

PERFORMANCE MANAGEMENT

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Learning Objectives

After completing this chapter, the reader should be able to

- define performance management, and describe the key components of a performance management system;
- understand the purposes and approach of the annual or periodic performance review;
- discuss the reasons that organizations engage in performance management;
- identify the characteristics of good rating criteria for performance appraisal;
- enumerate various sources of information about job performance, and discuss the strengths and shortcomings of each;
- address the three types of information needed to assess employee performance;
- distinguish between rating errors and political factors as sources of distortion in performance appraisal; and
- conduct a performance appraisal interview with an employee, taking into consideration the techniques that make such an interview successful.

Introduction

A central theme of this book is that the performance of individual employees is central to the long-term success of an organization. The ultimate goal of human resources management (HRM), which includes selection, compensation, supervision, and training, is to foster high levels of performance from individuals and teams. In this chapter, we discuss performance management, which comprises all of the organization's activities involved in managing employees. We often give special attention to performance management because it is this function that seeks to coordinate the efforts of various human resources systems involved in improving performance. Performance management also specifically involves the collection of performance information and using that

information to conduct formal and informal improvement efforts. While we can think of performance management as a tool for evaluating and improving individual performance, we can also use the performance management system to assess the success of other human resources functions. A well-functioning performance management system can provide insight into the effectiveness of our selection processes, whether training programs are effective, and whether an incentive compensation system is successful in meeting its performance goals. Table 10.1 provides examples of how performance management is related to other human resources functions.

Performance management is a set of tools and practices that comprises setting performance goals with employees, designing strategies with employees to make and sustain improvement, monitoring employee progress toward achieving goals, ongoing feedback and coaching by supervisors and perhaps peers, and measuring individual performance. The term *performance appraisal* is often used to describe this process, but that term tends to limit the process to measurement, which is a necessary but an insufficient part of

TABLE 10.1
Relationship of
Performance
Management to
Other Human
Resources
Management
Functions

<i>HRM Function</i>	<i>Effects of Performance Management</i>	<i>Effects on Performance Management</i>
Job analysis	Performance information may lead to redesign of jobs	Accurate information about jobs is key to develop criteria for performance appraisal
Recruitment and selection	Performance information lets managers know about the effectiveness of alternative sources of recruitment and the effectiveness of their selection criteria and procedures	Ability to recruit and select employees may affect the types of criteria and standards developed for performance appraisal
Training and development	Performance management systems provide information on employees' training and development needs; information on the performance appraisal systems assesses the effectiveness of training	Performance appraisal tools may be designed to assess the impact of training programs
Compensation	Compensation systems may be designed such that performance appraisal information has an impact on employee compensation	A fair and equitable compensation system may lead to higher levels of employee performance

performance management. As discussed in this chapter, performance management is more encompassing than collecting performance information, but it is a data-informed system for improving performance. In this chapter, the term “performance appraisal” is sometimes used to refer to aspects of the process that deal with obtaining performance information.

Issues of employee performance and productivity are at the forefront in healthcare organizations. The Joint Commission (2007) requires accredited healthcare organizations to assess, track, and improve the competence of all employees. The 2008 Joint Commission standards include such phrasing as: “Staff is competent to perform their responsibilities” (3.10) and “The organization evaluates staff performance” (3.20). In addition, the requirements for healthcare organizations of the prestigious Baldrige National Quality Program (2007, 18) include specific criteria related to employee engagement and performance management:

How does your workforce performance management system support high-performance work and workforce engagement? How does your workforce performance management system consider workforce compensation, reward, recognition, and incentive practices? How does your workforce performance management system reinforce a patient and other customer and health care service focus and achievement of [your] action plans?

Performance management makes sense. The adage “you can’t manage what you can’t measure” is applicable to performance management. However, performance management has a well-deserved reputation for being very poorly implemented. It is perhaps the most misunderstood and misused human resources function. Measuring and improving employee performance is also among the most highly examined aspects of management, both in scholarly works and in the popular press. Perhaps because it has met with so much failure, it is also one of the areas of management most prone to passing fads, which have been widely adopted in popular management literature and by countless consulting firms that seek to identify and promote the quick fix to improve employee productivity.

In this chapter, we describe the essential components of performance management and present the countless pitfalls that may be faced in virtually every aspect of the process. To the extent possible, we avoid the jargon and fashions that come and go and maintain a focus on those processes found to have the highest likelihood of leading to improved and sustained employee performance. Specifically, we explore the following:

- Reasons that organizations develop and implement performance management systems
- Content of the annual or periodic performance review
- The terms performance criteria, criterion deficiency, criterion contamination, reliability, and validity

- Sources of information about employee performance
- Applicability of multisource or 360-degree performance management approaches
- Performance information based on individual traits, behaviors, and outcomes
- Advantages and disadvantages of common formats for collecting and summarizing performance information
- Common sources of errors and other problems in performance appraisal
- Guidelines for conducting effective performance management interviews

