**Strategic and General Considerations**

# **Performance Management and Reward Systems in Context**

(Please note that answers to all questions are located at the end of this chapter, following the essay questions.)

# **True/False Questions**

1. A performance management system is the systematic description of an employee’s strengths and weaknesses.

**(Suggested points: 2, [1.2])**

1. Linking each individual’s performance to the organization’s mission involves explaining to each employee how the employee’s activities are helping the organization gain a competitive advantage.

**(Suggested points: 2, .5[1.1], .5[1.7])**

1. Feedback often decreases motivation to perform because it points out what an employee does wrong.

**(Suggested points: 2, [1.3])**

1. Dangers of a poorly implemented performance management system include wasted time and money, lack of standardized employee ratings, and confusion on how ratings are obtained.

**(Suggested points: 2, [1.4])**

1. Intangible returns include benefits and work/life programs.

**(Suggested points: 2, [1.6])**

1. Exempt employees are often employees in managerial or professional roles on salaries, and are not eligible for overtime pay.

**(Suggested points: 2, [1.6])**

1. Short-term incentives are one-time payments typically given quarterly or annually.

**(Suggested points: 2, [1.6])**

1. The strategic purpose of PM systems involves constructing the strategic vision for the organization.

**(Suggested points: 2, [1.7])**

1. A reliable performance management system includes all relevant performance facets and does not include irrelevant performance facets.

**(Suggested points: 2, [1.8])**

1. Distributive justice is the perception that the performance evaluation received is fair relative to the work performed.

**(Suggested points: 2, [1.8])**

1. Performance management systems in foreign subsidiaries often differ from those in home country headquarters as differences in the power distance (i.e., the degree to which a society accepts unequal distribution of power) increase between/among countries.

**(Suggested points: 2, [1.11])**

# **Multiple-Choice Questions**

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization.
2. Strategic planning
3. Performance management
4. Reward system
5. Performance appraisal

**(Suggested points: 2, [1.1])**

1. Dangers of a poorly implemented performance management system include all of the following EXCEPT:
2. Increased emphasis on behaviors rather than results
3. Lawsuits/internal complaints of discrimination
4. Biased performance ratings
5. Decreased employee motivation

**(Suggested points: 2, [1.4])**

1. When employees of an organization do not see the PM system as fair, the organization may witness from its employees all of the following EXCEPT:
2. Job burnout
3. Lowered self-esteem
4. Increased turnover
5. Lawsuits

**(Suggested points: 2, [1.4])**

1. Income protection programs include:
2. Pension Plans
3. Medical Insurance
4. Social Security
5. All of the above

**(Suggested points: 2, [1.6])**

1. \_\_\_\_\_\_\_\_\_\_\_\_\_ focuses on positions and duties, rather than on an individual’s contribution.
2. Contingent pay
3. Base pay
4. Cost-of-living adjustments
5. Short-term incentives

**(Suggested points: 2, [1.6])**

1. The \_\_\_\_\_\_\_\_\_\_\_ purpose of PM systems is to furnish valid and useful information for making employment decisions including salary adjustments, promotions, and terminations.
2. strategic
3. informational
4. administrative
5. developmental

**(Suggested points: 2, [1.7])**

1. Information gained from the organizational maintenance purpose of a PM system is used for all of the following EXCEPT:
2. Workforce planning
3. Evaluating the effectiveness of job descriptions
4. Evaluating the effectiveness of HR programs
5. Creating talent inventories

**(Suggested points: 2, [1.7])**

1. Performance management systems should be thorough, meaning that:
2. All employees should be evaluated
3. An employee’s flaws should be discussed at length
4. The review should cover the entire review period
5. A and C

**(Suggested points: 2, [1.4])**

1. An ideal PM system is \_\_\_\_\_\_\_\_\_\_, which means that performance is evaluated and feedback is given on an ongoing basis, the appraisal meeting consists of two-way communication, and performance standards are clear.
2. open
3. standardized
4. ethical
5. specific

**(Suggested points: 2, [1.8])**

1. PM system information is important for the effective implementation of which of the following HR function(s)?
2. Workforce planning
3. Training
4. Recruitment and selection
5. All of the above

**(Suggested points: 2, [1.10])**

1. All of the following are possible benefits of a performance management system EXCEPT:
2. Protection from lawsuits
3. Employees become more ethical
4. Employees become more competent
5. The definitions of job and criteria are clarified

**(Suggested points: 2, [1.3])**

1. Which of the following does the text identify as a possible danger of a poorly implemented performance management system?
2. Salaries must be increased.
3. Poorly performing employees will always stay at the organization.
4. No time or money is spent on the system.
5. Motivation to perform is decreased.

