

# Global Performance Evaluation

*Budi W. Soelipto, SE, MBA*

Performance evaluation is defined as an ongoing process of evaluating and managing both the behavior and outcomes in the workplace (Carrell, Elbert and Hatfield, 1995). Performance evaluation is both a system of papers and procedures designed by the organization for use by its managers (the evaluation system), and an interpersonal process in which manager and subordinate communicate and attempt to influence each other (the evaluation process or interview) (Beer, 1977).

In general, there are two sets of goals of performance evaluation. The first set is the organization's goals which are as follows:

1. Providing the company with data about what is going on.
2. As a medium through which the company tries to influence the behavior and performance of its employees.
3. Determining merit increases.
4. Planning goals for job performance with employees.
5. Determining training and development needs.
6. Identifying promotion potential.
7. Identifying employees with specific skills and abilities.
8. Helping managers in making personnel decisions (promotion, transfer, demotion, discharge, and warning about unsatisfactory performance).
9. Helping the company in counseling and coaching its employees so that they can improve their performance and develop future potential.
10. Strengthening supervisor-subordinate relations.
11. Helping the company in diagnosing individual and organizational problems.
12. Helping the company in evaluating the recruitment, selection, and placement system.

The second set is the individual's goal that is getting valid feedback on individual's performance so that each individual can know where he/she stands and learn how he/she is progressing. Actually, most employees in the company want to get favorable feedback because it helps satisfy their needs for competence and psychological suc-

cess. However, valid feedback does not need to be positive feedback. It can be negative feedback. The problem is if employees get negative feedback, they will tend not to accept it and hence to experience failure.

There are obvious conflicts among those goals (Beer, 1977; Mohrman, Jr., Resnick-West and Lawler III, 1989) which become more substantial in the case of poor performers and makes the company difficult to develop an effective performance evaluation system. The first conflict occurs between the organization's goals: the development goal versus the reward goal of performance evaluation. The development goal stresses on the preparation of employees to fill the many expected and unexpected job vacancies. Thus, it is future-oriented. Meanwhile, the reward goal is past-oriented and focuses on what the person has accomplished. The second conflict occurs between the individual's goals. As mentioned above, employees want to get a valid feedback which can be either positive or negative. But, on the other hand, they do not want to accept negative feedback although it is a valid one. The reason for their unacceptance is if they get negative feedback, they will not earn important rewards and cannot maintain positive self-image. The third conflict occurs between the organization's development goal and the individual's seeking importance rewards and maintaining self-image goal. The organization's development goal is long-term and future-oriented goal, while the individual's seeking importance rewards and maintaining self-image goal makes employees focus more on short-term than on long-term. They will do anything to get rewards and do not care about their future potential. The last conflict occurs between the organization's reward goal and the individual's seeking importance rewards and maintaining self-image goal. This conflict is not about short-term versus long-term conflict but it is about the effort of the company to get the valid individuals' performance data (both positive and negative) versus the interest of employees not to provide such negative data. So, it is the conflict over the exchange of valid information. Porter, Lawler and Hackman named the third and fourth conflicts as the major conflicts because they are more difficult to harmonize.

## Common Methods and Criteria

There are six commonly used global performance evaluation methods (Carrell, Elbert and Hatfield, 1995):

