

BS ritgerð
Business Management

Performance Reviews' Effectiveness as a Tool for
Evaluating Achievement of Goals and Motivating
Employee Performance

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Executive Summary

The objective of this Bachelor of Science (BS) dissertation is to discuss whether performance reviews are effective as both a control tool for management and a motivation tool for employees.

The dissertation consists of two sections. The first discusses theory and methods of performance reviews and looks at factors that influence employees' behavior and job performance. The second part consists of interviews with three managers of three local companies and their empirical observations on the effectiveness of annual performance reviews.

The interview results clearly reveal that management does not find annual performance reviews to be sufficiently effective. The managers felt that for the performance reviews to yield better results, the follow-up frequency needs to be on a monthly basis at minimum; however, the employees' field of work factors into that. If the career is an aggressive one like marketing or sales the employee needs to be kept motivated. The managers also felt that with good follow-up and encouragement, employees could be better guided to stay motivated and achieve the organization's objectives or goals. Employees' work ethic also improved, and they perform better. The desire to perform better, as well as the motivation to achieve individual, and therefore company, objectives increased. The managers achieved a better connection to and improved relations with those employees who received frequent reviews and prompt feed-back. The employees felt like part of the team and that their contribution mattered to the company.

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1 Introduction

The idea behind Performance Management is to set goals for the various divisions of a company so that the organization can reach its main objectives or goals. Frequent staff meetings, daily or weekly, are necessary so as to motivate employees and to discuss what needs to be done to keep employees on track so that the goals can be met (Dessler, 2005). A company's success depends upon the skills and abilities of its employees; with the competitive nature of today's business environment it is imperative that employees be the best they can be so that the company can achieve its organizational objectives. Performance reviews are intended to provide management with an indication of how effectively those objectives are being pursued by evaluating job performance and whether the employees are staying up-to-date with their skills, be it new computer skills or new approaches to their job.

Employees are expected to know their job duties and to understand that the performance review is an evaluation of their performance of those duties. Once the performance review is complete it is necessary to provide prompt feed-back to the employee about his past performance as well as to discuss ways of improving future job performance.

The Union representatives are the employees' advocates for their wages, benefits and rights (Fjölmennigarsetur, n.d.). With the Union wage contract in 2000, employees were given the right to receive an annual wage review which allows them to find out what the average wage is in their career and request the same or higher (VR, n.d.). This has led to performance appraisals becoming more common in Iceland.

Most companies have some form of performance review process, whether it is formal or informal. A formal review can entail that the employee receives documentation listing his duties and he is supposed to fill in how well he feels he does his duties and then returns that to the supervisor or manager. The manager reviews what the employee has written and compares it to his own review and then a meeting is held where the review is discussed. Compliments are given where appropriate and suggestions for improvements are discussed by both parties. An informal review is more along the lines of the supervisor or manager sitting down with the

employee and discussing job performance, or the employee approaches the supervisor or manager and wants to discuss how he is performing his duties.

The question raised in this report is whether performance reviews provide the desired results: are they an effective tool for evaluating employees' job performance, thus the achievement of goals, while simultaneously motivating employees to do better.

2 Theoretic discussion

2.1 Quality and Performance Management

Quality management is concerned with satisfying the customers' needs. The customer can be internal (the next person in the process) or external (the final customer). Is the customer happy? What does the customer think about our service and products? Are they good quality, and is this what the customer is looking for? How do the employees react to the customers' needs? (Smith, 1998)

Performance management involves many factors, chief among them the setting of realistic goals for both the corporation as a whole as well as its individual business- and functional-units. Goals must be attainable and so job duties must be within reasonable limits. In order to achieve goals, employees must have adequate training and support as well as the proper tools and equipment to perform their duties (DeCenzo and Robins, 2002).

2.1.1 Total Quality Management (TQM)

Total Quality Management (TQM) originated in Japanese industry (back) in the 1950's, it did not become popular in the West until the early 1980's. TQM is about a commitment to quality. It requires management and employee participation and commitment to continuous improvement to provide customer satisfaction.

TQM shows the culture and attitude of the company in its commitment to providing its customers with products and services they need. The aim is for high quality and doing things correctly the first time. By doing so, defects and waste become minimal and if improvements can be made to make the job or production more efficient then it is done.

With continuous improvement and production quality the company can respond faster to rapid customer changes in needs. By striving to have simplicity in the production it allows for changes to be made to the production line and new products to be made available faster to the customer.

It is essential to have top management committed to the TQM way, if they are not the process might fail. Thus, all management must be involved in the process. Clear quality values, goals

and performance measures must be in place to be able to achieve those goals. This system and methods help guide all quality activities and encourages employee participation.

A successful TQM environment also requires a well-trained work force that participates fully in quality improvement activities. Participation is reinforced by recognition and rewards. Employees are encouraged to be creative and innovative and take more responsibility. With on-going training and education the employees support the company's drive for quality. (Stark, 1998).

2.1.2 Performance Management

Performance management entails using all of an organization's resources as effectively as possible to reach company goals. Resources include management and employees, equipment, processes, funding, and any other factors that affect a company's performance. Good strategies and achievable goals are essential if a company is to utilize its resources effectively. Performance is then assessed in order to see whether progress is being made towards the company's goals. Performance management, as applied to employees, entails improving employee and team performances with good planning, monitoring, developing, rating and rewarding.

Planning the goals for the team or individual is essential so that the company or department know what they are working towards. It is important to set clear and attainable goals. Achievement of goals must be monitored by measuring the performance and giving feed-back to the employees and team members so they know where they are doing well and where improvement is necessary.

Developing entails training employees so they are capable of performing their duties. It involves introducing new skills or higher level responsibilities in order to develop opportunities and encourage good performance. It also involves identifying any additional training needs the employees might have. Developing can include mentoring programs, where an experienced and knowledgeable employee trains and guides other employees. This can also encourage employees to join the company since it allows the employee to grow and learn with the company.

(McNamara, 1997-2008; Johnson, Scholes, Whittington, 2006).

Rating, or evaluating, the employee allows the manager to give the employee feedback on how he is performing. It also allows the company to obtain knowledge on how the employee is performing and meeting goals and whether additional training or monitoring is necessary.

Rewarding is recognizing the employee or the team for their performance and contribution to the company. Recognition can be done on the day-to-day operations, just acknowledging that an employee is doing a good job is rewarding for both parties.

(U.S. Office of Personnel Management, n.d.)

2.2 Goals and Objectives

A company, and its business- and functional-level units will not know what to do if goals or objectives have not been established. Goals and objectives are what a company strives to achieve (Otlacan, 2005). Before any business can be established it must have a purpose, a need it seeks to fill. Goals and objectives are established for that purpose, as measurable steps to meet the needs of a company's customers.

