Admas University
Graduate Studies
MBA and Project Management Programs

HRM Session7

Alemseged Gerezgiher Hailu (PhD)

Part IV (1): Performance and reward management

1. Performance management
2. Job evaluation
3. Reward management

Performance management

- Definitions and concepts
- Rationale and purpose
- Performance management process
- Methods of performance appraisal
- Features of effective performance management
- Problems in performance management

Definitions and concepts

- What is **performance**?
  - Performance can be *productivity, achievement, accomplishment, outcome, fulfillment of obligations* (duties, responsibilities), *manifestation of relevant job behavior*...
  - It can be viewed as *accomplishment of a given job against pre-established standards*
- What could be the **standards of performance**?
  - These are pre-defined expectations and targets (objectives)
  - They are key in tracking *how well employees are performing*.
    - Quantity, quality, completeness, accuracy, cost saving, speed and time, readiness to learn
    - In simple terms the standards embrace elements of **effectiveness, efficiency and potential to develop**
- **Appraisal** involves measurement, assessment and evaluation of performance results/outcomes against standards.

Definitions and concepts

- **Performance appraisal vs performance management**
  - These are commonly used concepts in the literature
- **Performance appraisal**
  - is the *systematic evaluation* of the individual with respect to *his or her performance on the Job*
  - is the *specific and formal evaluation* of an employee conducted to determine the degree to which the employee is performing his or her job effectively.
- **Performance management**
  - is the general set of activities carried out by the organization to change (improve) employee performance.
  - is a systematic process for improving organizational performance by developing the performance of individuals and teams.
  - is means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements.

From performance appraisal to performance management

Performance appraisal	Performance management

• Formal and periodic assessment and rating of an individual's performance
• Conducted as annual ritual (habitual)
• Focuses on the past
• Top-down and largely bureaucratic system
• Narrow in approach and purpose
• Generates conflict, discomfort, and leads to avoidable turnover
• Supervisor as a judge
	• Continuous process for employee and organizational development
	• **Aligning individual objectives to organizational objectives** and encouraging individuals to uphold corporate core values
	• **Enabling expectations** to be defined and agreed in terms of **role responsibilities and accountabilities** (expected to do), **skills** (expected to have) and **behaviors** (expected to be)
	• **Providing opportunities** for individuals to identify their own goals and develop their skills and competencies
	• In simple terms, performance management
	    ❖ clarifies mutual expectations
	    ❖ emphasizes the support role of managers who are expected to act as coaches rather than judges
	    ❖ focuses on the future

Theories underpinning performance management

Theory	Description

Goal theory
Latham and Locke (1979)
	• Connects goals to performance outcomes
	• It entails setting and agreeing objectives against which performance can be measured and managed
	• Goals
	  ✔ direct attention to priorities
	  ✔ stimulate effort (motivate to exert extra effort)
	  ✔ challenge people to bring their knowledge and skills to increase their chances of success
	  ✔ the more challenging the goal, the more people will draw on their full stock of skills

Control theory
Buchner (2007)
	• Focuses attention on **feedback** as a means of shaping behavior
	• Feedback is recognized as a crucial part of performance management processes
	• Feedback
	  ✔ shows discrepancy between what employees are doing and what they are expected to do
	  ✔ helps take corrective action to overcome the discrepancy

Social cognitive theory Bandura (1986)	• It is based on concept of self-efficacy (self belief to perform some task) • It holds what people believe they can or cannot do powerfully impacts their performance • Developing and strengthening positive self-belief in employees