Every manager seeks to have employees who are highly motivated and productive. This is a challenging goal for a number of reasons. First, employee motivation is in itself a complex phenomenon and is influenced by many things outside of the manager's control. Second, whether or not managerial interventions are effective in improving performance is unclear. For instance, compensation clearly has some motivational potential for most employees, but money is not an effective motivator in all circumstances. In healthcare organizations with very small margins, the availability of performance-based rewards tends to be very limited. Third, employee performance is often difficult to observe and measure in a reliable manner. This, of course, varies by job. For example, it is relatively easy to assess the performance of an employee doing medical equipment sales, but evaluating the performance of a case manager for individuals with chronic mental illness is much more challenging. As with all human resources functions, performance management activities are carried out within a legal context, and performance management procedures must abide by relevant employment laws.

Some people believe that performance management is intended mainly for lower-level employees and that the higher one moves in the organization, the less important performance management becomes. This mistaken view is perhaps based on the perception that performance management is something of a punitive process, and if not punitive, it is often carried out in a condescending or demeaning manner. One of the benefits of moving up is that the person no longer has to be subjected to such insulting procedures. This view may also be based on the assumption that higher-level employees *do not need* supervision in the same manner as lower-level employees. Indeed, evidence in the literature indicates that the higher the position, the less likely that a performance appraisal is conducted. Appraisals of senior-level employees are usually poorly and haphazardly done. However, much evidence also suggests that executive-level employees have a strong desire to obtain information about their performance (Longenecker and Gioia 1992).

The bottom line is that performance appraisal and performance management are for everyone in the organization. Further, the process need not

be demeaning to any employee, whether at lower level or at executive level. Of course, the types of performance information used may vary according to an employee's level and role in the organization.

The Role of Performance Management

Performance management is a system that integrates the performance appraisal function with other human resources systems to help align employees' work behaviors with the organization's goals (Fisher, Schoenfeldt, and Shaw 2003). One of the most common performance evaluation mistakes is to focus on the annual review, which typically includes paperwork and an interview, both of which are often unpleasant for all parties. Without stretching the analogy, this approach is similar to the focus that most of us give to the annual physical, the one time in the year we think about our health. This is not to say that an annual performance review is not necessary, but this yearly event has a defined and often misunderstood purpose.

Annual appraisals are necessary, but performance management is ideally carried out on a daily basis. An effective supervisor provides feedback continuously and addresses and manages performance problems when they occur. In other words, if a child is experiencing an earache, it is unlikely that a parent will wait to address this until the child's next scheduled physical. Performance management is an ongoing function that includes the following managerial responsibilities and activities:

- Setting performance goals, and making development plans with the employee
- Monitoring employee progress toward the goals
- Providing continual coaching, training, and education as necessary
- Conducting annual performance appraisal against goals and development plan activities
- Establishing a development plan for next year (or another review cycle)

The Annual or Periodic Performance Review

The annual or periodic performance review is only one part of the performance management process, but it is an important part that requires attention. The periodic performance review provides an opportunity for a supervisor and an employee to reflect and plan. The review may include discussions about personnel decisions, such as a promotion, change in compensation, disciplinary action, transfer, or recommendation for training. The review is *not* a time to deliver surprises to employees. Supervisors should continually provide employees with feedback on their performance, and supervisors and employees should come into the annual appraisal with a view toward developing

improvement strategies and problem solving. The performance review should be reserved for the following:

- Giving employees the opportunity to discuss performance and performance standards
- Addressing employee strengths and weaknesses
- Identifying and recommending strategies for improving employee performance
- Discussing personnel decisions, such as compensation, promotion, and termination
- Defining a variety of regulatory requirements that deal with employee performance, and discussing compliance methods

The periodic performance review has both administrative and developmental purposes. Administrative purposes commonly refer to using performance information to make decisions about promotion, termination, and compensation. To defend against charges of discrimination, organizations attempt to maintain accurate and current performance appraisal information on employees. Developmental purposes typically relate to using performance information to improve employee performance; appraisal information identifies employee strengths and weaknesses, which then become the basis for developing improvement strategies. Organizations can, of course, use appraisals for both administrative and developmental purposes. However, there is considerable debate about whether or not a manager or supervisor can actually conduct an honest developmental appraisal, considering that the content of the evaluation has an impact on the employee's income, promotion potential, and other bread-and-butter issues. It is difficult and sometimes unrealistic to expect an employee to focus on his or her development while also waiting for the all-important information about compensation. A common practice is to separate the periodic performance review from the process of informing employees about compensation decisions, perhaps providing the latter information several weeks after the formal review.

Establishing Appraisal Criteria

As is the case with many other human resources activities, an effective performance management system must begin with clear job expectations and performance standards. Of particular importance is the need for managers and employees to agree on the content of the job description and to have a shared understanding of job expectations. Once an agreement is reached, employees and managers together must identify the specific measurable criteria by which performance will be evaluated. These criteria need to be job related and relevant to the needs of the organization. Developing criteria is a challenging task and requires employee-manager collaboration. Criteria must be agreed on well in advance of a formal performance appraisal interview. How should performance criteria be defined? What are useful criteria?