2.2.1 Guidelines to Setting Effective Goals

There are five general rules when it comes to setting objectives or goals. For one, be specific if you have to illustrate what you want to achieve, make it easy to understand what you want. Second, you must be able to measure or track your progress. But it must be known by employees how the goal will be measured or tracked. Third, the goals must be attainable or reachable. The employees must feel that they can reach the goal; they might have to work for it, but it must be possible to do otherwise the motivation to try will be lost. Fourth, a goal must be set for each department so the company as a whole can reach its goal. Each department must understand how to accomplish its goal. The fifth is concerned with the timeline; when setting your goal you must set a realistic timeline. Is it reasonable to achieve the objectives in one month, or is a quarter more realistic? By setting a timeline the employees know how much time they have to reach the goal and thus can organize to reach it (Otlacan, 2005).

Goals must be specific and attainable if they are to be reasonably reached. Goals must also be clear and measurable. For example, in a situation where unit production must be increased by

10% it would be more effective to state a specific quantity, such as 50,000 units rather than a percentage of the current production. This is a clear, measurable increase.

Establish challenging goals that encourage employee growth, but which can be achieved. Do not establish goals that overwhelm and discourage employees from even trying. It is important to create a motivating atmosphere which encourages employees to participate in the goal setting process. However, the ultimate responsibility for achieving goals lies with management and therefore it is up to the manager to set challenging, but precise, measurable, and achievable objectives, (Dessler, 2005).

2.3 Definition of Performance Review

A performance review, also called appraisal, is when a manager or supervisor examines and evaluates how the employee works, compared to company standards and job descriptions on what procedures should be used when doing his duties. The manager then provides feed-back to the employee on how he has performed and if any improvements are needed and why. The performance review shows who needs training and who could be promoted, retained or fired (Stockley, 1996-2006).

2.3.1 Function of the performance review

Corporations form strategies that translate into specific objectives for each business level or department. Management at each level must then meet their objectives in order for the organization to be successful as a whole. Performance reviews are a control measure for management to evaluate whether their employees are meeting their performance objectives, and thus whether the business level is meeting its objectives, and ultimately achieving the organization's objectives (Johnson and Scholes, 1999).

Performance reviews provide an opportunity for management and employees to discuss the employee's job performance and how it fits in with the organization's objectives. How an employee performs his job, the need for additional training and/or seminars, conveying information pertaining to promotions or transfers within the company and the immediate goals of the employee's division or department are just some of the issues that may be discussed during the performance review. By encouraging the employee's involvement in

setting individual goals as part of the overall objectives of the company or division makes the employee feel like part of the team and motivates him or her to do better (Patterson, 1987).

2.3.2 Role of Executive or Supervisor

Supervisors are typically the management level responsible for conducting the performance review. They have the advantage of direct interaction with the employee and are therefore in a position to best judge the employee's job performance. It is imperative that the supervisor have the knowledge and training to conduct the review fairly and honestly. The review must be objective and give the employee an accurate rating so as to be fair to both the employee and the employer (Dessler, 2005).

2.3.3 The appraisal process

Corporations and organizations use performance reviews to aid in their evaluation of employees and as a means of justifying the employees' positions within the organization. There are numerous ways of evaluating performance, such as (1) 360-degree feed-back, (2) essay rating, (3) peer ranking, (4) peer review, (5) rating committee, (6) self-rating, (7) appraisal by subordinates, (8) BARS, and (9) management by objectives. The initial step in the review process is deciding upon which type of evaluation to use. Subsequently, in order to evaluate whether the employee is performing the job satisfactorily and performance goals are being met, standards must exist against which to measure performance. These are typically contained in the employee's job description and within the company's rules and regulations. Steps must also be in place which indicate the proper process for the performance review, (see figure 1 below) (DeCenzo and Robbins, 2002).

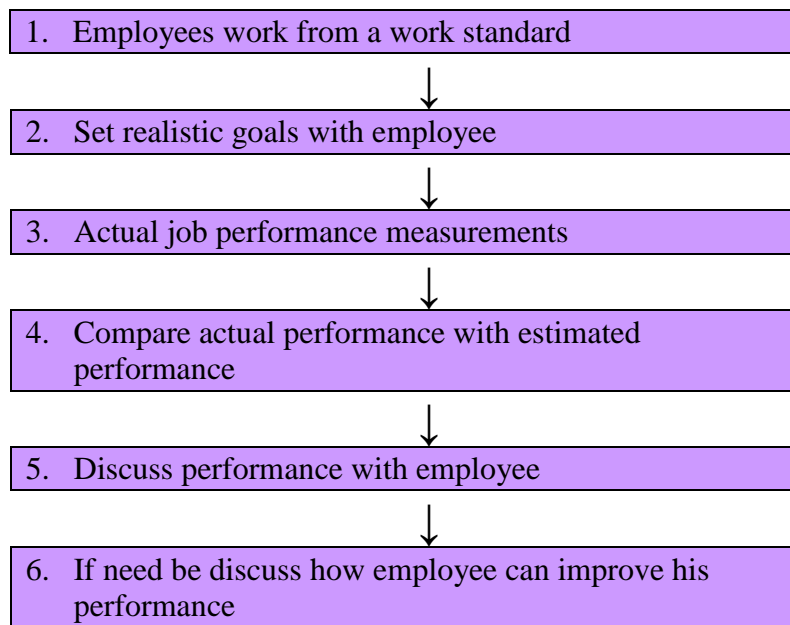


Figure 1: Performance Review Method

(DeCenzo and Robbins, 2002).

Following the steps in figure 1 (above) streamlines the process and makes it easier for the manager to fairly assess different employees. Companies which use performance reviews, feed-back, and follow-up let the employee know where he stands in his job performance and encourage him to strive for setting even greater goals (Dessler, 2005).

2.3.4 Steps in Reviewing Performance

In order for an employee to effectively perform his or her job duties and achieve established goals the employee must know what those duties and goals are. This is accomplished with a detailed job description and with the employee's acceptance of those duties and goals. Feed-back is critical. Employees should be complimented for a job well done, which means knowing what constitutes a job well done: what are the duties and were they properly performed. Uniform, monotonous jobs are easily measured and should be commented upon when performed well. This is easily achieved and when done makes the employee feel appreciated for his efforts and a valued member of the organization. Employees should also be informed of the results of their performance review. The supervisor should meet promptly with the employee to discuss the review, both positive and negative results and what, if anything, may be done to improve on areas lacking in performance. Is there a need for

additional training? What can be done to improve the employee's performance? (Dessler, 2005)

2.3.5 360-degree feedback

360-degree review or appraisals involve the employee receiving feedback from fellow employees, or customers, whose views are considered helpful and relevant. The appraisal is done on a form showing job skills, abilities, attitude and behavioral criteria, all of which have some sort of rating attached to them. The employee also assesses himself using the same form as the others who appraised him.

