

Third Edition

Performance Management

Herman Aguinis
Kelley School of Business
Indiana University

PEARSON

Boston Columbus Indianapolis New York San Francisco Upper Saddle River
Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montreal Toronto
Delhi Mexico City Sao Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

CONTENTS

Preface viii

Acknowledgments xiii

Dedication xiv

About the Author xiv

PART I Strategic and General Considerations 1

Chapter 1 Performance Management and Reward Systems in Context 1

- 1.1 Definition of Performance Management (PM) 2
- 1.2 The Performance Management Contribution 4
- 1.3 Disadvantages/Dangers of Poorly Implemented PM Systems 8
- 1.4 Definition of Reward Systems 10
 - 1.4.1 Base Pay 10
 - 1.4.2 Cost-of-Living Adjustments and Contingent Pay 11
 - 1.4.3 Short-Term Incentives 11
 - 1.4.4 Long-Term Incentives 11
 - 1.4.5 Income Protection 12
 - 1.4.6 Work/Life Focus 13
 - 1.4.7 Allowances 13
 - 1.4.8 Relational Returns 13
- 1.5 Aims and Role of PM Systems 14
 - 1.5.1 Strategic Purpose 15
 - 1.5.2 Administrative Purpose 16
 - 1.5.3 Informational Purpose 16
 - 1.5.4 Developmental Purpose 16
 - 1.5.5 Organizational Maintenance Purpose 16
 - 1.5.6 Documentational Purpose 17
- 1.6 Characteristics of an Ideal PM System 18
- 1.7 Integration with Other Human Resources and Development Activities 23
- 1.8 Performance Management Around the World 24
 - ▶ **CASE STUDY 1-1: Reality Check: Ideal Versus Actual Performance Management System 28**
 - ▶ **CASE STUDY 1-2: Performance Management at Network Solutions, Inc. 31**
 - ▶ **CASE STUDY 1-3: Distinguishing Performance Management Systems from Performance Appraisal Systems 32**

Chapter 2 Performance Management Process 37

- 2.1 Prerequisites 38
- 2.2 Performance Planning 46
 - 2.2.1 Results 46
 - 2.2.2 Behaviors 46
 - 2.2.3 Development Plan 47

- 2.3 Performance Execution 48
- 2.4 Performance Assessment 49
- 2.5 Performance Review 50
- 2.6 Performance Renewal and Recontracting 52
 - ▶ CASE STUDY 2-1: Job Analysis Exercise 55
 - ▶ CASE STUDY 2-2: Disrupted Links in the Performance Management Process at "Omega, Inc." 55
 - ▶ CASE STUDY 2-3: Performance Management at the University of Ghana 56

Chapter 3 Performance Management and Strategic Planning 59

- 3.1 Definition and Purposes of Strategic Planning 60
- 3.2 Process of Linking Performance Management to the Strategic Plan 61
 - 3.2.1 Strategic Planning 65
 - 3.2.2 Developing Strategic Plans at the Unit Level 74
 - 3.2.3 Job Descriptions 76
 - 3.2.4 Individual and Team Performance 77
- 3.3 Building Support 79
 - ▶ CASE STUDY 3-1: Evaluating Vision and Mission Statements at Pepsico 82
 - ▶ CASE STUDY 3-2: Dilbert's Mission Statement Generator 83
 - ▶ CASE STUDY 3-3: Linking Individual with Unit and Organizational Priorities 84
 - ▶ CASE STUDY 3-4: Linking Performance Management to Strategy at Procter & Gamble 84

PART II System Implementation 87

Chapter 4 Defining Performance and Choosing a Measurement Approach 87

- 4.1 Defining Performance 88
- 4.2 Determinants of Performance 89
 - 4.2.1 Implications for Addressing Performance Problems 90
 - 4.2.2 Factors Influencing Determinants of Performance 91
- 4.3 Performance Dimensions 91
- 4.4 Approaches to Measuring Performance 95
 - 4.4.1 Behavior Approach 95
 - 4.4.2 Results Approach 96
 - 4.4.3 Trait Approach 99
 - ▶ CASE STUDY 4-1: Diagnosing the Causes of Poor Performance 101
 - ▶ CASE STUDY 4-2: Differentiating Task from Contextual Performance 102
 - ▶ CASE STUDY 4-3: Choosing a Performance Measurement Approach at Paychex, Inc. 102
 - ▶ CASE STUDY 4-4: Deliberate Practice Makes Perfect 103