1. **Rating scales methods.** These methods consist of two methods: graphic scales and non-graphic scales. The graphic rating scale rates employees on some standards or attribute of work. Traditionally, the focus was on personal traits, but more recently, it has been on work behaviors and outcomes. The rating is often done on some 1-3 or 1-5 Likert-type scale, with 1 representing "very unsatisfactory" and 5 representing "excellent". This method is popular because it can be done quickly and requires little training. However, it is quite subjective. The non-graphic rating scale is more valid than the graphic scale because the former contains a brief description of each point on scale rather than simply low and high points of scale. That description clarifies the rater each level of the rating scale. The non-graphic rating scale is a quick and an easy method as well.
2. **Comparative methods which include ranking, forced distribution and paired comparison methods.** Ranking method ranks employees from the most effective to the least effective in total job performance. Some managers try to combine the departmental/subsidiary rankings into a ranking for the total company. Such ranking is very difficult because employees have not been compared to any common standards. This method is fast and easy to complete but it is seldom developmental because employees do not receive feedback about their performance or any future direction. Also, ranking assumes that each department/subsidiary has employees who can be distributed fairly over a range from best to worst, and there is no common standards of performance by which to compare employees from various departments/subsidiaries since they are only compared with each other in their departments/subsidiaries. Similar to ranking, forced distribution requires that supervisors spread their subordinate evaluations in a prescribed distribution. The supervisor places subordinates in classifications ranging from poor to excellent. However, this method cannot be used to compare employees from different departments/subsidiaries unless each department/subsidiary has an equal number of employees which in reality is almost impossible. Pair comparison method requires raters to pair ratees and choose one in overall job performance. Like those two preceding comparison methods, paired comparison is quick and fairly easy to use if few employees are being rated. In fact, raters may prefer paired comparison to ranking and forced distribution
3. **Critical incidents methods.** There are three methods that can be grouped into critical incidents methods. The first method is annual review file or calendar. This method requires rater to keep an ongoing record of his/her ratees' critical incidents contemporaneously during the period of evaluation. If the review period is one year, the rater can keep a file or calendar in which the outstandingly good or bad examples are entered. The rater will then make an annual review of this file or calendar before preparing for the evaluation. The advantage of the annual review file is that it usually very job specific so the rater is less affected by bias. The main disadvantage of this method is the difficulty of keeping an accurate record. With other interests having a much higher priority, maintaining records for employees is often not given adequate time. Another disadvantage is the lack of comparable data on ratees. The second method is checklist of critical incidents. It is named like that because it uses a checklist of critical behaviors related to an employee's performance. The checklist may have twenty or thirty critical items for one specific job. This method is easier than the first one because the rater simply checks whether the ratee has performed in a superior manner in any one of the incidents. So outstanding employee will have many checks. The checklist method often involves giving different weights to different items in the checklist to indicate that some are more important than others. The advantage of this method is its quickness and easiness to use, but it is time-consuming and expensive to develop. The third method is behaviorally anchored rating scales (BARS). Basically, this method is the critical incidents in combination with the rating scales. Instead of using broad attributes, the points on the rating scale are critical incidents. BARS method is quick and easy to complete, and also job related and more developmental than typical rating scales.
4. **Essay method.** This method is designed primarily for employee development. Unfortunately, it requires raters to do more work because they have to write an essay, in narrative style, describing the ratees' performance, specifying examples of strengths and weaknesses. The details required make the essay method relatively freer from bias than any other methods.
5. **Management by objectives (MBO).** MBO is one of the most widely used methods. MBO contains some essential elements as follows: goal-setting, action plan-

because they compare only two employees at a time rather than all employees to one another.

ning, self-control, and periodic review. Goal-setting lies at the heart of the MBO process. With MBO, the goal-setting process begins with the formulation of long-term objectives and cascades through organizational objectives, departmental goals, and finally individual goals. Those objectives and goals have to be measurable. At the individual level, goals are mutually set by the employee and his or her manager. The aspect of participation is one of MBO's major strengths. Action planning specifies how goals are to be achieved. This is important because it provides direction as well as mechanism for measuring accomplishment toward goals. Self-control is a primary assumption of MBO since employees have a fairly high level of motivation, commitment, and achievement drive given management and company support. Periodic review is a mechanism for periodically measuring progress toward goals. A review process is particularly important to discuss that employee may be experiencing in reaching goals; perhaps goals need adjusting to account for problems that could not be forecasted during the goal-setting process. In more fortunate situations, exceptional performance may require that goals be adjusted upward. Beside employee participation, the other advantages are on specific goals, and the determination of objective and goals before the evaluation begins. The disadvantages of MBO are time and effort that must be spent by both rater and ratees during the evaluation process.