The 360-degree feedback gives a better overview of the employee. In this review co-workers are interviewed, and supervisors, customers and the employee himself will do an appraisal. This gives a better picture of how the employee handles all aspects of his job. The information that is received from the 360-degree feedback may indicate areas for improvement. Does the employee need training, or is he in the correct position, and what are the employee's weaknesses and strengths? (Torrington, Hall, and Taylor, 2005)

The 360-degree feedback is often used when companies need to re-organize and try to utilize their resources efficiently, be it funds, employees, equipment, tools or other items.

360-degree feedback has a point system which allows employees to see how they compare to other employees in similar positions. The employee can also compare his points with points from the previous year to see if there has been improvement (Nowack, 1993).

2.3.6 Essay rating system

Essay rating or appraisal system is a performance appraisal format that rates the employee's job performance in a narrative discussion or a written essay format. This rating system has often been called the effortless appraisal since the supervisor writes a short essay about the employee's strengths, weaknesses, job performance and areas where improvements are possible. Employees also find these appraisals most understandable.

The flaw with this appraisal system is that the supervisor can be unfair in his appraisal, and the supervisor's writing ability may impact the appraisal. When a company is looking to promote from within the company they may look at different essay ratings for a few employees. It is difficult to make a good hiring decision using the essay rating system if one

of the employees had a supervisor who is a great writer while another one had a supervisor who is not. This does not give an accurate picture of the qualifications of the employee, and what affect can this have on both the company and the employee (DeCenzo and Robbins, 2001).

2.3.7 Peer ranking

With Peer ranking reviews the manager assesses the overall performance of the employee by ranking him in relation to the other employees. This is based on the idea that since the employees are working similar jobs, their job performance should be alike.

One thing about this ranking system is that managers are using a conformed system which has a normal distribution curve. This means that a statistical imperative distribution curve has been established and thus pre-determined a portion of the employees as losers. This ranking system often encourages competition between employees, it also implies that you are either a great employee or a bad one (Caron, 2007).

2.3.8 Peer appraisal

Peer appraisal is a method in which the job performance of the employee is evaluated by work colleagues rather than by his manager. This process does allow for a wider range of opinions in the appraisal giving both the employee and the employer a better perspective.

The employee selects a colleague to do an appraisal, the colleague then selects one supervisor and three other colleagues to do the appraisal. This is often said to be the most reasonable appraisal since it is your fellow colleagues that are doing the appraising and thus there should be less dissidence in the appraising (Dessler, 2005).

2.3.9 Rating Committee

Rating committees involve the employee's immediate supervisor and three or four other supervisors. By having so many supervisors doing the rating the rating should be more fair and just. Having so many members on the committee should cancel out bias and other un-just ratings. There might be a difference in ratings but that usually stems from different level observations. The supervisors see the employee working different stages of his performance and thus the differences in the rating (Dessler, 2005).

2.3.10 Self-rating

Self-rating appraisal is when the employee rates himself on how he is performing at work. The appraisal could be done on job skills, abilities, attitude and behavioral criteria, it depends on what the company is looking for in the rating. It can be difficult for an employee to rate himself and too often the rating is too high and un-realistic.

The traditional top-down appraisal system is clearly inconsistent with the trends toward employee involvement, suggesting that a performance appraisal interview based on an employee's self-rating is more appropriate than a discussion based only on the performance evaluation conducted by a manager (Dessler, 2005).

2.3.11 Behaviorally Based Scales and Behaviorally Anchored Rating Scales (BARS)

With the BARS system each position in the company has been classified to its utmost detail so that each employee will know exactly what his duties are. The employee knows how to react to specific situations, thus minimizing any mistakes that might be made. A designed format is set-up with the grading curve of 1-9 from very poor to excellent (Dessler, 2005). For example if a company is hiring a new employee and he is supposed to answer the phone as soon as possible and be polite, then the BARS would have it listed as follows:

- You are supposed to answer the phone by the fifth ring and be polite
- Answer like this: “University of Iceland, how can I help you?”

(Bacal, 2000-2008)

It is difficult to get BARS implemented since all positions must be classified in as much detail as possible, each item given a grade or curve, and then everything must be kept track of once the system has been set-up. This system is time consuming and costly. However, this system gives a fair appraisal of the employees since the one giving the appraisal will not be using his personal judgment when giving the grade (Caron, 2007).

2.3.12 Management by Objectives (MBO)

The Management by Objectives (MBO) theory was developed by Peter Drucker and was outlined in his book “The Practice of Management” in 1954 (Kotelnikov, n.d.).

The theory behind MBO is that the company and its senior officers set goals that are measurable. The company has its goal and each department has its own. For the company to

reach its goal each department must reach its. The senior officers must work very closely with the department heads and subordinates when setting goals for the department. The division heads or department manager should know their employees well enough to be able to set reachable goals for the department. Each employee must have a separate goal so that the MBO will work. MBO calls for frequently meeting with employees to keep them motivated to reach their goals.

For MBO to be effective it is imperative that when setting goals they must be extremely clear and realistically attainable. To achieve goals managers should meet frequently with employees, be it one-on-one or weekly staff meetings, to ensure that everyone is on track and motivated. The department heads need to be more visible at work and spend more time with the employees, this is done to help them reach their goals and it should be effective.

(Dessler, 2005).

2.4 Possible problems with the Performance Review Process

A performance review is not useful to a company if it is not fair and objective and as accurate as possible in its assessment. For a performance review to be effective it must be free of bias on part of the reviewer, and the individual employee's performance must be measurable against a set of standards.

A job description is the typical standard against which an employee's performance is measured. It should clearly state the employee's job responsibilities, any deadlines, and objectives that should be met. How can an employee be expected to perform well if he is given a vague, or non-existing, job description?

Bias on part of the reviewer can seriously impair the effectiveness of the performance review, such as with the halo effect. This is when the supervisor rates unfriendly employees lower on all traits, rather than just for the trait "gets along well with others". There are also those situations in which the supervisor does not want to come between employees and gives everyone a similar review, fair or good. Some supervisors are too judgmental and give everyone a bad review, and there are those who are too lenient and give everyone a better review than they deserve. You may also have supervisors who are prejudicial and judge

employees by their age, sex, and/or race, and consequently do not give a fair and just appraisal.

(Dessler, 2005).