First, criteria should have strategic relevance to the organization as a whole. For example, if patient satisfaction is an important organizational concern, then it makes sense to include patient-relations criteria for employees who interact with these customers. Criteria for individual performance appraisal are in many ways an extension of criteria used to evaluate organizational performance.

Second, criteria should be comprehensive and take into consideration the full range of an employee's major functions as defined in the job description. Criterion deficiency occurs when performance standards focus on a single criterion to the exclusion of other important, but perhaps less quantifiable, performance dimensions (Barrett 1995; Sherman, Bohlander, and Snell 1998). For example, counting the number of visits made by a home care nurse may be relatively simple, but it is certainly more difficult (but no less important) to assess the quality of care provided during those visits.

Third, criteria should be free from contamination. *Criterion contamination* occurs when factors out of the employee's control have a significant influence on his or her performance. In healthcare, this is a particular problem because of the complexity of patient care and the interdependence of the factors that affect quality and clinical outcomes. Clinicians, for example, may have little control over patient volume or the speed with which laboratory test results are reported. Therefore, appraisal criteria should include only those items over which the employee has control.

Fourth, criteria should be reliable and valid. *Reliability* refers to the consistency with which a manager rates an employee in successive ratings (assuming consistent performance) or the consistency with which two or more managers rate performance when they have comparable information. Criteria can be made more reliable by selecting objective criteria and by training managers in applying the criteria. *Validity* is the extent to which appraisal criteria actually measure the performance dimension of interest. For example, if we are interested in measuring a nurse's ability to carry out the nursing responsibilities during emergency medical procedures, is it sufficient to assess knowledge of these responsibilities rather than actual performance under real emergency conditions? Questions of validity are also difficult when measuring attitudes deemed important for a particular job.

Collecting Job Performance Data

Traditional performance appraisal methods involve collecting information from the employee's supervisor. Typically, the supervisor observes the employee's performance using whatever format the organization has designed for performance appraisal (described later in this chapter) and records the appraisal information. Given the complexity of many jobs, however, it is often impossible for one individual to accurately describe each employee's performance. In recent years, various alternative approaches to performance data collection have been developed.

A *self-appraisal* is an evaluation done by the employee on himself or herself; it is generally done in conjunction with the manager's appraisal. This approach is very effective when a manager is seeking to obtain the involvement of the employee in the appraisal process, which is desirable under virtually all circumstances. Because of the obvious potential for bias on the part of the employee, self-appraisals are almost always done for developmental rather than administrative purposes.

Sometimes, managers become concerned with how their performance is perceived by those whom they oversee. In this instance, employees may conduct an evaluation of their boss. This type is also most useful for developmental purposes. *Subordinate appraisal* presents many benefits, among which are identifying the "blind spots" of managers and improving managerial performance. From the subordinate's perspective, this type of appraisal has obvious risks, as not all managers may take kindly to critiques and opinions and may retaliate toward the evaluator. Thus, such appraisals should be done anonymously; where this is not possible, the appraisal is unlikely to yield reliable results.

Team-based appraisal is beneficial in that it explicitly reinforces the importance of teamwork; in other words, measuring team accomplishments sends a message that the organization places a high value on team performance. Organizations may link team performance with pay, although team-based compensation is not a necessary component of team-based appraisal. *Team-based compensation* may exacerbate anxieties and frustrations with the "free-rider" syndrome, where one or more team members benefit from team rewards without putting forth corresponding effort. In using team-based appraisal, with or without compensation, it is critical that team members agree on behavior-based and outcome-based appraisal criteria. Team members may also be involved in assessing the performance of other team members. Again, this approach reinforces to employees the fact that the organization values responsible team behavior and team citizenship, and it has the potential for building team cohesion and enhancing communication. Several questions need to be addressed, including the manner in which team members are involved in appraisals: Are all team members involved in appraising every other team member? Who should provide the feedback to members? While this approach may help build teams, it also presents the risk of alienation and conflict if feedback is provided in a divisive manner. Therefore, whoever is selected to provide the feedback should be trained in interviewing and feedback techniques.

Among the most useful ways to collect job performance information is using multiple sources. *Multisource appraisal*—also known as 360-degree appraisal or multirater assessment—recognizes the fact that for many jobs, relying on one source of performance information is incomplete and inadequate. To obtain a comprehensive assessment of performance, perspectives must be

obtained from those within and outside the organization, including the manager or supervisor, peers, subordinates, clients, and other internal and external customers. The advantages of multisource appraisal include the following:

- Emphasis on aspects of performance valued by the organization
- Explicit recognition of the importance of customer focus
- Consistency with team development initiatives
- Contributor to employee involvement and development
- Minimal bias, as it includes multiple perspectives

Typically, multisource appraisal is done for developmental purposes, but it must be designed and administered with great care. Following are some of the limitations and potential pitfalls of multisource appraisal:

- Sources of feedback must have a level of trust in the organization, the managers, and the appraisal process.
- Employees must be assured of anonymity, which is difficult in a small organization or in an environment where a manager has a small span of control.
- Employees may use the appraisal for the purpose of retribution.
- The information obtained may be difficult to integrate or combine.
- The method of feedback must be done by a trained individual in a manner that encourages insight and growth.

