identified, the second step is to set objectives for each. Objectives should be (a) specific and clear, (b) challenging, (c) agreed upon, (d) significant, (e) prioritised, (f) bound by time, (g) achievable, (h) fully communicated, (i) flexible, and (j) limited in number.
• Finally, the third step involves determining performance standards. These are yardsticks designed to help understand to what extent the objective has been achieved. In creating standards, we must consider the quality, quantity and time dimensions. Good standards are: (a) related to the position; (b) concrete, specific, and measurable; (c) practical to measure; (d) meaningful; (e) realistic and achievable; and (f) reviewed regularly.
• In measuring performance adopting a behaviour approach, the first step involves identifying competencies. Competencies are measurable clusters of KSAs critical in determining how results will be achieved. Examples of competencies are customer service, written or oral communication, creative thinking and dependability.
• The second step involves identifying indicators allowing us to understand the extent to which each individual possesses the competency in question. These indicators are behavioural manifestations of the underlying (unobservable) competency.
In describing competencies, one must first clearly define them, and then describe behavioural indicators showing the presence of the competencies, describe behavioural indicators showing the absence of the competencies, and list suggestions for developing the competencies.

Once the indicators are identified, the third step includes choosing an appropriate measurement system, and there are two choices: comparative and absolute.

Comparative systems base the measurement on comparing employees with each other, and include simple rank order, alternation rank order, paired comparisons and forced distribution. Comparative systems are easy to explain, and the resulting data are easy to interpret, thus facilitating administrative decisions. On the other hand, employees are usually compared with each other in terms of one overall single category rather than specific behaviours or competencies. This produces less useful feedback for employees to use for future improvement.

Absolute systems include evaluations of employees’ performance without making direct reference to other employees. Such systems include essays, behaviour checklists, critical incidents and graphic rating scales. Essays are difficult to quantify but produce useful and often detailed feedback. Behaviour checklists are easy to use and understand, but the scale points used are often arbitrary, and we cannot assume that a one-point difference has the same meaning along the entire scale (i.e., the difference between employees scoring 5 and 4 may not have the same meaning as the difference between employees scoring 3 and 2). Critical incidents allow supervisors to focus on actual job behaviour rather than on vaguely defined traits, but gathering critical incident data may be quite time consuming. Graphic rating scales are arguably the most frequently used measurement method to assess performance. For this type of measurement to be most useful, the meaning of each response category should be clear, the individual interpreting the ratings (e.g., HR manager) should be able to tell clearly what response was intended, and the performance dimension being rated should be clearly defined for the rater.

6. Gathering Performance Information

Learning Objectives

By the end of this module, you will be able to:

- understand the need to include each of several basic components in the appraisal form;
- design effective appraisal forms;
- compute an overall employee performance score based on information found on the appraisal form;
- select an appropriate time period to document performance as part of a performance review;
- determine the number of formal meetings needed between the subordinate and supervisor to discuss performance issues;
- understand the advantages and disadvantages of using supervisors, peers, subordinates, self and customers as sources of performance information;
- know how to deal with potential disagreements involved with different sources evaluating the performance of the same employee;
• understand the psychological mechanisms leading to the inflation and deflation of performance ratings;
• understand that the implementation of training programmes can address intentional and unintentional rating distortion.

As discussed in Module 2, the performance management process includes several stages: prerequisites, performance planning, performance execution, performance assessment, performance review, and performance renewal and recontracting. An important component of the performance assessment stage is the use of appraisal forms. These forms are instruments used to document and evaluate performance. Modules 4 and 5 provided a description of the various approaches and techniques that can be used to measure performance, but this module provides a more exhaustive description of the use of appraisal forms and their content. In addition, this module describes other issues related to the administration of appraisal forms, such as how often the supervisor and subordinate should meet to discuss performance issues, and how to choose the source(s) of performance data (e.g., supervisors, self, subordinates, peers, or customers). The module concludes with a discussion of reasons why raters are likely to distort performance ratings (both intentionally and unintentionally), and what can be done to improve the accuracy of ratings.

Sections

6.1 Appraisal Forms
6.2 Characteristics of Appraisal Forms
6.3 Determining Overall Rating
6.4 Appraisal Period and Number of Meetings
6.5 Who Should Provide Performance Information
6.6 A Model of Rater Motivation
6.7 Preventing Rating Distortion through Rater Training Programmes

Learning Summary

• Appraisal forms are the key instruments used to measure performance: so care and attention are required to ensure that the forms include all the needed components. Most forms include a combination of the following: (a) basic employee information; (b) accountabilities, objectives and standards; (c) competencies and indicators; (d) major achievements and contributions; (e) developmental achievements; (f) developmental needs, plans and goals; (g) stakeholder input; (h) employee comments; and (i) signatures. Note, however, that one size does not fit all, and different components are appropriate based on the purposes of the appraisal.

• Regardless of the specific components included in the appraisal form, there are several characteristics that make appraisal forms particularly effective. These are the following: (a) simplicity, (b) relevance, (c) descriptiveness, (d) adaptability, (e) comprehensiveness, (f) clarity, (g) communication, and (h) time orientation. Before using it, each form needs to be put to the test and examined on the extent to which it complies with each of these characteristics.