Therefore, it is imperative that employees receive a fair and just appraisal, which is free of bias and which measures the employee’s performance against a clearly stated job description. The company must do all it can to prevent prejudgment by educating its reviewers on possible bias as well as on the proper steps for conducting performance reviews, as discussed in section 2.3.3. The methods described above for evaluating employee performance attempt to prevent these issues from affecting the performance review.

2.5 Wage interview per Union Agreements

A stipulation in some of the 2000 Union Agreements entitles workers to market wages. Market wages means that wages should reflect performance, ability, education, the qualifications for the position and the responsibility inherent in that position. An employee is entitled to one wage interview per year. If an employee seeks an interview, it is to be granted within two months of the request, and the results are to be made available within one month of the interview (VR, n.d.).

2.5.1 Matters Open for Discussion during the Wage Interview

The wage interview is not limited to negotiating wages. Various items may be discussed and negotiated (VR, n.d.), including the following:

Discount of company products or other companies’ products	Preemptive stock options
Additional leave	Scholarship
Annual fee in a club	Overtime
Child care	Cash bonus
Petrol allowance	Phone allowance
Car allowance	Promotion
Clothing allowance	Flexible hours
Job diversification	Work environment

2.5.2 Preparation for the Interview

Preparation is important. Prior to the interview the employee should research going market wages and the results of wage surveys (Dag Gunnarsson, 2008). It may not be realistic to expect a wage increase beyond the negotiated union wages each year. However, an increase every two-to-three years would be reasonable, depending upon the position involved (Dag Gunnarsson, 2008).

Regardless, it is good experience for the employee to prepare for and engage in an annual wage interview. Many unions offer seminars and training courses on how members should conduct themselves during the interview and how to feel more at ease (VR, n.d.). A few unions even offer fill-in forms that members can complete and take with them to the interview (see attachment II) (FIS, n.d.).

2.6 Job Satisfaction

Job satisfaction is the attitude an employee has towards his or her work. An employee may be satisfied with one aspect of the job, but unhappy with other aspects of it. Factors influencing job satisfaction may be the employee's relationship with a supervisor, the physical environment, or the degree of fulfillment experienced by the employee (Kinicki and Kreitner, 2008).

Studies show that there is a connection between job boredom and tardiness, absences and sick leave. It has been shown that the more satisfied a person is in his or her career, the more loyal he or she is to the employer. Management is responsible for motivating employees and maintaining a positive work environment. Performance reviews give employees information on how they are performing and with allowing employees to be more involved in decision making it gives them more confidence and reassurance and thus they are more content in their job (Ingunn B. Vilhjalmsdottir and Johanna Gustavsdottir, n.d.).

2.6.1 Job Satisfaction Influences

Many factors influence an employee's attitude towards his job, and *management* plays an important role therein. Does management attempt to make the work environment pleasant and interesting? Work that is both interesting and pleasant makes it so that the employee desires to come to work and performs his duties with a positive attitude. *Technological innovation* may

lead to the job becoming monotonous and may socially isolate the employee from other co-workers and supervisors. *Stress* may initially motivate an employee to do well, but too much may lead to eventual health problems. Feelings of uselessness, powerlessness, and boredom may lead to a sense of *alienation* and negatively affect job satisfaction and performance.

Job enrichment is what the employees get out of the job. Is the job rewarding, diverse, stimulating and gratifying? Providing more stimulating and interesting work adds variety and challenge to an employee's daily routine. This increases the depth of the job and allows the employee to have more control over his work (Ingunn B. Viljalmsdottir and Johanna Gustavsdottir, n.d.).

Elton Mayo's thesis on The Hawthorne experiments states that employees need to feel a certain sense of social worth and satisfaction. Money was not the major motivation for employment, but social worth, growth and development of the individual were important in job performance. Employees feel greater job satisfaction when they are allowed to communicate and interact amongst themselves and with management, and when management pays attention to their personal needs (Beardwell and Holden, 1997).

2.7 Theories Affecting Behavior

There are many theories on how people behave and why they do what they do. Motivation theory, Expectancy Theory, Goal Theory and Equity Theory are a few theories on what motivates people in their jobs and careers, and are discussed in the following section.

2.7.1 Motivation Theory

The motivation theory was developed by Abraham Maslow in 1943 and is called Maslow's Hierarchy of Needs. It is shown in a triangular diagram (see figure 2 below) and is broken down into five steps and they are:

1. Physiological – the need for oxygen, food, drink, and sex
2. Safety – to feel safe and secure
3. Social – the need for love, care and to have a place of refuge
4. Esteem – sense of balance, the need to succeed, independence and freedom
5. Self-fulfillment/self-actualization – to become what you think you can become

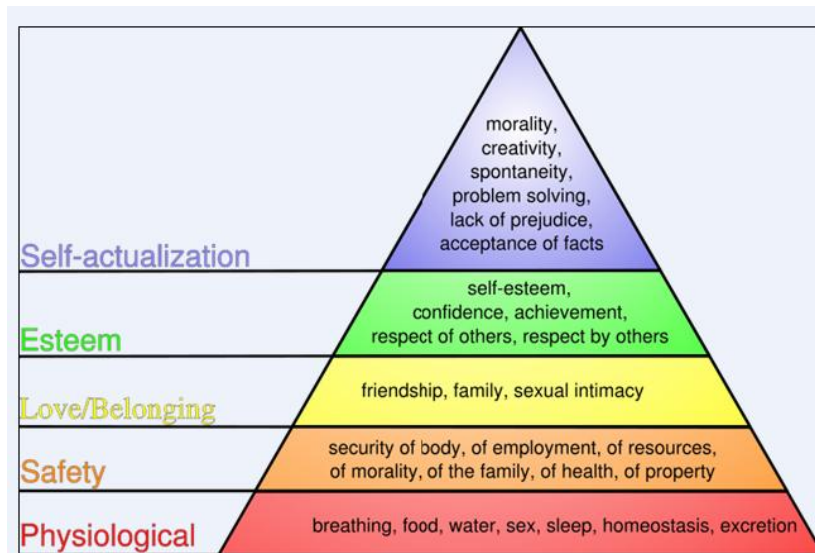


Figure 2 Maslow's Hierarchy of Needs

Maslow states that when an individual has fulfilled one need or the first step in the pyramid then they continue to the next step but always thinking about the step they have already fulfilled. (WordPress.com, 2008). The first step is basic needs such as food, clothing and shelter; this has the most priority for people. When people have food to eat and shelter from weather they can focus on the next step in the pyramid. The second step is the need for safety, financial security, home security and health. When this need has been met people can begin to think about others. The third is the social need to be loved and to love others, such as friends and family. When people are fed, sheltered, safe, and loved, they can begin to think about esteem. The fourth is esteem, which is our need to feel respected and be independent and to find some luxury in our lives. The fifth and final need, which is the hardest to achieve, is only achieved when all the other four have been completed, and this is the need to fill your full potential (Armstrong, 2001)

2.7.2 Expectancy Theory

The Expectancy Theory of Victor Vroom deals with motivation and management. The theory, which states that an individual estimates that if he puts in a successful performance, this will lead to a specific outcome; the outcome is whatever comes from a given performance. Is the outcome a desirable one? Will it lead to additional work, promotion, or possibly a pay raise?