Regardless of where performance information comes from (e.g., supervisors, coworkers, external customers), decisions need to be made about the types of information to be obtained in performance appraisals. In general, three types of information are possible:

1. Individual traits
2. Behaviors
3. Results or outcomes

These three types of information can be obtained using the various methods explored in the following section. Each approach has its strengths and shortcomings and is useful for particular types of jobs and circumstances.

Graphic rating scale refers to any rating scale that uses points along a continuum and that measures traits or behaviors (Cascui 1991). This method is the most common way to assess performance, largely because it is easy to construct and can be used for many different types of employees. As shown in Figure 10.1, such a scale aims to measure a series of dimensions through anchor points (e.g., 1 through 6) that indicate different levels of performance. As the example in the figure shows, both traits and behaviors of the employee are assessed. Note, however, that many of the items included in the figure, such as “flexible,” are prone to subjective judgment.

Graphic Rating Scale

FIGURE 10.1

Example of
a Graphic
Rating Scale

Please answer the following questions about this employee.

Question	Scale					
1. Rate this person's pace of work.	1	2	3	4	5	6
	slow					fast
2. Assess this person's level of effort.	1	2	3	4	5	6
	below					full
	capacity					capacity
3. What is the quality of this person's work?	1	2	3	4	5	6
	poor					good
4. How flexible is this person?	1	2	3	4	5	6
	rigid					flexible
5. How open is this person to new ideas?	1	2	3	4	5	6
	closed					open
6. How much supervision does this person need?	1	2	3	4	5	6
	a lot					a little
7. How readily does this person offer to help out by doing work outside his or her normal scope of work?	1	2	3	4	5	6
	seldom					often
8. How well does this person get along with peers?	1	2	3	4	5	6
	not well					very well

One of the drawbacks of a graphic rating scale is that it is quite general, often not representing specific behaviors that indicate positive or negative performance. The scale frequently does not yield information on how any item can be changed because the questions and statements for the behaviors or traits being rated are general. Because of this subjectivity, raters may be uncomfortable using this method, particularly when ratings are linked with compensation. Graphic rating scales can be improved by the use of behaviorally anchored rating scales, where specific observable behaviors are associated with each point on a scale.

Perhaps the most important drawback of graphic rating scales is that they typically do not weight behaviors and traits according to their importance to a particular job. In Figure 10.1, for example, pace of work (item 1) may be extremely relevant to the job of some employees but may be relatively unimportant to others. Thus, certain criteria may be less relevant for particular jobs. Related to this is the common practice of using a one-size-fits-all approach to

criteria—sometimes, a scale is borrowed from another organization and, at other times, a scale is adapted for another position, all without giving consideration to how the scale applies to the particular job or organization.

Ranking is a simple method of performance appraisal where managers rank employees simply from best to worst on some overall measure of employee performance. Such a method is typically employed for administrative purposes, such as making personnel decisions (e.g., promotions, layoffs). The major advantages of the ranking method are that it forces supervisors to distinguish among employees, and it does not have many of the problems associated with other appraisal methods. Among the disadvantages of ranking are as follows:

- Focuses only on a single dimension of work effectiveness and may not take into account the complexity of work situations
- Becomes cumbersome with large numbers of employees, forcing appraisers to artificially distinguish among employees
- Simply lists employees in order of their performance but does not indicate the relative differences in employees' effectiveness
- Provides no guidance on specific deficiencies in employee performance and therefore is not useful in helping employees improve

One type of ranking that has come under a great deal of criticism is the process of *forced ranking*, or forced distribution. With forced ranking, employees are evaluated not based on their own set of objectives but based on a comparison to other employees. Managers are instructed to force evaluations of employee performance into a particular distribution, which is similar to grading students "on a curve." For example, managers may be directed to distribute 15 percent of employees as high performers, 20 percent as moderately high, 30 percent as average, 20 percent as low average, and 15 percent as poor. Forced ranking has been rationalized in a number of ways, including (1) to ensure that lenient managers do not systematically inflate appraisals, (2) to push managers to distribute their rankings, and (3) to limit bonuses and other financial payouts. Although these objectives may be met by using forced ranking, they corrupt the entire purpose of performance appraisal, which is to obtain honest information that can be used for employee development and improvement.