• For administrative purposes, it is usually desirable to compute an employee’s overall performance score. Two approaches are available: judgemental and mechanical. The judgemental procedure consists of the consideration of every aspect of performance before, hopefully, arriving at a fair and defensible summary. The mechanical procedure
consists of combining the scores assigned to each performance dimension, usually taking into account the relative weight given to each dimension. The mechanical procedure is recommended over the judgemental procedure, because the latter is more prone to biases.

- It is recommended that the review period be six months (i.e., semi-annual) or even three months (i.e., quarterly). This provides fairly frequent opportunities for a formal discussion about performance issues between the subordinate and the supervisor. It is more convenient if the completion of the appraisal form coincides with the fiscal year so that rewards can be allocated shortly after the employee has received information on her performance during the period.

- Performance management systems can include up to six separate formal meetings between the supervisor and the subordinate: (a) system inauguration, (b) self-appraisal, (c) classical performance review, (d) merit/salary review, (e) development plan, and (f) objective setting. In practice, these meetings are usually condensed into two or so meetings during each review cycle. One point that should be emphasised is that these are formal meetings. Informal meetings involving a discussion of performance issues should take place on an ongoing basis.

- There are several sources that can be used to obtain performance information: supervisors, peers, subordinates, self and customers. Before selecting a source, one needs to be sure that the source has first-hand knowledge of the employee’s performance. Using each of these sources has advantages and disadvantages; none of them is foolproof, or would be able to provide a ‘silver bullet’ performance assessment, and not all may be available in all situations. However, it is important that employees take part in the process of selecting which sources will evaluate which performance dimensions. Active participation in the process is likely to enhance acceptance of results and perceptions that the system is fair.

- When multiple sources of performance information are used, it is likely that there will be disagreements about an employee’s performance level, even if these multiple sources are rating the same performance dimension. This is because people rating the same employee may be drawn from different organisational levels, and they probably observe different facets of the employee’s performance, even if they are evaluating the same general competency (e.g., communication). If an overall score that considers all sources is required, then a weighting mechanism is needed. For example, a decision must be made regarding whether performance information provided by the supervisor has more or less relative importance than that provided by customers. But there is no need to summarise the information across the sources for feedback purposes. In fact, it is beneficial for the employee to receive feedback broken down by source, so that the employee can place particular attention and effort on the interactions involving any source detecting performance deficiencies.

- In providing performance information, raters may make intentional errors. These errors may involve inflating or deflating performance scores. For example, a supervisor may want to avoid a confrontation with his employees and inflate ratings; or a peer may believe that providing accurate ratings may jeopardise the relationship with a colleague and hence, consequently, provide inflated ratings. When raters provide performance ratings, they are faced with a choice to provide accurate ratings or not. They weigh costs and benefits of choosing one or another path. If the cost–benefit equation does not favour providing accurate ratings, it is likely that ratings will be distorted. When this happens,
incorrect decisions may be made, employees are likely to feel treated unfairly, and the organisation is more prone to facing litigation. In other words, when performance ratings are distorted because raters are not motivated to provide accurate scores, the performance management system not only would not result in desired outcomes but is likely to lead to very negative consequences for the organisation.

- In addition to intentional errors, raters may make unintentional errors in providing performance ratings. This is because observing information about performance, storing this information in memory and then recalling it when it’s time to fill out the appraisal form is a complex cognitive task.

- Intentional and unintentional distortion in performance ratings can be minimised by providing raters with extensive training. Such training programmes include content related to information, motivation and skills. For example, regarding information, training programmes address an overview of the entire performance management system. Regarding motivation, raters are given information on how providing accurate ratings will leave them with direct and tangible benefits. Regarding skills, training programmes can include how to conduct an appraisal interview. No performance management system is foolproof, and performance ratings are inherently subjective. However, the implementation of such training programmes, together with rewards associated with accurate ratings, provides raters with the needed motivation and skills to minimise rating errors.

### 7. Implementing a Performance Management System

#### Learning Objectives

By the end of this module, you will be able to:

- understand that there are crucial steps that must be taken before the performance management system is launched, including implementing a communication plan, an appeals process, training programmes for raters, and pilot testing to remedy any faults;

- design a communication plan that answers the key questions, such as: ‘What is performance management?’, ‘Where does performance management fit in the organisation’s strategy?’, ‘How does everyone benefit from the system?’, ‘How does the performance management system work?’, ‘What are employees’ and supervisors’ key roles and responsibilities in implementing the system?’ and ‘How is performance management related to other key organisational initiatives?’;

- design a communication plan to include features aimed at reducing the effect of cognitive biases on how the performance management system is perceived and help minimise the impact of intentional rating errors;

- be aware of cognitive biases affecting how people take in, use and recall information, including selective exposure, selective perception and selective retention;

- understand that setting up an appeals process helps gain support for the performance management system;

- design an appeals process that operates at two levels: Level 1, which involves the HR Department in the role of mediator, and Level 2, which involves a panel of managers and peers and, possibly, a senior level manager in the role of arbitrator and final decision-maker;
• describe unintentional and intentional types of error that raters are likely to make in evaluating performance;
• implement training programmes such as Rater Error, Frame of Reference and Behaviour Observation, which will minimise the impact of unintentional rating errors;
• implement a self-leadership training programme that will allow supervisors to increase confidence in their skills to manage the performance management process and, consequently, allow them to minimise rating errors;
• understand the importance of conducting a pilot test before the performance system is implemented organisation wide;
• conduct a pilot test of the performance management system using a selected group of employees and managers from the organisation;
• once the performance management system is in place, collect various measurements that will provide information regarding the system’s effectiveness, the extent to which it is working the way it should, and whether it is producing the expected results.