Layman Porter and Edward Lawler worked with Vroom's theory and they state that there are two factors which affect how people work. These factors are:

1. What the individual receives from work fulfils his or her need for security, social

respect or status, self-control, and self-actualization, and

2. The likelihood of a reward is dependent upon how much of an effort the individual puts forth.

Porter and Lawler state that it is not just the effort the individual is willing to put forth, but also the expectation that he can deliver what is expected. Management must find out what the employee is capable of achieving and whether additional training or supervision is needed to help the employee achieve his expectations (Armstrong, 2001).

2.7.3 Goal Theory

Edwin Locke was a pioneer in research on goal setting and motivation. He believes that by getting the employee involved in setting goals, the results will be greater. The more difficult the goal, the more important it is that the employee be on board. Telling someone to “try harder” or “do your best” is less effective than “try to get more than 80% correct” or “concentrate on beating your best time.” To motivate the employee to set high goals, it is important to encourage and support the employee and to maintain a good working relationship.

Encouragement is important in keeping an employee motivated and willing to continue to do good work and reach the goals that have been set, lack of encouragement results in the employee not pushing himself (Armstrong, 2001).

2.7.4 Equity Theory

John Stacy Adams, a workplace and behavioral psychologist, put forward his Equity Theory on job motivation in 1963. Adams theory extends beyond the individual self, and incorporates influences and comparisons of other people’s situations. People compare themselves to friends and fellow co-workers thus forming a comparative view and awareness of Equity, which often manifests as a sense of what is fair (Armstrong, 2001).

Individuals evaluate their relationship in terms of contributions or inputs they make and the benefits or outcome they receive. Equity theory builds on fairness and the notion that an employee is rewarded based on his or her contribution, relative to other employees. If an employee receives a pay raise, promotion or a reward that he or she deserves and there is equality then the other employees feel it to be fair and just.

When employees receive rewards that others feel are unjust it can lead to mistrust of management and can lead to less job satisfaction, decline in employee performance, less commitment to the company and higher intention to quit (Armstrong, 2001).

3 Research Method

The following sections will discuss research methodology, the material gathered, selection of participants, and the manner in which the data was recorded.

A qualitative research method was used in stead of quantitative. Quantitative research is built on gathering information by having individuals fill out questionnaires and then a mathematical model is built. A qualitative research method is built on information having been gathered in interviews where the subjects were asked questions and the individual's interpretation of the subject mater is observed and noted, giving more of an insight into their feelings of the mater. Only a small sample was obtained due to the type of research (DJS Research Ltd. n.d.). Three managers from different Icelandic companies were interviewed. The companies operate in varying fields, thus their personnel cover a wide range of occupations. In view of the qualitative approach used, and the small number of interviewees, it may be argued that the research is insignificant. However, it does offer a perspective on the effectiveness of performance reviews as a management tool and as a motivation tool for employees.

3.1 Preparation and Implementation

The decision on which companies to include in the research was influenced by the size of the project; the companies needed to represent disparate industries so as to provide a broader perspective. The companies also differ in size, and therefore the number of employees. Permission to conduct the interviews was obtained from each company's management.

The reference material required for the theoretical portion of the report was obtained through various sources. These sources include published books, magazines, and the World Wide Web.

3.2 Interviews with participants

3.2.1 Preparation

The decision was made to interview managers from companies representing different industries. The researcher approached three companies in three different industries and was well received. The industries represented are communication, automotive, and financial.

In order to properly interview the participants, a fundamental knowledge of performance reviews and methodology was necessary. The research for this has been detailed in the theoretical discussion of this report. From that a questionnaire was prepared for use as a reference during the interviews (see attachment I).

3.2.2 Interview with Participants

Advance appointments were made with the interview participants. The interviews were conducted at each respective company's offices, typically in a conference room. The interviews were recorded on an iPod nano and transcribed verbatim, with appropriate notes inserted where necessary. The interviews were somewhat informal, with the questionnaire used as a reference when discussing performance review methods. The duration of the interviews varied from one-half hour up to one and one-half hours. The first interview was conducted July 9, 2008, the subsequent one was conducted July 10, 2008, and the third and final interview was conducted September 13, 2008.

3.2.3 Participants

There were three participants: two males, one female. For reasons of confidentiality the names of the participating managers, and their respective companies, have been changed. The participants were:

Anita Jonsdottir, Department Manager, Accounts Receivables for Byggjum Saman. A 10 year employee of the company, she is currently pursuing a degree in Business Administration, concentration in accounting.

Gunnar Bragason, Managing Director, Business, for Heyrumst. A 1990 Business Management graduate of the University of Iceland, he has been employed with the company for the past six years.

Sigurbjorn Leifsson, Managing Director, Finance, for Peninga Meninga. A 1994 master's degree graduate from the University of Boston, he has been employed with the company for several years.

3.2.4 Document Processing

From the recordings the interviews were transcribed verbatim onto forms prepared in advance. This was done so as to present a uniform and consistent approach for interpretation. The data was then reviewed, analyzed, and compared for any similarities or differences for

purposes of reaching a determination on the effectiveness of performance reviews as management tools.

4 Results

Upon analyzing the documentation resulting from the interviews, several similarities became apparent. These similarities include attitude towards annual performance reviews, the need to conduct performance reviews more frequently, and the necessity for follow-up and encouragement. A discussion of these similarities follows.

4.1 Annual Performance Reviews

Performance reviews, by their very nature, are difficult endeavors for most people. Many managers find it difficult to tell an employee that his or her performance is not up to par. Some managers even find it difficult to offer praise for work well done. A performance review may also make employees nervous and cause unnecessary stress (Smither, 1998).

Annual performance reviews make employees and management aware of how the employee's performance measures up against his or her job description as of that point in time. However, if no further action is taken beyond just the review itself, it becomes just another meaningless, but time consuming, annual task that each manager must complete. In Gunnar's words:

“Like so often, this is done once a year and the managers mark the task completed in their folder and the document is put in the drawer.”