The most controversial use of forced ranking is to force out poor performers, sometimes referred to as "rank or yank." This approach was made famous by Jack Welch, former chief executive officer of General Electric (Welch and Byrne 2003). Many variants of this Welch ranking strategy exist, but in essence it works this way: Managers are required to identify the top 20 percent, middle 70 percent, and lowest 10 percent of employees. The bottom 10 percent are told to improve or they will be terminated. The validity of this approach is hotly debated. One study of human resources executives, half of

Ranking

whom worked in organizations that use forced ranking, reported that this approach resulted in lower productivity, inequity, and skepticism and has negatively affected employee engagement, morale, trust in management, and collaboration (Novations Group 2004; Pfeffer and Sutton 2006). In addition, lawsuits have been filed at companies, such as Ford Motor Company and Goodyear, that challenge the legality of forced ranking, claiming that the process discriminates against older workers. Interestingly, Ford abandoned the forced distribution in 2001 and settled two class-action cases for about \$10.5 million (Bates 2003).

When forced ranking is used, the implicit assumption is that 10 percent of employees (or whatever percentage is selected) are poor employees and therefore perform at a level deemed worthy of dismissal. Finally, the usefulness of this approach in healthcare is limited because of critical staff shortages. That is, a hospital that is facing a nurse shortage would likely not consider a “rank or yank” strategy for its nursing staff.

Behavioral Anchored Rating Scale

Behavioral anchored rating scale (BARS) is a significant improvement over traditional graphic rating scales. This scheme provides specific behavioral descriptions of the different levels of employee performance—that is, poor, good, excellent, and so forth. Table 10.2 is an example of a BARS that measures aspects of the performance of a clinical trials coordinator. Note that the scale assesses the four dimensions of leadership, communications, delivery of results, and teamwork. In some instances, the behavioral measures are relatively easy to observe (e.g., delivery of results), while in other instances, the measures may be a bit more subjective (e.g., teamwork). Using BARS, a manager is able to explain the reason behind the ratings, rather than vaguely state “unacceptable” or “average” on the performance criteria. With BARS, a manager can explicitly state his or her expectations for improved performance.

The advantages of BARS include the following:

- Reduces rating errors because job dimensions are clearly defined for the rater and are relevant to the job being performed
- Clearly defines the response categories available to the rater
- Is more reliable, valid, meaningful, and complete
- Has a higher degree of acceptance and commitment from employees and supervisors
- Minimizes employee defensiveness and conflict with the manager because employees are appraised on the basis of observable behavior
- Improves a manager’s ability to identify areas for training and development

Developing a BARS for each job dimension for a particular job is not a trivial task. Among the disadvantages of a BARS is the amount of time, effort, and expense involved in its development. Use of this approach is most justifiable

TABLE 10.2

Behavioral
Anchored
Rating Scale for
a Clinical Trials
Coordinator

<i>Task Dimension</i>	<i>Scale</i>	<i>Definition</i>
<i>Leadership</i>	4	Identifies alternative methods that enhance productivity and quality and that eliminate unnecessary steps
	3	Takes the initiative to bring attention to productivity problems
	2	Has difficulty with change and with providing support for the required change
	1	Uses inappropriate interpersonal skills, and creates unproductive working relationships
<i>Communication</i>	4	Communicates openly, completely, and straightforwardly with management, peers, and coworkers
	3	Listens and seeks intent of communication
	2	Has difficulty with expressing decisions, plans, and actions
	1	Is unable to communicate accurately with team members
<i>Delivery of results</i>	4	Completes 90 percent to 100 percent of all projects within time frame and budget and according to standards
	3	Completes 75 percent to 90 percent of all projects within time frame and budget and according to standards
	2	Completes 50 percent to 75 percent of projects within time frame and budget; sometimes produces substandard work
	1	Completes less than 50 percent of projects within time frame and budget; frequently produces substandard work
<i>Teamwork</i>	4	Contributes positively to problem definition and takes responsibility for outcome
	3	Respects suggestions and viewpoints of others
	2	Has trouble with interactions with others and with understanding individual differences
	1	Does not contribute positively to team functioning

when a large number of jobholders are performing in the same position (e.g., nurses, transporters). BARS is most appropriate for jobs whose major components consist of physically observable behaviors.

A variation of BARS is the *behavioral observation scale* (BOS), a system that asks the rater to indicate the frequency with which the employee exhibits

specified highly desirable behaviors. Desirable behaviors are identified through job analysis and discussions with managers and supervisors. Figure 10.2 is an example of a BOS for a patient relations representative. As seen in the figure, six desirable behaviors for this job are identified, and the rater indicates the frequency with which each behavior is observed in the patient relations representative. As with BARS, those who use BOS have a clear understanding of the types of behaviors expected.

Critical Incident

The *critical incident* approach involves keeping a record of unusually favorable or unfavorable occurrences in an employee's work. This record is created and maintained by the employee's manager. A major strength of this method is that it provides a factual record of an employee's performance and can be very useful in subsequent discussions with the employee. The approach does require that the manager closely and continuously monitor employee performance, which is not always feasible, although linking a critical incident method with 360-degree feedback raises the possibility that incidents may be observed and recorded by a number of different individuals in the organization.

