

LECTURE 11.0

PERFORMANCE EVALUATION

PERFORMANCE EVALUATION AT LINCOLN

Lincoln Electric Company was a successful company with a highly developed performance evaluation regime tied to remuneration.

There were two components to the employee incentive scheme:

- For production, employee wages were based on piece rates
- Year end bonus that was up to 100% of regular compensation

Performance Evaluation System

- The piece rate system: Note that this could be subject to manipulation, but there were well developed rules about how it was to operate
- Merit rating: Reflected the employees dependability, quality of output, ideas and cooperation etc as assessed by immediate supervisor.

PERFORMANCE EVALUATION AT LINCOLN

As noted Lincoln had operated successfully for many years.

There were a number of features of how it operated that made it successful:

- Evaluation systems were linked with the reward system – that is, the output from the performance evaluation system (pieces produced) were used in the reward system.
- Performance evaluation used both objective (units produced) and subjective (dependability and reliability) measures of performance.

Negative aspects:

- Failure to recognise how the three components of the firms organisational architecture (the decision rights system; its reward system and performance evaluation system) were closely linked led to large losses in new markets.

OUTLINE

11.0 Performance evaluation

11.1 Individual performance evaluation

11.2 Relative performance evaluation

11.3 Subjective performance evaluation

11.4 Team performance evaluation

11.5 Divisional performance evaluation

11.6 Transfer pricing

READING

Chapter 16, “Individual Performance Evaluation” in Brickley, Smith and Zimmerman (2006) *Managerial Economics and Organizational Architecture* (4th ed) (ignore pp. 525-27)

Chapter 17, “Divisional Performance Evaluation” in Brickley, Smith and Zimmerman (2006) *Managerial Economics and Organizational Architecture* (4th ed) (ignore pp. 560-64)