The three interviewees were all in agreement that a performance review done once per year serves a purpose in that it lets employees know how they are performing their job. However, much more follow-up work is necessary in order to make the appraisal process effective as a tool for motivating employees to perform better, if necessary, so that both they and the company achieve set goals.

4.2 More Frequent Performance Reviews

Meeting with employees on a regular basis, be it daily or weekly, is a much more effective way to encourage employees to reach company goals (Dessler, 2005). The interviewees were in agreement that in order to maximize performance it is absolutely necessary to meet with employees more frequently to review the employee's performance and progress towards meeting deadlines and set goals. The companies differed in the frequency with which each met with its employees and the methods of review used. Sigurbjorn said:

“By meeting regularly a relationship builds between the manager and subordinate. When you know how your employee works then you know what he is capable of.”

Two of the companies met with their employees on a monthly basis. The meetings were conducted one-on-one. This allowed for the establishment of a good relationship between the manager and subordinate and gave the manager the ability to identify the employee's strengths and weaknesses. During these meetings matters pertaining to the company would be discussed and the employees were encouraged to set their own goals. More often than not, the employee would set higher goals for himself than the manager would have.

Sigurbjorn said:

“...when setting goals the employee is asked to set his own goals and generally these are higher than I would have set, but we still want the goals to be realistic and attainable.”

Employees want feed-back in order to know how well they are perceived as doing their jobs. The performance review serves this purpose and gives the employee the means of progressing (Dessler, 2005). According to Locke's Goal Theory, greater achievement can be achieved if employees are included in goal setting (Armstrong, 2001). The review process is time consuming, but in the long run it is well worth it. As Gunnar put it:

“It takes one day to conduct the interview and another to prepare for it, so that is approximately 10% of a manager's time, but the payoff is huge because the results are so much greater. If this is not done you spend 90% of your time putting out fires.”

4.3 Work and Job Descriptions

Detailed and accurate job descriptions are a must so that the employee knows exactly what his job duties are (Dessler, 2005). Two of the interviewees agreed with this. Anita said:

“We have job descriptions so that each and every employee knows what he is supposed to do and what is expected of him.”

Job descriptions are the standard against which job performance is measured. By detailing duties to be performed, deadlines within which to perform them and attainable goals to be reached, management can measure performance. Measurements can be qualitative or quantitative and be based on any number of variables. If an employee fails to perform specific duties, what caused the failure and how frequently does it occur? The quality of work may be measured by customer complaints received, or number of parts rejected due to defects. Timeliness of work may be measured by the frequency with which the employee either meets deadlines, or fails to do so. Achievement of goals may be measured by sales or production figures, or by quality control improvements. Other variables used may be attendance, punctuality and how an employee conducts himself while at work (Torrington, Hall and Taylor, 2005).

4.4 Expectations from Employees

Managers must believe that the employees they hire have the knowledge and expertise to capably perform the work they have been hired to do (Dessler, 2005). The managers interviewed did not feel they had too high an expectation of their employees. The employees were hired due to their previous experience and knowledge. They understood that employees will require training and instruction in their specific jobs to achieve desired results, but the managers are there to instruct and guide, and to push them when necessary to achieve their goals. Sigurbjorn said:

“Yes, I have realistic expectations of my employees. They set their own goals but if they are way-off we discuss the situation and the employee is asked to state his opinion, but I still do not back down too much. The goal being set must be realistic.”

4.5 Working Environment and Job Satisfaction

Richard M. Steers and Susan R. Rhodes believe that job satisfaction depends upon the expectations of, and value placed on, the job or career by the individual. The level of responsibility is instrumental in job satisfaction. Too much responsibility, especially if not accompanied by authority or flexibility may lead to high levels of stress, which is not conducive to job satisfaction. An employee's access to managers and the ability to discuss issues, problems, and possible solutions affect job satisfaction. Job satisfaction is moderated

by the values and expectations of the employee. The values and expectations are shaped by the employee's personal characteristics, personality and life experiences, but this can change during the course of one's life (Torrington, Hall and Taylor, 2005).

The interviewees were all in agreement that a good atmosphere is essential in the work environment. Good manpower strategies, which balance the need for labor and the right number of employees for each place at the right time, result in better moral within the company (Torrington, Hall and Taylor, 2005). Gunnar said:

“There is a great desire here with upper management to maintain positive manpower strategies, A positive attitude is important and to do right by your people.”

Upper management's attitude and expectations of employees, and the company as a whole, has an extreme impact on the company's work environment. Their management style affects communication and interaction amongst coworkers and managers and their subordinates and the overall moral of the company. Sigurbjorn said:

“We have a family-friendly environment and want to have a positive atmosphere within the company, and the employees appreciate that.”

“When a new executive takes control it can take time to get back on track because people are not always willing to change and they are afraid of change, but, generally when you look at the overall picture it works well and people are satisfied in their jobs.”

4.6 Follow-up and Encouragement

The employer can create a self-motivating workforce if he emphasizes job-content. This is feasible by enriching worker's jobs, making them more challenging and providing feedback and recognition. The enjoyment comes from within the employee by doing the job, the achievement provides the motivation (Dessler, 2005).

All the interviewees believe that it is important to praise and encourage employees for good work. There has been too much of an emphasis on reprimands and corrective action when something goes wrong rather than acknowledging a job well done. Anita said:

“I am very good about complimenting employees daily for a job well done.”

Gunnar said:

“It is way too common to act on the negative rather than to compliment, by changing this attitude of complimenting for a job well done you motivate the employees to do better in order to get praise.”

When complimenting an employee, or giving instructions, it is important to be precise. For example, a manager is reviewing the performance of a receptionist and observes the receptionist greeting customers. The receptionist greets a customer with “good day”. The manager begins by complimenting the receptionist, but goes on to suggest a better greeting by saying “Yes, that is nice; however, it would be better if you were to say good day, may I help you?” This is a more precise, clearer approach. By complimenting the employee, then suggesting a better way of greeting, the employee knows exactly what is expected of him or her (Torrington, Hall and Taylor, 2005).

4.7 Training

Employee training is necessary, the question is whether you train the employee for a specific job or whether you train the employee to grow and develop with the company so that he can move up within the company (DeCenzo, Robbins, 2002). The interviewees all stated that their companies promote from within whenever possible. Sigurbjorn said:

“Generally, we try to promote within the company. People who have worked for the company know what the company stands for and so it is good to promote from within it.”

The more training, instruction, information and praise that an employee receives from his manager, supervisor, or other employees, the more the employee will continue to grow and

thrive with the company. Employees will grow and thrive as long as they choose to (Henderson, 1980).