Documentation of critical incidents need not be very lengthy, but it should be tied to an important performance dimension. An example of a critical incident for a mental health case manager is given on the next page. This incident illustrates the employee's creativity and negotiation skills, an important performance dimension.

FIGURE 10.2
Behavioral
Observation
Scale for a
Patient
Relations
Representative

	Almost Never				Almost Always
1. Responds to patient or family concerns within 24 hours	1	2	3	4	5
2. Conducts investigations into complaints effectively	1	2	3	4	5
3. Communicates results of investigations to relevant parties	1	2	3	4	5
4. Follows up with patient or family after investigation	1	2	3	4	5
5. Identifies and analyzes both immediate and distant causes of patient complaints	1	2	3	4	5
6. Makes useful and practical recommendations for improvement based on results of investigation	1	2	3	4	5

In speaking with her client—an individual with severe mental disorder—the case manager discovered that the client was about to be evicted from her apartment for nonpayment of rent. She was able to work with the client and the landlord to work out a payment plan and to negotiate successfully with the landlord to have much-needed repairs in the apartment done. She followed up with the client weekly regarding payment to the landlord and the home repairs, and positive outcomes have been achieved in both areas.

Management by objectives (MBO) refers to a specific technique that has enjoyed substantial popularity. The basic premise of MBO is threefold: (1) the organization defines its strategic goals for the year, (2) these goals are then communicated throughout the organization, and (3) each employee in turn defines his or her goals for the year based on the organizational goals. Achievement of these goals becomes the standard by which each employee's performance is assessed (Carroll and Tosi 1973).

MBO has three key characteristics (Odiorne 1986):

1. It establishes specific and objectively measurable goals for employees.
2. It establishes goals in collaboration with employees.
3. It allows managers to provide objective feedback and coaching to improve employee performance.

As with most managerial practices, MBO is most effective when it is supported by and has the commitment of senior management. MBO requires managers to obtain substantial training in goal setting, giving feedback, and coaching. While goal setting is central to MBO, the process by which goals are set is of great importance as well.

Depending on the position of the jobholder, organizations may use a variety of results-oriented methods such as MBO. These approaches are most useful when the work yields objectively measurable outcomes. MBO is most commonly used for senior executives, for whom objectively measurable bottom-line concerns may be paramount; salespeople; and sports teams and individual athletes. The approach may be combined with other performance appraisal methods, particularly for jobs in which both the manner in which work is done and the outcomes are important and measurable.

The Cynicism About Performance Management

Many managers and employees are quite cynical about performance management. This cynicism grows out of a perception that aspects of performance management are distasteful and uncomfortable. Managers are often ill at ease about sitting down and discussing concerns with employees, and employees may resent the paternalism and condescension that often accompany such

Management by Objectives

processes. This cynicism is clearly based in the reality that performance appraisals are traditionally punitive in nature and, particularly when tightly tied to employee compensation, have high emotional content.

Regardless of the type of data used in performance appraisal, what persists are "rating errors," as social psychologists call them. *Rating errors* refer simply to distortions in performance appraisal ratings—whether positive or negative—that reduce the accuracy of appraisals. The most common rating errors are as follows:

- *Distributional*. These errors come from the tendency of raters to use only a small part of the rating scale. They come in three forms:
 1. *Lenient*: Some raters tend to be overly generous with giving positive ratings and, as such, can avoid conflict and confrontation.
 2. *Strict*: Some raters tend to be overly critical of performance and, as such, are deemed unfair when compared with other raters without such a tendency.
 3. *Central*: Some raters tend to rate every employee as average and, as such, can avoid conflict and confrontation.
- *Halo effect*. These errors result from the propensity of some raters to rate employees high (or low) on all evaluation criteria, without distinguishing between different aspects of the employee's work. This leads to evaluations that may be overly critical or overly generous.
- *Personal bias*. These errors arise because of some raters' tendency to rate employees higher or lower than is deserved because of the rater's personal like or dislike of the employee (Wexley and Nemeroff 1974).
- *Similar-to-me bias*. These errors stem from the likelihood of some raters to judge those who are similar to them more highly than they would those who are not like them. Research shows that the strongest impact of similarity occurs when a manager and an employee share demographic characteristics, such as race and age group (Noe et al. 1996).
- *Contrast effect*. These errors are created when raters compare employees with each other rather than use objective standards for job performance.

The most important strategy for overcoming these rating errors is user training in different rating methods. Typically, training helps to increase managers' familiarity with various rating scales and the specific level of performance associated with different points on these scales. The ultimate objective of such training is to increase each manager's consistency in using rating scales and to improve interrater reliability among managers. As a result, error rates are minimized. At a minimum, managers need to be aware of potential rating errors in performance appraisal. Strategies may be offered to help managers both identify their errors and develop strategies to avoid making errors. For example, managers may avoid distributional errors by improving their awareness of the appraisal tool and their understanding of the objective standards used to evaluate performance. Of course, the success of training efforts is

contingent on the existence of valid and reliable assessment instruments and clear performance standards.