Modules 4 and 5 described operational details on how to measure performance. Module 6 described operational details about appraisal forms and the process of providing performance ratings. This module, the last one in Part Two, continues to address operational issues in implementing a performance management system. Specifically, it addresses the steps needed before the system is put in place, such as setting good communication and appeals procedures that will gain system buy-in, implementing training programmes to minimise rating errors, and pilot testing the system. Finally, the module describes how to monitor the system once it is in place to make sure it is working properly.

Sections

7.1 Preparation: Communication, Appeals Process, Training Programs, and Pilot Testing
7.2 Communication Plan
7.3 Appeals Process
7.4 Training Programmes for the Acquisition of Required Skills
7.5 Pilot Testing
7.6 Ongoing Monitoring and Evaluation

Learning Summary

• There are some important things that need to be done before the performance management system is implemented. These include a communication plan and an appeals process to help gain system buy-in, training programmes for raters to help minimise errors in performance ratings, and pilot testing the system to allow for revisions and changes before the system is actually implemented. Careful attention to these pre-system implementation steps will help improve the success of the system.
• The main goal of the communication plan is to gain support for the system. A good communication plan addresses the following issues:
  – what performance management is, its general goals, and how performance management systems have been implemented in other organisations;
  – how performance management fits with the organisational strategy;
  – tangible benefits of the performance management system for all parties involved;
  – how the system works, including the various steps in the process;
- the roles and responsibilities of each organisational member;
- how performance management relates to other initiatives and programmes such as training, promotion, and compensation.

Including detailed, convincing and clear information on each of the above issues is likely to help increase support for the system.

- People have biases in how they take in and process information. Thus, even though there may be a good communication plan in place, these biases may distort the information presented. Biases to take into account are perceptive exposure, selective perception, and selective retention. Selective exposure is a tendency to expose our minds only to ideas with which we already agree. Selective perception is a tendency to perceive a piece of information as meaning what we would like it to mean even though the information, as intended by the communicator, may mean the exact opposite. Selective retention is a tendency to remember only those pieces of information with which we already agree.

- The negative effects of cognitive biases can be minimised by involving employees in system design, considering employees’ needs in designing and implementing the system, delivering the communication plan before negative attitudes and rumours start circulating, putting information on the system in writing, providing facts and conclusions and not just facts, using multiple channels of communication to present information on the system, using credible and powerful communicators and repeating the information frequently. A good communication plan includes as many of these features as possible.

- In addition to a communication plan, setting up an appeals process also helps gain system buy-in. This is because an appeals process allows employees to understand that, if there is a disagreement regarding performance ratings or any resulting decisions, such disagreements can be resolved in an amicable and non-retaliatory way.

- The appeals process begins with an employee filing an appeal with the HR department, which serves as a mediator between the employee and her supervisor. This is a Level 1 appeal. If the appeal is not resolved, then an outside and unbiased arbitrator makes a final and binding resolution. This is a Level 2 appeal. The arbitrator for a Level 2 appeal is usually a panel including peers and managers.

- In rating performance, raters may make intentional or unintentional errors. Intentional errors take place when raters believe it will be more beneficial to them to provide distorted as opposed to accurate ratings. For example, a supervisor may not want to give a low rating so as not to face a possible confrontation with an employee. Intentional errors include leniency (giving better scores than warranted), severity (giving worse scores than warranted), and central tendency (giving scores around the mid-point of the scales only). Motivation is the key to minimise intentional errors. In other words, we must demonstrate to the raters that the benefits of providing accurate ratings outweigh the benefits of intentionally distorting ratings, whether by inflation, deflation, or central tendency. This is done primarily through the communication plan, which addresses the ‘What’s in it for me?’ question, including the ‘What’s in it for me if I provide accurate ratings?’ question.

- Unintentional errors are caused by the fact that observing, encoding, storing and retrieving performance information is a complex cognitive task. Unintentional errors include the following: (a) similar to me, (b) contrast, (c) halo, (d) primacy, (e) recency, (f) negativity, (h) first impression, (i) spillover, and (j) stereotype. Unintentional errors can be minimised by implementing rater training programmes.
• Rater error training (RET) is a type of programme that exposes raters to the different errors and their causes. RET does not guarantee rating accuracy, but becoming aware about what types of error are likely to occur and the reasons for these errors is a very good first step in minimising them.

• Frame of reference (FOR) training is a type of programme that familiarises raters with the various performance dimensions to be assessed. The goal is that raters will develop a common frame of reference in observing and evaluating performance. This type of training is most appropriate when performance measurement focuses on behaviours.

• Behavioural observation (BO) training is a type of programme that focuses on how raters observe, store, recall and use information about performance. For example, this type of programme teaches raters how to use aids such as diaries to standardise performance observation. This type of training is most appropriate when performance measurement focuses on counting and recording how frequently certain behaviours and results take place.

• Self-leadership (SL) training is a type of programme that aims at improving raters’ confidence in their ability to manage performance. SL training includes positive self-talk, mental imagery and positive beliefs and thought patterns.