If employees are to stretch themselves and try new tasks it is important that they be allowed to make mistakes. Otherwise fear of making mistakes may induce stress and anxiety and keep the employee from trying. By creating an encouraging environment for trying new things managers are giving employees an incentive to learn something new (Henderson, 1980).

Gunnar said:

“We need to create a culture here which motivates employees to want to do more, to grow by reaching their goals and doing well, to praise and give feedback. ... when mistakes happen then bring them out on the table and fix what went wrong, ... talk with the individual in private but then discuss the situation with the group to prevent it from happening again. ... do not point a finger at someone because if you belittle people when they make mistakes others will be less likely to take chances and do something new.”

The interviewees were in agreement that it is important to encourage employees to take chances so that they will try new tasks when performing their work. Anita said:

“We encourage our employees to educate themselves. The company offers an education subsidy and we participate in the cost of education or any seminars our employees attend.”

4.8 Goals

Executive officers have a direct impact on employees and how they set their own goals. If the goals are demanding but attainable the employees will strive to reach that goal with the company. Employees who set demanding goals are more conscientious in their work, and more determined, than are those employees who set themselves less demanding goals. Performance appraisals also have an impact, as does whether employees receive positive or negative feedback (Smither, 1998).

When an employee gets to participate in setting his, or the department's, goals then he feels like part of the team. The employee feels appreciated by the company which leads to more productivity and devotion to the company (Henderson, 1980). The interviewees agreed that it is absolutely necessary to set goals. The goals must be clear and realistic. Employees are more likely to stop trying to achieve goals if they are vague or unrealistic.

The chief executive officer sets the company's goals and from there the individual departments set their goals. Unrealistic goals decrease employee productivity. Employees want to achieve their goals, once reached they are motivated to set even higher goals. Sigurbjorn said:

“So much depends on the executive officers, what is their strategy, the company's goals, how do they want the employees to feel? A clear and precise strategy makes it so much easier for the company's managers to follow in forming their own goals and objectives. Employees want clear and precise objectives; they want to know they are doing well and that they are valued employees of the firm.”

4.9 Wage Interview

A stipulation in some of the 2000 Union Agreements entitles workers to receive a wage interview each year. The interview is so that employees can get a fair wage depending on the wages on the market. Wages shall reflect work performance, ability, education and content and responsibilities of the job. Though the employee receives the interview there is no guarantee that he will receive a pay raise. Once an employee requests an interview then the managers must conduct the interview within two months and the results should be ready within a month (VR, n.d.).

Many companies today associate performance and productivity with pay raises. Measuring productivity gives the manager information on how the employee is performing in his job. Results from measuring performance may also indicate the need for additional employee training or instructions on how to do the job (Torrington, Hall and Taylor, 2005).

The interviewees did not agree on when a pay raise interview should be done. Two said that the interview should be done separate from the performance appraisal interview. An appointment should be made for a pay raise interview at a different time. Gunnar said:

“We do not want and it is not allowed to discuss pay issues in the one-on-one interviews. You must request a special pay interview and those are the rules in the company.”

It is difficult for many employees to request a pay raise interview, and if the manager is not paying attention and is unaware of his employees then some might receive pay raises while others will only receive the pay increase allotted by the Union Agreements. This can cause friction and discontent at the work place. Sigurbjorn said:

“I have one-on-one interviews or meeting and in those meetings I want my employee to discuss a pay raise, doesn't my employee deserve a pay raise if he is doing a great job?”

Anita said:

“If an employee requests a pay interview then it is done.”

It is important that companies let it be known what their policies and procedures are regarding wage interviews so the employees are informed and know the proper procedure in requesting an interview. Information must flow to the employees so they know what their rights are in the work place.

5 Discussion

Even though the qualitative research included in this dissertation involved only three individuals being interviewed, it does offer some perspective on the use of performance reviews as management tools. It is also interesting to see that many of the management tools used by the managers interviewed are tools that are being taught in management schools today and will also be used by future managers to make the organization or company they work for prosper and grow.

When it comes to motivating their employees the managers interviewed are using Motivation Theory which Abraham Maslow developed in 1943. Employees want to do well and grow with the company they work for and by motivating the employees to strive for higher goals employees are doing that. Victor Vroom's Expectancy Theory also applies as employees are motivated to try to perform to their best abilities if they expect their performance to lead to a specific outcome, such as a raise or promotion within the company. All of the interviewees said that their companies look to promote from within if positions become available rather than hire from outside of the company. By promoting from within the company the employee already has knowledge on how the company operates and management knows the employee and how he performs his duties.

Goals are necessary for a company or department to succeed because they are the path to continued improvement if companies do not grow then the possibility exist that they will discontinue. Edwin Locke was a pioneer in research on goals and motivation. Sigurbjorn and Gunnar said that it is important to set goals for both departments and employees. It is important to get the employee motivated to set his own goals because it made him try harder to reach it, and it made the employee feel like one of the team and thus was more content at work. If the company is going to grow and continue to compete in today's market it must have realistic goals so that employees feel accomplishment when they reach their goals and are encouraged to set even greater goals.

All of the interviewees agreed that feed-back was important, both positive and negative. Employees need positive feed-back to stay motivated. If an employee only hears negative feed-back then he will feel that he is incompetent and loose his motivation possibly leading to an even worse performance. Sigurbjorn and Gunnar said that it is important to let the

employee know that he is doing good work and that he is appreciated. When a mistake is made it is important not to point fingers and make the employee feel bad, especially in front of other employees. It is necessary to talk with the employee and find out what happened and what can be done to prevent the mistake from happening again - but not in front of others. Once the situation has been corrected the mistake should be pointed out to other employees so that it does not happen again, along with instructions on how to prevent a repeat mistake. This way, hopefully, the mistake will not happen again and the employee who made the mistake will not feel diminished because everyone in the office or department knows about it. Also, by handling mistakes in a positive way managers are encouraging their employees to try new things and push the limits a little but within reasonable limits because mistakes are dealt with.

Training and development are important for everyone, and all of the interviewees agreed on that. It is too easy to lose track of the new technologies and new processes that are continually coming on the market. It is important to encourage employees to want to grow and learn more. Sigurbjorn said it is just too easy to get stuck in a rut, you get used to doing your job and you like the normality of it but you lose track of what is happening around you. It is important that employees and even managers receive training to keep up with all that is happening around them. A company that is not on top of its game will lose customers and profits.

Overall, all the interviewees agreed that it is important to have a good working atmosphere. They agreed that people should want to come to work and do their jobs to the best of their abilities, not just to get them done. A good atmosphere results from managers being aware of their employees and their needs and trying to meet those needs. A good atmosphere encourages employees to perform their best and when they do the company and its employees will continue to grow. Employees want to know that they are appreciated and by receiving positive feed-back from management they feel like one of the team. Sigurbjorn said that his company likes the employees to feel like one of the family and that is what we strive for.