The reality in organizational life is that, even with well-developed assessment tools and presumably effective management training programs, the process of performance appraisal is often tarnished not because of subtle or unconscious distortions but because of political pressures. Where political pressures are present, distortions are anything but unconscious. Political pressures may cause a manager to inflate, deflate, or completely avoid doing a performance review. One common source of political pressure is the reality that a manager will have to continue working with a particular employee. A mediocre or poor review (although realistic), then, may be perceived as a blemish in the employee-manager relationship and may upset the workplace climate and productivity. In such instances, a manager may inflate an appraisal to avoid the potential negative effects.

A manager may also artificially inflate an appraisal to permit awarding the employee a merit increase or other financial reward. While this destroys the intent of both the performance management and the compensation system, when faced with bread-and-butter issues, managers may choose to err on the side of generosity toward the employee. Managers may also inflate an appraisal to prevent an employee from having a written record of poor performance, to avoid a confrontation with an employee, or to reward an employee's improvement performance. Quoting a manager's observations about performance appraisal, Longenecker, Sims, and Gioia (1987) noted: "The mere fact that you have to write out your assessment and create a permanent record will cause people not to be as honest or as accurate as they should be. . . . We soften the language because our ratings go in the guy's file downstairs [the Personnel Department] and it will follow him around his whole career." As emphasized in this chapter, performance should be assessed using objective criteria. While improved performance may be recognized and discussed during a performance review session with an employee, it is important to stick with the criteria when assigning a rating to an employee's performance. Although somewhat rare, there are instances where a manager inflates an appraisal to enable an employee to be promoted "up and out" of the organization. This strategy obviously has highly questionable legal and ethical aspects. Finally, managers may sometimes give a break to an employee who is having personal problems.

Deflating an appraisal is also sometimes done to "shock" an employee into improving or to teach a rebellious employee a lesson. No evidence exists that such shock treatments are effective, but managers often use strategies with unproven effectiveness. Because careful documentation is usually required for employee termination, managers may also deflate an appraisal to speed up the termination process. Furthermore, providing an overly critical review could be viewed as a way of sending a message to an employee that he or she should think about leaving the organization. Table 10.3 summarizes these and other political

TABLE 10.3

Reasons
Managers
Inflate or
Deflate a
Performance
Appraisal

Reasons to Inflate

- Maximize merit increases for an employee, particularly when the merit ceiling is considered low
- Avoid hanging dirty laundry out in public if the appraisal information is viewed by outsiders
- Avoid creating a written record of poor performance that would become a permanent part of the individual's personnel file
- Avoid confrontation with an employee with whom the manager recently had difficulties
- Give a break to a subordinate who had shown improvements
- Promote an undesirable employee "up and out" of the organization

Reasons to Deflate

- Shock an employee back on to a higher performance track
- Teach a rebellious employee a lesson
- Send a message to an employee that he or she should think about leaving the organization
- Build a strongly documented record of poor performance that may speed up the termination process

SOURCE: Adapted from Longenecker, Sims, and Gioia (1987)

distortions to the appraisal process. Altering the appraisal process for political purposes is not condoned here, but such tampering has occurred and it is important to recognize the potential for this behavior. An enduring aspect of performance appraisal systems is that implementation is often fraught with problems; as we design performance management systems and train managers in their use, we need to be cognizant of the many opportunities for abuse and misuse.

Conducting Effective Performance Management Interviews

As noted earlier, the ultimate objective of performance management is to improve employee performance. Because performance management has historically focused on the evaluation or measurement aspects, relatively little attention has been given to its improvement aspects.

A key step in the improvement process is to provide performance information to the employee. Many managers are reluctant to provide feedback because of fear of confrontation and conflict. These are real concerns for both managers and employees, given many employees' negative experiences with performance management. In informal surveys that we conduct with our students, we typically learn that the great majority of students either rarely have

a performance evaluation or have had a poorly done evaluation. Finding a student who has had a well-implemented appraisal is relatively unusual for us.