• Pilot testing the system before it goes live is useful, because it allows for the discovery of potential problems and defects and provides the ability to fix them before the system is put in place. Pilot testing consists of rolling out the entire system, including all of its components, but this is done with a select group of people only, and results are not recorded in employees’ records. Instead, the goal is for people participating in the pilot test to provide feedback on any possible problems and on how to improve the system.

• The selection of the group participating in the pilot test needs to take into account that the test will take time and resources. A representative group should be selected so that conclusions drawn from the group can be generalised to the organisation as a whole. The group should not be seen as an exception in either a positive or negative way.

• When the system is implemented, measures should be put in place to understand the extent to which it is working the way it should and producing the results that were expected. Such measures include confidential employee surveys assessing perceptions and attitudes about the system and whether there is an upward trend in performance scores over time. In addition, other measures include number of individuals evaluated, distribution of performance ratings, quality of performance information gathered, quality of performance discussion meetings, user satisfaction with the system, overall cost/benefit ratio, and unit- and organisation-level performance indicators. Taken together, these indicators form a powerful tool to demonstrate the value-added of the performance management system.

8. Performance Management and Employee Development

Learning Objectives

By the end of this module, you will be able to:
• describe the importance and benefits of including a development plan as part of the performance management system;
• describe the various short-term and long-term objectives of a development plan;
• design a high-quality development plan;
• describe the key activities that will help the successful implementation of a development plan;
• understand the role that the direct supervisor plays in the design and implementation of a development plan;
• implement a 360-degree feedback system with the goal of providing feedback on and improving performance;
• implement an on-line 360-degree feedback system;
• understand both the advantages and the risks of implementing a 360-degree feedback system;
• evaluate the quality of a 360-degree feedback system;

Part One of this course described strategic and macro-organisational issues in designing a performance management system. Part Two described the operational details of how to implement the system. Part Three includes two modules dealing with employee development issues. There are two key stakeholders in the development process: (1) the employees of the organisation who are improving their own performance; and (2) the managers who help guide the process of employee development for their staff, and support it so that it can successfully occur. Development planning is a joint activity, which should be owned by both the employee and the manager. Module 8 addresses how to use a performance management system to help employees develop and improve their performance. Module 9 addresses the skills needed on the part of managers so they can do a good job at managing the performance of their employees. Let’s begin this Module by discussing personal development plans.

Sections

8.1 Personal Development Plans
8.2 Direct Supervisor’s Role

Learning Summary

• Personal development plans form a key component of a performance management system because they specify courses of action to be taken to improve performance. A performance management system that lacks information about how to improve performance will not help employees go beyond what they do and know. In a nutshell, a good development plan allows employees to answer the following two questions: (1) How can I do better in the future? (2) How can I avoid performance problems faced in the past?
• Development plans focus on both the short-term and the long term. Specifically, development plans not only address how to improve performance in the current job and how to sustain good levels of performance in the current job, but also prepare employees for future advancement. In addition, development plans provide employees with growth opportunities so that, even if advancement within the organisation is not clear, employees are able to enrich their daily work experiences.
• Good development plans include a description of the specific steps to be taken and specific development objectives. Therefore, a good plan includes information on (a) development objectives, (b) how the new skills or knowledge will be acquired, (c) a timeline regarding the acquisition of the new skills or knowledge, and (d) standards and
measures that will be used to assess whether the objectives have been achieved. Regarding Learning Objectives, these should be designed to take into account both the needs of the individual and those of the organisation.

- Development objectives can be achieved by one or more of the following activities: (1) on-the-job training; (2) courses; (3) self-guided reading; (4) mentoring; (5) attending a conference; (6) getting a degree; (7) job rotation; (8) temporary assignments; and (9) membership in professional or trade organisations. Development activities for specific objectives are chosen together by the employee and his or her direct supervisor. This choice is guided by taking into account the employee’s learning preferences, the development objective in question, and the organisation’s available resources.

- The direct supervisor has a key role in helping the employee define the scope of the development plan and in explaining the relationship between the development objectives and strategic priorities for the unit and the organisation. The direct supervisor also has direct responsibility for checking on the employee’s progress towards achieving the development objectives, and for providing resources so that the employee will be able to engage in the appropriate activities (e.g., courses, mentoring). Supervisors must reinforce an employee’s accomplishments towards completing a development plan so that the employee remains motivated. Finally, supervisors themselves must be motivated to perform all these functions in support of their employees’ development plans. To do so, supervisors’ performance regarding how well they help their employees develop should be measured and rewarded appropriately.

- 360-degree feedback systems are tools that help employees build new skills and improve their performance in general by gathering and analysing performance information from several sources including peers, superiors, subordinates and self. Performance information gathered from self is compared with information gathered from other sources to perform a gap analysis showing discrepancies between how one sees one’s own performance vis-à-vis how others see one’s performance. These types of systems are also used to identify performance dimensions for which all, or most, performance information sources agree there is little or great room for improvement. Accordingly, this information can be used in creating a development plan.

- Many organisations implement 360-degree feedback systems electronically because this facilitates data collection and analysis. There are many vendors offering systems that can be implemented on-line. Some systems are quite comprehensive, including rater training, data analysis and detailed feedback reports for those evaluated.

- The implementation of 360-degree feedback systems can produce many benefits, including: (1) decreased possibility of biases; (2) increased awareness of performance expectations; (3) increased commitment to improve; (4) improved performance; (5) reduction of undiscussables; and (6) increased career control on the part of employees.