6 Conclusion

Some Union Agreements entitle workers to receive an annual wage interview. The interview is so that employees can get a fair wage based on the wages on the market. Though the employee receives the interview there is no guarantee that he will receive a pay raise. However, as a result of this addition to the Union Agreements, more employers are conducting performance reviews and it is easier to justify a raise when documentation, in the form of a positive performance review, supports it. Therefore, companies need to be clear on how they treat wage interviews compared to performance reviews and what their policies for each are. By having a clear statement about this the employees know where they stand and can act accordingly.

All the managers interviewed believe that performance reviews are effective as a way to measure achievement of goals and to motivate employees. Frequent meetings between managers and employees allow them to get to know each other better. The manager will know what he can expect from his employee and what the employee is capable of. By building the relationship between employee and manager, the performance review should be less stressful for the employee and giving feedback to the employee on his job performance should be less stressful for the manager. With positive feedback the employee feels motivated to be involved in setting his own goals.

Motivated employees are more productive and more loyal and so the efforts put forth by management to keep everyone focused on goals and motivated are worth it. With proper training and motivation, management can give the necessary encouragement and feedback to motivate employees to set realistic, but attainable goals. As employees achieve those goals they become motivated to set higher goals. This allows the company to meet its objectives while at the same time providing the employee with job satisfaction. Thus, performance reviews, conducted frequently and followed up with feedback to employees, are an effective tool for management in evaluating the achievement of goals and for motivating employee performance.

7 Attachment I – Questionnaire

BS-paper summer 2008

Questions in the interview

1. Do you have any particular performance appraisal system like the 360° or some thing else?
2. Are employees given adequate notice when the interview is supposed to be? (few days or weeks?)
3. What do you want the employee to bring with him to the interview, what types of information? (like projects completed, progress).
4. Are there job descriptions for each position in the company? If so do you go over the job description with the employee?)
5. How much preparation do you do before the interview? How much time does it take? Do you look at old interviews or job descriptions?
6. On average how long are the interviews?
7. Do you feel that the employees are prepared for the interview? Do they have any comments or recommendations pertaining to their job or company? Do they know about the company goals?
8. When an employee comes with a recommendation or comments are they listened to with an open mind?
9. When discussing how the employee works are the positive items discussed before the negative? What procedure is used?
10. Are your expectations of the employee correct/just?
 - a. Is the employee working like you expect/want?
11. Are wages and benefits discussed?
 - a. Who starts to discuss wages and benefits first? (you, the employee).
 - b. If so do you feel the demands of the employee to be just that they are asking for too high or too low of a pay raise? Are they just asking for way too much?
12. Do you feel that the performance appraisal interviews do any good?
 - a. Are they producing anything?
13. Based on the time and costs, is it worth it?
14. Even though it is in the union agreements that employees should receive a wage interview once a year is it happening?
 - a. Are employees requesting them?

- b. Do all employees receive an interview?
15. Does management have realistic demands towards its employees?
 - a. Working hours, work load and pressure?
 16. When an employee is in the interview do you try to make him feel relaxed?
 17. Do you encourage them to be honest in their answers?
 18. Is enough time given for the interview? Or are they just trying to get it over and done with? (One more thing that needs to be done per my duties as manager, no matter what the results will be.)
 19. Is there a difference in the employee after the interview be it good or bad?

8 Attachment II – Wage Interview document

Wage Interview Document

Name of employee: _____ Identification number: _____

Current position: _____

Current wages: _____ Extra benefits: _____

Overview of the main goals that have been reached this year:

- a. _____
- b. _____
- c. _____
- d. _____

Other items that should be looked at:

- | | |
|---|---------------------------|
| a. wage depending on the market | e. Sought after employee |
| b. Special experience | f. Work at specific hours |
| c. Wage development in the past | g. Responsibility |
| d. Possibility of more responsibility
or promotion possibilities | h. Education |

Proposal for wage increase:

Monthly wages: _____ From: _____

Extra benefits: _____

Manager/Supervisor signature: _____

Place: _____ Date: _____

Employee signature: _____

9 Attachment III – Model Performance Appraisal Form

MODEL PERFORMANCE APPRAISAL FORM



Date:

Name:

Department:

Position:

Period covered by this review:

From: To:

Purpose of this Evaluation and Development Review

The Past

Part I is the evaluation section; its focus is the past performance of the employee (the time period covered by this appraisal). Performance is evaluated on specific job performance areas and an overall evaluation is indicated...this part of the review is a major determinant of possible merit salary increases under the company's compensation program.

The Present and Future

Part II is the DEVELOPMENT section; its focus is the present and future. The present part assesses the employee's current strengths and development needs. The future part reviews plans or strategies to be implemented for the future development of the employee.

Summary

Part III is the SUMMARY section; both employee and supervisor make comments about the review.

Part I – Evaluation Of Past Performance

<i>Job Performance Areas (JPAs)</i>	Exceeds Standards		Meets Standards		Does Not Meet Standards
	5	4	3	2	1
JPA #1: <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weighting: <input type="text"/>					
Comments: <input type="text"/>					
JPA #2: <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weighting: <input type="text"/>					
Comments: <input type="text"/>					
JPA #3: <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weighting: <input type="text"/>					
Comments: <input type="text"/>					
JPA #4: <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weighting: <input type="text"/>					
Comments: <input type="text"/>					
JPA #5: <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weighting: <input type="text"/>					
Comment: <input type="text"/>					
Any other factors contributing to overall evaluation: <input type="text"/>					

Overall Evaluation

Exceeds Standards		Meets Standards		Does Not Meet Standards
5 <input type="checkbox"/>	4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>

Key Code for Performance Standards

- 5 = Outstanding
- 4 = Superior
- 3 = Good
- 2 = Marginal
- 1 = Unacceptable

Part II – Development

A. Analysis of present strengths and potential development needs.

<u>STRENGTHS AND ASSETS</u>	<u>DEVELOPMENT NEEDS</u>
█	█

B. Future plans and strategies for employee development. █

Part III – Summary

A. Employee comments: █

B. Supervisor comments: █

Employee Signature: █

Date: █

Supervisor Signature: █

Date: █

Next-Level Management: █

Date: █

Personnel Dept. Review: █

Date: █

<u>JPA</u>	<u>Weighting</u>	x	<u>Rating</u>	=	<u>Points</u>
#1 █	25%		3		75
#2 █	20%		5		100
#3 █	30%		4		120
#4 █	15%		3		45
#5 █	<u>10%</u>		2		<u>20</u>
	100%				360

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