The following are techniques for a valuable performance evaluation:

1. *Conduct an appraisal on an ongoing basis.* Checking on how an employee is performing should be a regular occurrence, not just done during the formal appraisal process. Giving continuous feedback is, after all, a key responsibility for managers. By providing ongoing feedback, surprises at the formal appraisal can be avoided.
2. *Evaluate the frequency of a formal performance appraisal.* The frequency of doing a formal appraisal varies to some degree on an employee's performance and longevity in the organization. For a high performer, an annual appraisal (as well as ongoing informal feedback) may be sufficient; such an assessment is usually done to reward good work, to reinforce existing levels of performance, and to discuss employee development and promotion possibilities. For an average performer, more frequent appraisals may be necessary to ensure that improvement goals are on track and will be achieved. For marginal or poor performers, formal appraisals may need to be held monthly (or perhaps more often) to provide an opportunity for closer coaching and, if necessary, disciplinary action.
3. *Prepare for the performance appraisal.* At the appraisal session, the manager should have a set of clear goals for the appraisal, be equipped with data, have a strategy for presenting performance information, be able to anticipate employee reactions, and be prepared to engage the employee in problem solving and planning. An appropriate physical location should be found, and relevant supporting information should be available as a reference.
4. *Use multiple sources of information.* Consistent with multirater or 360-degree appraisal, obtaining performance information from several sources is useful. This is particularly important in situations in which the manager is unable to adequately observe an employee's work, the job is highly complex, or the employee must interact with multiple individuals inside and outside the organization.
5. *Encourage employee participation.* Employee self-appraisal is commonly used as part of the appraisal process. The employee may have greater insight into his or her own performance concerns, and these are often consistent with the manager's assessment. An atmosphere should be created in which the appraisal is structured to benefit the employee, rather than be punitive. This positive environment may be difficult to create given many employees' negative perceptions of the performance appraisal process. Employee participation is also vital because the employee must assume accountability for improvement, and the first step

to being accountable is understanding what needs to be done and being involved in developing strategies toward that effort. Improvement should be viewed as a partnership between the manager and the employee.

6. *Focus on future performance and problem solving.* Reviewing past performance during an appraisal is important, but the emphasis of such a review should be on setting goals for the future and on generating specific strategies for meeting those goals. In many cases, the employee will identify factors outside of his or her control that may contribute to lower-than-expected levels of performance. These are certainly appropriate to discuss during an appraisal session. Follow-up sessions should also be scheduled as appropriate.
7. *Focus on employee behavior and results, not personal traits.* In almost all cases, the purpose of performance feedback is to help employees improve their work, not to change the person. The performance evaluation session is not the time to change an employee's values, personality, motivation, or fit with the organization. If these are true problems, they should have been considered during the selection process. The manager should focus on behaviors and outcomes, not the value of the person. Doling out condescending criticisms and reciting a litany of employee problems are rarely useful and are more likely to generate defensiveness and resentment from the employee.
8. *Reinforce positive performance.* Performance appraisal sessions have gained the reputation for being punitive and negative. One of the most effective ways that a manager can ally oneself with an employee is to ensure that the interview focuses on all aspects of performance, not just the negative. As in other areas of life, rewarding and reinforcing positive performance are essential aspects of productive human relationships.
9. *Ensure that performance management is supported by senior managers.* The best way to destroy any effort at implementing a performance management system is for word to get out that senior management is either unsupportive of or ambivalent about the process. Senior management must assert and communicate that performance management is important to meeting organizational goals and that it must be done at all levels of the workforce. If this message is absent or weak, the performance management system will either fade away or become a meaningless bureaucratic exercise.
10. *Plan follow-up activities and pay attention to expected outcomes and timetables.* Given the complex and hectic nature of organizations, it is easy to lose focus on the "important but not urgent" aspects of work. If plans are put into place, they should be accompanied by timetables, expectations, and concrete plans for follow-up. Without follow-up, the integrity of the performance management process is put into great jeopardy.

Summary

In the past several years, an important transition has taken place: Many organizations have moved from conducting performance appraisals to implementing performance management systems. Historically, performance appraisal focused primarily on judging employee behavior. The process was viewed as negative and punitive in nature and was generally avoided by both managers and employees. Performance management, however, implies an improvement-focused process in which efforts are made not only to assess performance but also to develop specific collaborative strategies to enhance performance. Recognizing that employee performance results from an employee's skills, motivation, and facilitative factors in the work environment, improvement strategies may include training, work process redesign, and other changes that are both internal and external to the employee.

An important aspect of performance management is the development of relevant appraisal criteria for the employee's position and the expectations of the organization. Appraisal data may be gathered through a variety of mechanisms, including self, subordinate, team members, and multisource or 360-degree feedback. Methods for organizing these data may involve a graphic rating scale, ranking, a behavioral anchored rating scale, a behavioral observation scale, a critical incidents record, and achievement of outcomes or objectives. The choice of approach is dependent on the job; the organizational goals; and, perhaps most important, the culture of the organization, particularly its readiness to confront performance issues honestly and openly.

Discussion Questions

1. What is the distinction between performance appraisal and performance management?
2. Why does the Joint Commission now require hospitals and other healthcare organizations to have a performance management system?
3. What is the relationship between performance management and continuous quality improvement?
4. What are the advantages and disadvantages to including discussions of compensation during a performance management interview?
5. What is the difference between performance appraisal rating errors and political factors that influence the accuracy of performance appraisal information?
6. How does a manager decide how often to conduct formal performance management interviews?
7. Why is employee participation in the performance management process important? Under what circumstances is employee participation not necessarily important?