- In spite of the many advantages associated with implementing 360-degree feedback systems, there are some risks involved: for example, negative feedback can hurt; individuals may not be ready to receive feedback, and may therefore not participate willingly; anonymity may be compromised, and therefore information may be distorted; and raters may be overloaded with forms to fill out. These risks, and the associated failure of the system, are particularly high when the organisation does not value participation in decision-making, there is little cooperation among employees, there is favouritism, employees do not value the opinion of others (i.e., peers, subordinates), decisions are based on hearsay, and employees are not trusted to get the job done.
There are some features that will enhance the success rate of a 360-degree feedback system. These are: (1) anonymity; (2) that raters have first-hand knowledge of the performance of the person evaluated; (3) that feedback is interpreted by a person interested in the development of the person evaluated; (4) that there is follow-up after receiving feedback; (5) that the system is used for development purposes only; (6) that raters do not become fatigued; (7) that there is an emphasis on behaviours rather than results; (8) that raters provide information beyond performance ratings only; and (9) that raters are trained. The presence of these characteristics is likely to lead to the successful design and implementation of the system.

9. Performance Management Skills

Learning Objectives

By the end of this module, you will be able to:

- understand that managers need several key skills to manage the performance of their employees effectively, including skills regarding coaching, giving feedback, and conducting performance review meetings;
- define coaching and describe its major functions including giving advice, providing guidance and support, and enhancing employee confidence and competence;
- identify behaviours managers need to display to perform the various coaching functions;
- understand that a manager’s personality and behavioural preferences determine his or her coaching style;
- understand your own coaching style and the need to adapt one’s coaching style to the situation and the employee’s preference;
- describe the coaching process and its components, including setting development goals, identifying development resources and strategies, implementing strategies, observing and documenting development behaviour, and giving feedback;
- understand the time, situational and activity constraints involved in observing and documenting an employee’s progress towards the achievement of development goals and good performance in general;
- implement a communication plan and training programmes to minimise the impact of constraints present when observing and documenting performance;
- describe the benefits of accurate documentation of an employee’s development activities and performance;
- implement several recommendations that will lead to documenting performance in a useful and constructive manner;
- understand the purposes served by feedback on performance regarding the achievement of development goals and performance in general;
- implement several recommendations that will lead to creating useful and constructive feedback systems;
- understand why people do not feel comfortable giving negative feedback, and recognise what happens when managers refuse to give negative feedback;
- understand the various purposes served by performance review meetings, and the various types of meetings that can be conducted;
• understand the signs of employee defensiveness, implement suggestions to minimise employee defensiveness before a performance review meeting takes place, and deal with defensiveness during the performance review meeting.

Module 8 addressed issues about employee development. Specifically, Module 8 discussed how to use a performance management system to help employees develop and improve their performance, and also address more long-term career goals and aspirations. But performance management systems are not likely to help employees develop and improve their performance if managers do not have the necessary skills to help employees accomplish these goals. Such skills include being able to serve as coaches, to observe and document performance accurately, to give both positive and negative feedback, and to conduct useful and constructive performance review discussions. This module addresses each of these topics. Let’s begin with the first of these issues: coaching.

Sections

9.1 Coaching
9.2 Coaching Styles
9.3 Coaching Process
9.4 Performance Review Meetings

Learning Summary

• Managers must possess several important skills to be able to manage the performance of their employees effectively. Managers need to be able to serve as coaches, to observe and document performance accurately, to give both positive and negative feedback, and to conduct performance review meetings.

• Coaching is an ongoing process in which the manager directs, motivates and rewards employee behaviour. Coaching includes several key functions, such as giving advice about what is expected about performance and how to perform well, giving employees guidance so employees know how to improve their performance, providing employees with support but not being controlling, and enhancing employees’ confidence and competence.

• Managers need to engage in a complex set of behaviours to perform the various coaching functions. These include: establishing development objectives, communicating effectively, motivating employees, documenting performance, giving feedback, diagnosing performance problems and developing employees.

• Managers’ personalities and behavioural preferences determine their coaching style. Some managers prefer to be drivers and just tell employees what to do. Others prefer to be persuaders and try to sell what they want the employees to do. Yet others adopt an amiable style in which feelings take precedence, and want the employee to do what feels right or what the employee feels is the right way to do things. Finally, others prefer to be analysers and have a tendency to follow rules and procedures in recommending how to perform. None of these four styles is necessarily better than the others. The best coaches are able to change their styles and adapt to the needs of the employees.

• The coaching process is ongoing and cyclical, and it includes the following five components: (1) setting development goals, which is an important part of any development plan; (2) identifying resources and strategies needed to achieve the development goals (e.g., securing resources that will allow for engaging in activities to achieve the develop-
(3) implementing strategies (e.g., enrolling the employee in an on-line course); (4) observing and documenting development behaviours (i.e., the supervisor checks on the progress of the employee towards the attainment of the development goals); and (5) giving feedback (i.e., the supervisor provides information to the employee that helps adjust current development goals and guide future goals).

- Observing and documenting performance in general, and performance regarding development goals in particular, is not as easy as it might seem. There are time constraints, because managers may be too busy to gather performance information. There are situational constraints, because managers may be unable to observe the employee directly. Finally, there are activity constraints, because, when development activities are very unstructured, such as reading a book, the manager may have to wait until the activity is completely finished to assess whether any new skills and knowledge have been acquired.