6. Combination of the aforementioned methods.

Criteria play a very important role in the evaluation process. They are used as benchmarks in performance measurement. How accurate is the performance measurement depends on how valid and reliable are the criteria. In order to be valid and reliable criteria, five requirements must be met: clearly understanding, observable, measurable, job-related, and no duplication among criteria. For global performance evaluation, the following criteria can be used:

1. Individual competencies which include managerial skills, technical skills, social and language skills, administrative skills, interpersonal skills, ability to work in international teams, and international negotiation skills.
2. Attitude which includes behavior flexibility, openness to change, ability to cope with stress, adaptability in new situations, non-judgmentalism, sensitivity to different cultures, awareness of own cultural background, high task-orientation, and self-reliance.

3. Job performance which includes result areas, personal development and growth, targets achievement, and application of expertise.
4. Targets which are derived directly from the company's, the subsidiary's and local objectives, and are individually dictated.

**Performance Evaluation of International Employees and HCNs**

The assessment of international employees' (either Parent Country Nationals/PCNs or Third Country Nationals/TCNs) performance is enhanced by a consideration of the variables that influence success or failure in a foreign assignment, and these factors should be considered, but not always, before the assignment is made. These variables are (Dowling, Schuler and Welch, 1994):

1. Environment. The environment has an impact on any job, but it becomes of primary importance in the role of international employees. As environments differ greatly, their potential for fostering successful performance also varies. Some environments can yield a relatively easy adaptation by an international employee, while others impose tremendous difficulties. Many factors that can be expected or taken for granted in home country may not exist in the host country. These difficulties should be taken into account when assessing work performance. Similarly, the type of business and stage of international business will influence the success of international employee.
2. Task. In attempting to predict how well an international employee will perform in the foreign assignment, consideration must be given to the general type of job assignment overseas. That is, the specific task variables should be assessed. Task variables are generally considered to be more under MNC's control than environmental factors. Because of this relative control, the task variables can be better assessed and more easily changed. This, of course, may vary according to the position of the international employee being evaluated. As various categories of job assignments are examined, it becomes clear that the ability of the individual to perform a particular job is critical to the success of the assignment.
3. Personality. Personality factors appear to play a role in explaining an international employee's ability to adapt to a foreign environment, and so they can increase the probability of successful performance of international employees. Personality factors are relatively controllable because the choice of the individual is one of the few decisions under the control of the MNC.

In most cases, the final evaluation of international employees is done in the home country, where the raters have little or no knowledge of local circumstances, and the context of the performance may be lost (Logger and Vinke, 1995). However, local management are often called in to give supplementary opinion since they are supposed to be familiar with the international employee's performance and be able to explain the local situation and environment-related factors (Logger and Vinke, 1995).

The performance evaluation of Home Country Nationals/HCNs is slightly different with the performance evaluation of international employees because HCNs do not have environmental/cultural adaptability problems. Evaluation standards are largely determined and evaluation process are largely administered by local managers in subsidiary. If the MNC applies the geocentric or regiocentric approach in which HCNs are possible being transferred abroad (so they will become TCNs), the evaluations have to be sent to the headquarters for filing and then reviewing when necessary (when HCNs are going to be transferred abroad).

### Designing An Effective Global Performance Evaluation System

Before talking about how to design such effective global performance evaluation system, first we have to clarify what effective global performance evaluation system means. In my opinion, in order to be effective, the global performance evaluation system must fulfill the following criteria:

1. Fit which means compatible with other systems in the company and suitable with local environments.
2. Understandable which means not complicated and easy to understand by all individuals in the company. This understanding determines the acceptance of individuals on evaluation system, and, finally, the successful of system implementation.
3. Accurate which means it measures what have to be measured precisely.

Also the designing of global performance evaluation system should follow five principles below (Mohrman, Jr., Resnick-West and Lawler III, 1989):

**Principle 1:** Get the right people involved. It means involving all individuals in the company who will be the users of performance evaluation system. The involvement makes them understanding better and builds their commitment to succeed the implementation of the system.

**Principle 2:** View performance evaluation as a part of a complex system. It means the designers have to realize that performance evaluation is an integral part of human resources management and also part of cultural fabric of the company.

**Principle 3:** Learn from experience. Rarely does complex system go right for the first time. The trick is to study what we have done (how the system is designed and implemented), so that modifications can be made.