**(Suggested points: 2, [1.4])**

1. Tangible returns include:
2. Base pay
3. Learning opportunities
4. Respect from coworkers
5. None of the above

**(Suggested points: 2, [1.6])**

1. Relational returns include:
2. Income protection
3. Recognition and status
4. Challenging work
5. B and C

**(Suggested points: 2, [1.6])**

1. Pay that focuses on position and duties performed rather than on a specific individual’s contribution is called:
2. Base pay
3. Pay raises
4. Salary
5. Relational returns

**(Suggested points: 2, [1.6])**

1. Pay added to base pay that depends upon an employee’s performance is called:
2. An allowance
3. Contingent pay
4. Relational return
5. A benefit

**(Suggested points: 2, [1.6])**

1. Relational returns include all of the following EXCEPT:
2. Challenging work
3. Performance bonuses
4. Employment security
5. Recognition and status

**(Suggested points: 2, [1.6])**

1. All of the following are characteristics of an ideal performance management system EXCEPT:
2. Reliability
3. Meaningfulness
4. Inexpensive
5. Thorough

**(Suggested points: 2, [1.8])**

1. Which of the following are examples of work/life focus?
2. Counseling
3. Financial planning
4. Relational returns
5. A and B

**(Suggested points: 2, [1.6])**

1. A purpose of a performance management system is to:
2. Get rid of poorly performing employees
3. Provide documentation
4. Increase profits
5. Give the HR department something to do

**(Suggested points: 2, [1.7])**

1. An ideal performance management system is correctable. What does this mean?
2. If an employee is dissatisfied with a rating, it will be changed.
3. If an employee is dissatisfied with a rating, there is a process to appeal the rating decision.
4. An ideal performance management system is not correctable.
5. None of the above is correct.

**(Suggested points: 2, [1.8])**

1. In the context of performance management, validity means that the measures of performance are trusted and perceived as fair by the employees.
2. True
3. False

**(Suggested points: 2, [1.8])**

1. In the context of performance management, validity means that all the employees agree with the rating process.
2. True
3. False

**(Suggested points: 2, [1.8])**

1. In which country is PM usually adapted to the country’s unique culture?
2. South Korea
3. South Africa
4. Australia
5. All of the above

**(Suggested points: 2, [1.11])**

1. In what manner is performance management typically similar around the world?
2. Standardization of performance measurement
3. Emphasis on behavior versus results of employee performance
4. Interpersonal aspects
5. None of the above

**(Suggested points: 2, [1.11])**

1. In what aspect is performance management generally different around the world?
2. Interpersonal aspects
3. Standardization of performance measurement
4. Alignment of individual and organizational goals
5. All of the above

**(Suggested points: 2, [1.11])**

1. Since the 1997 Asian financial crisis, the main ongoing challenge for many organizations in South Korea has been to \_\_\_\_\_\_\_\_\_\_.
2. incorporate the traditional emphasis on social harmony to PM systems
3. recruit and incentivize a more internationally and racially diverse workforce
4. reconcile a merit-based approach with more traditional, seniority-based values
5. develop greater sensitivity to equal opportunity and due process issues

**(Suggested points: 2, [1.11])**

# **Essay-Type Questions**

1. You want to transition your organization’s performance appraisal system into a performance management system. Write a one-page memo to your supervisor describing the advantages of having a well-designed, properly implemented performance management system.

**(Suggested points: 2, [1.3])**

1. Organizations can reward employees in several ways. Please list and describe five possible rewards that employees can receive and explain when an organization should use each reward.

**(Suggested points: 2, [1.5])**

1. There are several characteristics of an ideal performance management system. Please discuss each characteristic of an ideal system and explain how an organization can achieve each characteristic. (For example, one characteristic of an ideal PM system is that it is reliable. An organization can make its system reliable by ensuring that performance measures are consistent across equally or similarly qualified judges and free of error.)