- There are several things that can be done to improve the observation and documentation of performance. Many of these issues were described in detail in Module 7, and include implementing a good communication plan that gets managers’ buy-in, and the implementation of training programmes to help managers minimise rater errors (i.e., rater error training), share notions of what it means to successfully complete development activities (i.e., frame of reference training), observe performance more accurately (i.e., behavioural observation training), and become more confident managing employee’s performance (i.e., self-leadership training).

- Documenting an employee’s progress toward achieving development goals and employee’s performance in general has several important benefits. These include the reduction of managers’ cognitive load, the enhancement of trust between the employee and the manager, gathering important input to be used in planning development activities in the future, and a good line of defence in case of litigation.

- For documentation to be most useful, it must be specific, use adjectives and adverbs sparingly, balance positives with negatives, focus on job-related information, be comprehensive, be standardised across employees, and be stated in behavioural terms.

- Feedback about performance in general and about development activities in particular serves several important purposes. These include helping build employee confidence, developing employee competence, and enhancing employee involvement with the unit and the organisation as a whole.

- The mere presence of feedback does not mean that there will be positive effects on future performance. For feedback to be most useful, it must be timely, frequent, specific, verifiable, consistent over time and across employees, given in private, and tied closely with consequences (e.g., rewards); it must address description first and evaluation second, discuss performance in terms of a continuum and not in terms of dichotomies (i.e., more and less and not all or nothing), address patterns of behaviour and not isolated events, include a statement that the manager has confidence in the employee, and include the active participation of the employee in generating ideas on how to improve performance in the future.

- In general, managers do not feel comfortable giving negative feedback. This is because they fear that employees will react negatively; because they themselves have been given negative feedback in the past in a way that was not helpful, and do not want to put their employees in the same situation; because they don’t like playing God; and because they feel they need an onerous amount of information and evidence before giving negative
feedback. However, when negative feedback is warranted and managers refuse to give it, poor performers may get the message that their performance is not so bad after all. Eventually, the situation may escalate to the point where the manager has no choice but to give negative feedback; but the situation then becomes punitive, and feedback is not likely to be useful. For negative feedback to be useful, it must be given early on, when the performance problem is still manageable.

- Supervisors play the contradictory roles of being judges and coaches at the same time. These roles are played out during the performance review meetings, which can include up to six separate formal meetings: system inauguration, self-appraisal, classical performance review, merit/salary review, development plan, and objective setting. In most organisations these meetings are merged into just one, or sometimes two. However, it is better to separate the meetings so that employees can focus on one issue at the time (e.g., supervisor’s view on one’s performance, rewards allocation, development plan).
- When all performance review meetings are merged into one, the components of such a meeting include the following: (1) explanation of the purpose of the meeting; (2) self-appraisal; (3) discussing supervisor’s performance ratings and rationale, and solving discrepancies with self-appraisal; (4) development discussion; (5) employee summary; (6) rewards discussion; (7) setting follow-up meeting; (8) approval and appeals process discussion; and (9) final recap.
- In meeting with the supervisor to discuss performance issues, employees may become defensive. Defensiveness is indicated by a fight or flight response. Several things can be done to minimise defensiveness: (1) establish and maintain rapport; (2) be empathetic; (3) observe verbal and non-verbal cues; (4) minimise threats; and (5) encourage employee participation.
- When defensiveness is triggered and is unavoidable, it must be recognised and allowed to be expressed. If the situation becomes intolerable, there may be a need to re-schedule the meeting at a later point.

10. Reward Systems and Legal Issues

**Learning Objectives**

By the end of this module, you will be able to:

- distinguish between traditional and contingent pay plans and how each of these reward systems relates to the performance management system;
- understand the reasons for the popularity of contingent pay plans;
- describe how contingent pay plans can help improve employee motivation and performance;
- be aware of reasons why contingent pay plans can fail;
- design a contingent pay plan taking into account key variables such as the organisation’s culture and strategic business objectives;
- understand that pay is only one of many tools that can be used to motivate employees;
- use rewards effectively so they produce the intended effects;
- state the principles of how to design an organisation’s pay structure, including the conduct of a job evaluation;
• understand the advantages of a broad-banding approach to designing a pay structure;
• understand the role played by five legal principles in the implementation of performance management systems: employment at will, negligence, defamation, misrepresentation, and adverse impact;
• identify when a performance management system is resulting in illegal discrimination;
• state what type of evidence employees need to provide to prove illegal discrimination, and what type of evidence employers need to provide to prove lack of illegal discrimination;
• understand the impact of key laws prohibiting discrimination based on race, sex, religion, age, disability status and sexual orientation on the design and implementation of performance management systems;
• design a performance management system that is legally sound.