Rationale and purpose of performance management

Rationale	Purpose
• Mutual and agreed expectations (employment contract, job description)	• To ensure that expectations are meet and/or exceeded • To align individual and organizational objectives
• Employee capacity	• To evaluate the status and potential of employee capacity to meet expectations
• Changing technologies	• To identify skill gaps and design training/development program
• Legal provisions (e.g. probation period)	• To confirm whether employees completed their probation period satisfactorily or not
• Meritorious promotions and recognitions	• To promote competent and high performers to higher levels of a job and recognize them
• Pay decisions	• To inform pay decisions (pay scales, increments, rewards) of the organization • To move towards performance based compensation system
• Communication	• To create mutual understanding about organizational and individual goals and expectations • To provide subordinates feedback about their performance and skill gaps
• Evaluation and documentation	• To evaluate effectiveness of other HRM functions such as human resoucess planning, recruitment, selection… • Document major employee events for later decisions (retention, termination…)

Performance management process (cycle)

Steps	Activities
• **Employee performance and development agreements** (basis for assessment, feedback, and development)	• Defining role responsibilities and accountability (job description and job specification) • Establishing objectives (SMART) • Measuring past performance (serves as input for next planning) • Performance and personal development planning
• **Managing performance** (continuous engagement throughout the year)	• Setting directions • Continuous monitoring and evaluation of performance • Taking corrective actions • Building performance culture
• **Performance review** (end of the cycle and beginning for the next)	• Measuring and comparing performance results with expectations and targets • formal review once or twice a year • helps identify key performance and development issues • It is based on reality and concrete evidence • Providing feedback

Methods of performance appraisal

Method	Description and application
Rating scales (ranking methods)	• simplest and most popular technique for appraising employee performance • Hierarchical structure • Measure the past • E.g. high, medium, low or Excellent, V. good, good, poor,
Observations and Checklist	• Measuring using dichotomous options (Yes or No; Acceptable or Unacceptable…) • Recording unusual but critical behaviors of the employee
Behaviorally anchored rating scales (BARS)	• scale points are determined by statements of effective and ineffective behaviors of employees • Behaviors are identified for each dimension of job performance
Essay	• Trait approach • the rater composes a statement describing employee behavior
Management by objectives (MBO)	• establish the goals each subordinate is to attain • Set performance standards • Measure and evaluate performance
Performance tests	• Tests on knowledge, skills, aptitudes, • Assessment /testing centers
360 Degree appraisal (multi-source assessment)	• people receive performance feedback from those on all sides of them in the organization-their boss, their colleagues and peers and their own subordinates • feedback comes from all around them, 360 degrees • Gives much wider range and view of performance
Confidential Records	• Referring to employee records on attendance, absenteeism, disciplinary records….

Appraisers

- One or more of the following could do the appraising activity
    - Immediate supervisor
    - Higher management
    - Self-appraisals
    - Peers (co-workers)
    - Evaluation teams
    - Customers
    - "360° Appraisals"

Features of effective performance management

- To make the performance management of an organization effective,
    - there should be agreement on expectation by employee and manager and the employee is involved at all stages
    - make sure that the performance rating process is strategically useful (job related criteria and critical success factors)
    - valid and consistent standards and measurement
    - should be continuous and flexible process
    - feedback, open communication and appeal system
    - should focus on future performance planning and improvement and personal development rather than on retrospective performance appraisal
    - Well trained coaches, counselors, mentors and raters
    - should focus on inputs, values and building performance culture
    - should be guided by positive reinforcement and recognition
    - should not be top-down and bureaucratic

Problems in performance management

Problem	Description and *solutions*
Halo effect (error)	• One aspect of an individual's performance affects the entire evaluation process (inclination to high positivity or high negativity) • *All rounded evaluation could solve this problem*
Rater effect	• Favoritism, stereotyping, hostility • *System of impartiality and objectivity should be established*
Primacy and recency	• Remembering either the earlier (primacy) or the last (recency) event/information in appraising the individual • *Capturing the entire performance of the individual*
Leniency	• Subjective assessment of the rating process • The rater may underestimate the importance of rating • *Strategic orientation of raters and ethical principles should be in place*
Central tendency	• rating all employees on 'average' point to be safe • this is to avoid doubts and anxieties • This is closely related with leniency
Perceptual set	• Depending on previously held belief about the employee
Status effect	• Employees in higher position are rated better

Thank you!