**(Suggested points: 2, [1.8])**

1. According to the text, performance management is …

**(Suggested points: 2, [1.1])**

1. What is the definition of a reward system according to the text?

**(Suggested points: 2, [1.5])**

1. If an employee at XYZ, Inc. manufactures the greatest number of error-free high chairs for the month, he or she will receive a one-time bonus of $100.00. What type of reward is this?

**(Suggested points: 2, [1.6])**

1. Performance management systems serve many purposes. Describe the developmental purpose.

**(Suggested points: 2, [1.7])**

1. Describe the strategic purpose of performance management.

**(Suggested points: 2, [1.7])**

1. What is meant when we say that an ideal performance management system must be practical?

**(Suggested points: 2, [1.8])**

1. What is meant when we say that an ideal performance management system must be valid?

**(Suggested points: 2, [1.8])**

1. What is meant when we say that an ideal performance management system must be reliable?

 **(Suggested points: 2, [1.8])**

1. List the possible dangers of a poorly implemented performance management system.

**(Suggested points: 2, [1.4])**

1. List the possible contributions of a good performance management system.

**(Suggested points: 2, [1.3])**

1. What is contextual congruency? How does it differ from strategic congruency?

**(Suggested points: 2, [1.11])**

1. When might a 360-degree feedback system backfire?

**(Suggested points: 2, [1.11])**

1. How do PM systems in the United States typically differ from those in Japan?

**(Suggested points: 2, [1.11])**

1. Given your knowledge about or experience in a foreign country, briefly discuss how a typical PM system in the country might be similar to yet different from a typical PM system in the United States or in your home country.

**(Suggested points: 2, [1.11])**

1. What are some important issues to consider for the successful implementation of performance management systems in China?

**(Suggested points: 2, [1.11])**

# **Answers**

1. F: A performance appraisal is the systematic description of an employee’s strengths and weaknesses. A performance management system is the continuous process of aligning a given set of organizational goals with individual/team performance, which are, also continuously, identified, measured, and developed.
2. T
3. F: If done correctly, receiving feedback about one’s performance increases the motivation for future performance.
4. T
5. F: Intangible returns, also known as relational returns, include recognition and status, employment security, challenging work, opportunities to form personal relationships at work (including friendships and romances), and learning opportunities. In contrast, tangible rewards include cash compensation (i.e., base pay, cost-of-living pay, merit pay, short-term incentives, and long-term incentives) and benefits (i.e., income protection, work/life focus including vacation time, tuition reimbursement, and allowances).
6. T
7. T
8. F: The strategic purpose of PM systems is to link an organization’s goals with individuals’ goals.
9. F: This describes a system’s validity, not reliability. A reliable performance management system is consistent. For example, if two supervisors provided ratings of the same employee, or if one supervisor rated the same employee twice over a short period of time during which nothing noticeable occurs, then the ratings should be similar or identical.
10. T
11. T
12. B
13. A
14. B
15. D
16. B
17. C
18. B
19. D
20. A
21. D
22. B
23. D
24. A
25. D
26. A
27. B
28. B
29. C
30. D
31. B
32. B
33. B
34. B
35. D
36. A
37. A
38. C
39. Memos will vary, but they should all include the following benefits of a well-designed and implemented PM system:

Performance appraisal is the systematic description of an employee’s strengths and weaknesses, whereas performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization.