Sections

10.1 Traditional and Contingent Pay (CP) Plans
10.2 Reasons for Introducing CP
10.3 Possible Problems Associated with CP
10.4 Selecting a CP Plan
10.5 Putting Pay in Context
10.6 Pay Structures
10.7 Performance Management and the Law
10.8 Some Legal Principles Affecting PM
10.9 Laws Affecting PM

Learning Summary

• Traditional pay plans do not have a link with the performance management system. Instead, pay and other rewards are allocated on the basis of the position and seniority. In contrast, contingent pay plans, also called pay for performance plans, allocate rewards wholly or partly based on job performance. When rewards given in the context of contingent pay plans are not added to an employee’s base pay, they are called variable pay.
• Contingent pay plans are increasingly popular because, when they are in place, performance measurement and performance improvement are taken more seriously. Specifically, these plans force organisations to define effective performance and to determine what factors are likely to lead to effective performance. In addition, implementing these plans can serve as a good tool to recruit and retain top performers, because they are attracted to organisations that reward high performance.
• Contingent pay plans also enhance employee motivation to accomplish goals in sync with organisational needs. But, for contingent pay plans to affect motivation positively, there needs to be a clear link between employee effort and employee performance (expectancy), and a clear link between employee performance and the rewards received (instrumentality), and employees need to value the rewards available (valence).
• Contingent pay plans often fail. This is due to a combination of several factors. First, they may be tied to a poor performance management system in which the performance dimensions measured are not relevant to organisational success. Second, the system may be rewarding behaviours and results that go counter to the needs of the organisation, such as rewarding executives for short-term results as opposed to long-term growth and
environmental responsibility. Third, employees may not see rewards as valuable, for example when the difference between the rewards received by the best and the worst performers is not really meaningful. Fourth, managers may not be accountable for the system, and implement it ineffectively. Finally, there may be a sole focus on extrinsic rewards, such as pay and other tangible compensation, instead of focusing also on intrinsic rewards such as a challenging and interesting work environment in which employees have control over what they do and how they do it.

- There are many choices in the design of a contingent pay plan. An important issue to consider is that the plan needs to be congruent with the culture of the organisation. People in organisations that have a traditional or an involvement culture are likely to feel more comfortable with different types of plan. For example, organisations with a traditional culture involving top-down decision making and clearly defined jobs are likely to find that a system including piece rate, sales commissions and group incentives would work well. On the other hand, organisations with an involvement culture including shared decision-making and loosely defined jobs would benefit most from a system including profit sharing and skill-based pay. In addition to an organisation’s culture, the strategic business objectives also determine which type of system would work best. For example, if an organisation prioritises customer service, then competency-based pay would work well, whereas an organisation prioritising teamwork would benefit most from a plan including teams sales and gainsharing. In sum, decisions about how rewards are allocated and what types of reward are given need to consider the organisation’s culture and strategic business objectives.

- Pay is not the only factor that makes people tick. People want more than a pay cheque when they go to work. People seek an environment high on trust and respect, where they can have fun, develop relationships with others, and do meaningful and interesting work. Reward systems that focus exclusively on pay and other monetary rewards at the expense of non-financial rewards are basically bribing their employees and eventually pay a high price in a lack of employee loyalty and commitment. Thinking about rewards needs to go beyond just pay and consider rewards as anything that increases the chances that specific behaviours and results will be repeated, or that employees will engage in desirable behaviours and produce desirable results in the future. Defined this way, rewards can include the following:
  - formal commendations and awards;
  - favourable mention in company publications;
  - private, informal recognition for jobs well done;
  - public recognition, including praise, certificates of accomplishment or letters of appreciation;
  - status indicators, such as a new job title, larger work area, promotion, ability to supervise more people and newer or more equipment;
  - time, such as taking a longer break, leaving work earlier, or time off with or without pay;
  - a more challenging work environment, responsibility and freedom.

- Several recommendations must be followed for rewards to work as intended. First, performance must be defined clearly and measured well before rewards are allocated. Second, if financial rewards are not available, employee expectations should be adjusted accordingly, and the focus should be on non-financial rewards only. Third, all employees need to be potentially eligible to receive the rewards. Fourth, rewards must be visible.
Fifth, rewards must be contingent on performance, and received only if the desired behaviours are displayed and the desired results are produced. Sixth, rewards must be timely and given soon after the result or behaviour being rewarded has taken place. Seventh, rewards must be reversible, so that employees do not feel entitled and continue to be motivated by the desire to obtain the reward in the future. Finally, as noted above, rewards should be both financial and non-financial.

- An organisation’s pay structure classifies jobs into categories based on their relative worth. There are three popular job evaluation methods that allow organisations to design a pay structure: ranking, classification and point. The ranking method consists of comparing job descriptions and ranking jobs based on overall relative worth. The classification method consists of first creating classes or categories of jobs (based on relative worth), and then placing all jobs into an appropriate category. The point method consists of identifying compensable factors and assigning scores to all jobs based on their standing regarding each compensable factor. The point method is the most accurate of the three, but is also the most time consuming and difficult to administer. Ultimately, the consideration of what salaries are assigned to the various jobs or types of job is dependent on information obtained through compensation surveys.

- Broad-banding is a type of pay structure that collapses all job classes into a few categories, usually around five or fewer. Broad-banding has become very popular because it gives organisations flexibility in rewarding people. In addition, broad-banding reflects changes in organisation structure, provides a better base for rewarding growth in competence, gives more responsibility for pay decisions to managers, and provides a better basis for rewarding career progression.

- One or more of six legal principles are usually involved in cases of litigation regarding performance management systems. First, employment at will implies that the employer can end the relationship at any time, and gives employers latitude in determining whether, when and how to measure and reward performance. However, even in employment-at-will relationships, organisations benefit from having a well-designed and implemented performance management system to guide decisions because other principles, such as implied contract and violation of public policy, may take precedence over the employment-at-will principle.