Chapter 5 Measuring Results and Behaviors 106

- 5.1 Measuring Results 107
 - 5.1.1 Determining Accountabilities 107

5.1.2	Determining Objectives	109
5.1.3	Determining Performance Standards	111
5.2	Measuring Behaviors	112
5.2.1	Comparative Systems	115
5.2.2	Absolute Systems	118
▶	CASE STUDY 5-1: Accountabilities, Objectives, and Standards	126
▶	CASE STUDY 5-2: Evaluating Objectives and Standards	126
▶	CASE STUDY 5-3: Measuring Competencies at the Department of Transportation	127
▶	CASE STUDY 5-4: Creating BARS-Based Graphic Rating Scales for Evaluating Business Student Performance in Team Projects	128
Chapter 6	Gathering Performance Information	130
6.1	Appraisal Forms	131
6.2	Characteristics of Appraisal Forms	137
6.3	Determining Overall Rating	140
6.4	Appraisal Period and Number of Meetings	143
6.5	Who Should Provide Performance Information?	146
6.5.1	Supervisors	146
6.5.2	Peers	146
6.5.3	Subordinates	147
6.5.4	Self	148
6.5.5	Customers	149
6.5.6	Disagreement Across Sources: Is This a Problem?	149
6.6	A Model of Rater Motivation	150
6.7	Preventing Rating Distortion Through Rater Training Programs	153
▶	CASE STUDY 6-1: Evaluating an Appraisal Form Used in Higher Education	157
▶	CASE STUDY 6-2: Judgmental and Mechanical Methods of Assigning Overall Performance Score at <i>The Daily Planet</i>	162
▶	CASE STUDY 6-3: Minimizing Intentional and Unintentional Rating Errors	164
▶	CASE STUDY 6-4: Minimizing Biases in Performance Evaluation at Expert Engineering, Inc.	165
Chapter 7	Implementing a Performance Management System	168
7.1	Preparation: Communication, Appeals Process, Training Programs, and Pilot Testing	169
7.2	Communication Plan	170
7.3	Appeals Process	174
7.4	Training Programs for the Acquisition of Required Skills	176
7.4.1	Rater Error Training	177
7.4.2	Frame of Reference Training	180
7.4.3	Behavioral Observation Training	181
7.4.4	Self-Leadership Training	182
7.5	Pilot Testing	184
7.6	Ongoing Monitoring and Evaluation	185

- 7.7 Online Implementation 188
 - ▶ **CASE STUDY 7-1: Implementing a Performance Management Communication Plan at Accounting, Inc.** 192
 - ▶ **CASE STUDY 7-2: Implementing an Appeals Process at Accounting, Inc.** 192
 - ▶ **CASE STUDY 7-3: Evaluation of Performance Management System at Accounting, Inc.** 192
 - ▶ **CASE STUDY 7-4: Training the Raters at Big Quality Care** 193

PART III Employee Development 195

Chapter 8 Performance Management and Employee Development 195

- 8.1 Personal Developmental Plans 196
 - 8.1.1 Developmental Plan Objectives 197
 - 8.1.2 Content of Developmental Plan 199
 - 8.1.3 Developmental Activities 200
- 8.2 Direct Supervisor's Role 203
- 8.3 360-Degree Feedback Systems 206
 - 8.3.1 Advantages of 360-Degree Feedback Systems 213
 - 8.3.2 Risks of Implementing 360-Degree Feedback Systems 215
 - 8.3.3 Characteristics of a Good System 215
 - ▶ **CASE STUDY 8-1: Developmental Plan Form at Old Dominion University** 220
 - ▶ **CASE STUDY 8-2: Evaluation of a 360-Degree Feedback System Demo** 220
 - ▶ **CASE STUDY 8-3: Implementation of 360-Degree Feedback System at Ridge Intellectual** 221
 - ▶ **CASE STUDY 8-4: Personal Developmental Plan at Brainstorm, Inc.—Part I** 221
 - ▶ **CASE STUDY 8-5: Personal Developmental Plan at Brainstorm, Inc.—Part II** 222

Chapter 9 Performance Management Skills 226

- 9.1 Coaching 227
- 9.2 Coaching Styles 233
- 9.3 Coaching Process 233
 - 9.3.1 Observation and Documentation of Developmental Behavior and Outcomes 235
 - 9.3.2 Giving Feedback 239
 - 9.3.3 Disciplinary Process and Termination 245
- 9.4 Performance Review Meetings 248
 - ▶ **CASE STUDY 9-1: Was Robert Eaton a Good Coach?** 256
 - ▶ **CASE STUDY 9-2: What Is Your Coaching Style?** 257
 - ▶ **CASE STUDY 9-3: Preventing Defensiveness** 259
 - ▶ **CASE STUDY 9-4: Recommendations for Documentation** 260

PART IV Reward Systems, Legal Issues, and Team Performance Management 263

Chapter 10 Reward Systems and Legal Issues 263

- 10.1 Traditional and Contingent Pay Plans 264
- 10.2 Reasons for Introducing Contingent Pay Plans 265

10.3	Possible Problems Associated with Contingent Pay Plans	268
10.4	Selecting a Contingent Pay Plan	270
10.5	Putting Pay in Context	272
10.6	Pay Structures	276
10.6.1	Job Evaluation	277
10.6.2	Broad Banding	279
10.7	Performance Management and the Law	280
10.8	Some Legal Principles Affecting Performance Management	281
10.9	Laws Affecting Performance Management	284
▶	CASE STUDY 10-1: Making the Case for a CP Plan at Architects, Inc.	289
▶	CASE STUDY 10-2: Selecting a CP Plan at Dow AgroSciences	289
▶	CASE STUDY 10-3: Contingency Pay Plan at Altenergy LLC	290
▶	CASE STUDY 10-4: Possible Illegal Discrimination at Tractors, Inc.	291
Chapter 11	Managing Team Performance	294
11.1	Definition and Importance of Teams	295
11.2	Types of Teams and Implications for Performance Management	296
11.3	Purposes and Challenges of Team Performance Management	298
11.4	Including Team Performance in the Performance Management System	299
11.4.1	Prerequisites	300
11.4.2	Performance Planning	302
11.4.3	Performance Execution	303
11.4.4	Performance Assessment	304
11.4.5	Performance Review	305
11.4.6	Performance Renewal and Recontracting	306
11.5	Rewarding Team Performance	307
▶	CASE STUDY 11-1: Not All Teams Are Created Equal	309
▶	CASE STUDY 11-2: Team Performance Management at Duke University Health Systems	310
▶	CASE STUDY 11-3: Team-Based Rewards for the State of Georgia	312
▶	CASE STUDY 11-4: Team Performance Management at Bose	313