1. Increased motivation to perform. If given correctly, feedback can increase the motivation to improve future performance.
2. Increased self-esteem. Receiving feedback about one’s performance fulfills a basic need to be appreciated and valued at work. Feeling appreciated and valued will increase an employee’s self-esteem.
3. Managers gain insight about subordinates. Direct supervisors and other managers in charge of the appraisal gain new insights into the person being appraised.
4. Clarification and definition of job and criteria. The job of the person being appraised may be clarified and better defined; thus, employees gain a better understanding of what it takes to be a successful performer.
5. Self-insight and development. Participants in the system also gain a better understanding of their strengths and weaknesses, which can help them better define future career paths.
6. Fair and appropriate administrative actions. Performance management systems provide valid information about performance that can be used for administrative actions such as merit increases, promotions, transfers, and terminations.
7. Organizational goals made clear. The goals of the unit and organization are made clear.
8. More competent employees. Performance of employees is improved, especially when developmental plans are put in place.
9. Protections from lawsuits. Data collected through performance management systems can help document compliance with regulations.
10. Differentiates between good and poor performers. Performance management systems allow for a quicker identification of good and poor performers.
11. Communicates supervisor’s view of performance. Good systems force managers to communicate to their subordinates their judgments and expectations regarding performance.
12. Answers can include a combination of any of the rewards listed below along with the explanation of when an organization should use that reward:
13. Base Pay: given to employees in exchange for the work performed. The base pay focuses on the position and duties performed rather than an individual’s contribution. Base pay can be used when employees perform similar duties and the organization wants a way to account for similarities across the organization.
14. Cost-of-Living Adjustments: the same percentage increase for all employees regardless of their individual performance. Cost-of-living adjustments are given to combat the effects of inflation by preserving the buying power of the dollar.
15. Contingent Pay: given as an addition to the base pay based on past performance. It can be used when an organization wants to link compensation to performance.
16. Short-Term Incentives: incentives are allocated based on past performance and aim to increase motivation in the short-term. Short-term incentives can be used when a company wants to reward performance but may not have the funds to make permanent salary increases.
17. Long-Term Incentives: attempt to influence future performance over a longer period of time. Long-term incentives may be used to retain top performers by getting the employee to invest in the organization’s success.
18. Income Protection: serves as a back-up to employees’ salaries in the event that employees are sick, disabled, or no longer able to work. This is a good way to protect all employees from income lost due to illness, injury, death, or loss of employment.
19. Work/Life Focus: programs that help employees achieve a better balance between work and non-work activities. Organizations can use these to attract a certain population (e.g., working mothers who want more flexibility in their jobs).
20. Allowances: allowances covering housing and transportation. These are typically given to expatriate personnel to ease the burden of not operating in their home countries.
21. Relational Returns: include recognition and status, employment security, challenging work, opportunities to learn, and opportunities to form personal relationships at work (including friendships and romances). These are great ways to motivate all employees at all times.
22. An ideal performance management system is also:
23. Congruent with strategy. The system should be congruent with the unit’s and organization’s strategy. Organizations need to ensure that individual goals are aligned with unit and organizational goals.
24. Congruent with context. The system should be congruent with the organization’s culture as well as the broader cultural context of the region or country.
25. Thorough. All employees should be evaluated, all major job responsibilities should be evaluated, the evaluation should include performance spanning the entire review period, and feedback should be given on positive performance aspects as well as those that are in need of improvement. Organizations should train managers on how to give thorough reviews.
26. Practical. Good systems are available, easy to use, and acceptable to those who want to use them to make decisions, and the benefits of using the system outweigh the costs. Organizations need to get employee and manager input when designing the PM system to ensure that both parties are able to use the system and trust its results.
27. Meaningful. The standards and evaluations conducted for each job function must be considered important and relevant, the system must emphasize those functions that are under the control of the employee only, evaluations must take place at regular intervals and at appropriate moments, the system should provide for continuing skill development of evaluators, and the results should be used for important administrative decisions. Again, organizations must involve employees and managers in the development of the system and train them on how to use the system effectively in order for it to be meaningful.
28. Specific. A good system provides detailed and concrete guidance to employees about what is expected of them and how they can meet these expectations. Supervisors must clearly communicate to employees what is expected of them.
29. Identifies effective and ineffective performance. The system discriminates between effective and ineffective performance. Organizations design performance criteria in a way that distinguishes between good and bad performance.
30. Reliable. The system uses performance measures that are consistent, free of error, and high in inter-rater reliability.