  Second, employers can be accused of negligence if they do not follow performance management practices outlined in training manuals, employee handbooks, or other official documents. Third, employers can be accused of defamation if they make false statements during the course of the performance evaluation, or negligently or intentionally communicate these statements to a third party such as a potential future employer, and thus subject employees to harm or loss of reputation. Employers can be accused of misrepresentation if they disclose untrue favourable performance information that causes risk or harm to others. Fourth, employers can be accused of adverse impact, also called unintentional discrimination, if the performance management system has an unintentional impact on members of a protected class (e.g., women) resulting in consistently lower performance evaluations than members of other classes (e.g., men).

  Finally, employers can be accused of illegal discrimination, also called disparate treatment, when evaluators assign scores differentially to various employees based on factors that are not performance related, such as race, nationality, colour, or ethnic and national origin. In the context of performance management, an employee alleging illegal discrimination needs to show he or she is a member of a protected class, suffered an adverse employment decision as a result of a performance evaluation, should not have suffered
this adverse impact because he or she performed adequately, and any rewards he or she
deserved (e.g., promotion) were not given to anyone or were not given to an employee
who is not a member of the same protected class (e.g., religious minority, ethnic minori-
ty, women). On the other hand, if an organisation receives a legal challenge, it needs to
provide evidence that the decision made was based on a legitimate and non-
discriminatory reason that was clearly performance-related. In contrast to illegal discrimi-
nation, legal discrimination, an essential characteristic of a good performance
management system, differentiates among employees based on performance-related
factors.

• Several countries, such as the United Kingdom and the United States, have passed laws
prohibiting discrimination based on race, sex, religion, age, disability status and sexual
orientation. Although the enforcement of these laws is uneven across countries, these
laws have the goal of forcing organisations to implement performance management
systems that are applied consistently with all employees regardless of demographic and
other individual characteristics that are not job related.

• Designing and implementing a performance management system that is legally sound is
not a difficult goal. It simply involves creating a system following the best practice rec-
ommendations described throughout this course. Specifically, performance dimensions
and standards should be clearly defined and explained, job-related and within the control
of the employee. Procedures should be standardised, used uniformly and communicated
to all employees. Employees should be given timely information on performance defi-
ciciencies and opportunities to correct them. Employees should be given a voice in the
review process and treated with courtesy and civility throughout the process. The system
should include a formal appeals process, and performance information should be gath-
ered from multiple, diverse and unbiased raters. Supervisors should be provided with
formal training, and the system should include both consistent and thorough documenta-
tion and procedures to detect potentially discriminatory effects or biases and abuses.

II. Managing Team Performance

Learning Objectives

By the end of this module, you will be able to:

• understand the definition of a team and the pervasiveness of teams in today’s organisa-
tions worldwide;
• understand the importance of managing team performance in addition to individual
performance;
• understand the various types of team, and how different types of team may require
different types of performance measurement;
• be aware of challenges associated with the design and implementation of performance
management systems that include a team component;
• extend guidelines on how to design performance management systems that consider
individual performance to systems that include both individual and team performance
components;
• design and implement a performance management system that focuses on (a) individual performance, (b) individual performance that contributes to team performance, and (c) team performance;
• extend principles regarding how to reward individual performance to how to reward team performance.

Sections

11.1 Definition and Importance of Teams
11.2 Types of Team and Implications for Performance Management
11.3 Purposes and Challenges of Team PM
11.4 Including Team Performance in the PM System
11.5 Rewarding Team Performance

Learning Summary

• A team is in place when two or more people interact dynamically and interdependently and share a common and valued goal, objective, or mission. Individuals can be members of the same team even if they work in different organisations and different geographic locations. Teams are pervasive in today’s organisations, and it would be difficult to find an organisation without some type of work done by teams.
• Because teams are so pervasive, it is important that the performance management system focus not only on individuals but also on teams. If teams are in place, organisations should not just hope that their performance will be adequate. Instead, organisations should take proactive steps to make sure that teams perform well, that their performance improves on an ongoing basis, and that individuals are active and motivated contributors to their teams.
• Including team performance as part of the performance management system is a natural extension of a system that focuses on individual performance only. The general principles we have discussed in this course thus far still apply. However, teams differ on the basis of the tasks they perform (from routine to non-routine) and on membership configuration (from static to dynamic). Measures of team performance need to take into account the type of team evaluated.
• Including a team component in the performance management system has some unique challenges. The system needs to achieve a good balance between individual and team performance measurement and reward. In other words, it is not sufficient to measure and reward overall team performance. There is also a need to measure and reward the contribution that each individual makes to the team. In this way, individuals are held accountable for contributing to team performance.
• A performance management system that includes a team component needs to focus on three types of performance: (a) individual performance, (b) individual performance that contributes to team performance, and (c) team performance. All three are necessary for a successful system.
• The performance management process of a system with a team performance component is similar to the process of a system with individual performance only. The components of the process include: (a) prerequisites, (b) performance planning, (c) performance execution, (d) performance assessment, (e) performance review, and (f) performance renewal and recontracting. Although the inclusion of a team component adds a layer of
complexity to the process, the fundamental principles guiding the design and implementation of the system discussed throughout this course remain the same.

- If the performance management system includes the measurement of individuals’ contribution to team performance and overall team performance, it also needs to reward these types of performance. The principles guiding the allocation of rewards in systems including a team component are the same as those guiding the allocation of rewards in systems including individual performance only. As before, rewards should be visible, contingent and reversible.