31. Valid. The measures of performance are relevant (i.e., include important performance facets), they are not deficient (i.e., do not include unimportant performance facets), and they are not contaminated (because they measure only what the employee can control). Organizations identify through job analysis what are essential for the job and only measure those results and behaviors.
32. Acceptable and Fair. A good system is acceptable and perceived as fair by all participants. Organizations can set clear rules that are applied consistently by all supervisors.
33. Inclusive. Good systems include input from multiple sources on an ongoing basis. Organizations should encourage employees to conduct self-appraisals, and employees must participate in the process of creating the system by providing input regarding what should be measured and how it should be measured.
34. Open. Performance is evaluated frequently, performance feedback is provided on an ongoing basis, the appraisal meeting consists of a two-way communication, and standards are clear and communicated continually. Organizations should train managers on how to effectively give feedback and communicate expectations to their employees.
35. Correctable. When employees perceive an error has been made, there should be a mechanism through which this can be corrected. Organizations should establish an appeals process, through which employees can challenge what may be unjust decisions. This is an important aspect of a good performance management system.
36. Standardized. As noted previously, good systems are standardized. This means that performance is evaluated consistently across people and time. Organizations must train individuals in charge of appraisals.
37. Ethical. Good systems comply with ethical standards. Organizations should train managers to suppress personal self-interest when providing evaluations, to only evaluate performance dimensions for which they have sufficient information, and to respect the employee.
38. A continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization.
39. A reward system is the set of mechanisms for distributing both tangible and intangible returns as part of an employment relationship.
40. A one-time bonus is a short-term incentive.
41. A performance management system serves a developmental purpose by using performance feedback to allow individuals to learn about their strengths and weaknesses, by identifying training needs, and by helping management and employees to make better decisions regarding job assignments.
42. A performance management system serves a strategic purpose by linking the organization’s goals with individual employee goals; in this way, the performance management system reinforces behaviors consistent with organizational goals.
43. When we say that an ideal performance management system is practical, we mean that it is available, easy to use, and acceptable to those who want to use it for decisions, and the benefits of using the system outweigh the costs.
44. When we say that an ideal performance management system is valid, we mean that the measures of performance are relevant (i.e., include important performance facets), they are not deficient (i.e., do not include unimportant performance facets), and they are not contaminated (because they measure only what the employee can control).
45. When we say that an ideal performance management system is reliable, we mean that the system uses performance measures that are consistent across judges of equal or similar qualification and free of error.
46. Possible dangers of a poorly-implemented performance management system include the following:
47. Employees may quit.
48. False or misleading information may be used for rating.
49. Self-esteem of employees may be lowered.
50. Time and money are wasted.
51. Relationships are damaged.
52. Motivation to perform is decreased.
53. Employees may suffer from job burnout and dissatisfaction.
54. Increased risk of litigation.
55. Unjustified demands are made upon managers’ resources.
56. Standards and ratings vary and are unfair.
57. Biases can replace standards.
58. Mystery surrounds how ratings were derived.
59. Possible contributions of a good performance management system include the following:
60. Motivation to perform is increased.
61. Self-esteem of employees is increased.
62. Managers gain insight about subordinates.
63. Definition of job and criteria are clarified.
64. Self-insight and development are enhanced.
65. Administrative actions are more fair and appropriate.
66. Organizational goals are made clear.
67. Employees become more competent.
68. There is better protection from lawsuits.
69. There is better and timelier differentiation between good and poor performers.
70. Supervisor’s views of performance are communicated more clearly.
71. Organizational change is facilitated.
72. Contextual congruency refers to a performance management system’s congruency with the organization’s culture as well as the broader cultural context of the region or country. In contrast, strategic congruency refers to the system’s congruency between individual/team performance and unit- and firm-level strategic goals.
73. Communication in an organization may not occur smoothly. The same organization might also have rigid hierarchies. Given such, a 360-degree feedback system, which provides feedback to employees from their superiors, peers, and subordinates, may not work in such an organization. Specifically, employees in the organization may resist feedback received from superiors due to the lack of smooth communication. The resistance may be especially strong when the feedback comes from peers and subordinates who are not “superior” to the employee receiving feedback in the hierarchical system.
74. In general, performance management systems in Japan tend to emphasize behaviors to the detriment of results. On the other hand, PM systems in the United States typically focus on results more than on behaviors.
75. Sample answer: After 1999, public service agencies in South Africa abandoned the “one-size-fits-all approach” to performance management. Instead, “each [department was] allowed to develop its own HR policies & systems, within a framework of uniform norms & standards.”[[1]](#footnote-1)
76. Important issues to consider for successful implementation of performance management systems in China include respect for age and seniority and the emphasis on social harmony.
1. [↑](#footnote-ref-1)