**Principle 4:** Remain flexible. To ensure legal compliance and coordination among units within the company, certain elements of performance evaluation system must be fixed. Beyond those, however, there is a great deal of potential flexibility. Flexibility is important because it allows the system being adjustable to various and changing environments.

**Principle 5:** Be patient. Because performance evaluation system is part of complex environments, and because it often requires changes in fundamental values and behavior, it takes time to be implemented successfully. The system may also need continuous assessment and modification.

The design process itself is a seven-step process as follows:

1. Select the right people. This is the most frequently missed or misapplied step in the design process. At least three sets of critical players should be involved in designing process: top managers, human resources professionals, and users.
2. Decide on a process to guide your design. Once the key players have already been identified, the next step is how to develop the design and involve the key players. Typically, a company uses one of the three options or a combination of two or more options: hiring an outside consultant, centralizing the development in the human resources department, and/or forming a task force.
3. Assess the current organizational situation. The objective is to figure out which performance evaluation practices exist, which ones are going well, and what is causing problems. In addition, because performance evaluation must be viewed as part of a complex system, it is important to understand something about the other human resources systems, the company's culture, the host and the third country cultures, and the legal requirements.

4. Establish the system's purposes and goals. The ultimate purpose of global performance evaluation system is to positively influence the performance of the company, while the goals of such system have already been listed in the previous section. Every company frees to add any specific, unique goals and frees to remove/delete any goals from that list. The company can also rearrange the sequence of goals to show which goals are more important than others (make a priority arrangement).
5. Design the performance evaluation system which includes selecting evaluating methods, determining evaluation criteria, and designing evaluation cycle (including cycle length). The first thing to do in this step is developing knowledge about available options of methods and criteria (the options have already been listed in the previous section). Once it is done, those options have to be reviewed in light of the company's needs and purposes/goals of performance evaluation, and then which appropriate combination of methods and criteria can be decided. Eventually, the evaluation cycle has to be designed.
6. Experiment with implementation. After the system is designed, it is time to begin implementation. Because this implementation more or less like an experiment, it is suggested that the company implements the system in very selective departments at the headquarters and in one or two sample subsidiaries, and carefully monitors that implementation so the company can spot any flaws in the system before it is implemented more widely.
7. Make corrective adjustment. Finally, the company gets feedback from the experiment. The feedback is then evaluated and the conclusion of which part(s) of the system has/have to be revised or adjusted can be drawn. After the revision/adjustment is done, the system is now ready to be implemented throughout the company.

### **Global Performance Evaluation Practices in Sherwin-Williams Company**

The story of the Sherwin-Williams Company began in 1866 when Henry Williams used his life savings of US\$ 2,000 to buy a partnership in the Truman Dunham Company of Ohio. The firm was a distributor of pigments, painting supplies, oil and glass. In four years, this original partnership was dissolved, and Sherwin organized a paint business with new partners, Edward P. Williams and A.T. Osborn. The new business was called Sherwin-Williams & Company. In 1884, the second partnership was also dissolved, and Sherwin and Williams incorpo-

rated as the Sherwin-Williams Company which still exists today.

At present, the Sherwin-Williams Company is known as a producer and distributor of paints, coatings, paint sundries, various home decorative items, adhesives, labels and color cards. It also produces motor vehicle finishes and refinish products as well as industrial finishes for original equipment manufacturers of metal, plastic and wood products. Through its 1,865 company-operated stores and 14 subsidiaries (in Brazil, Canada, Cayman Islands, Jamaica, Curacao, Virgin Islands and the United States), the Sherwin-Williams Company generated US\$ 3.1 billion of net sales and US\$ 186.6 million of income in 1994.

Based on 1994 data, the Sherwin-Williams Company employs approximately 17,886 people. For the company, employees are one of its greatest assets, and that makes top management very concerned with employees' work performance. From year to year, top management tries to improve employees' performance. One system that the Sherwin-Williams Company adopts in order to ensure the continuity of employees' performance improvement is the global performance evaluation system. Beside ensuring the employees' continuous performance improvement, that system is designed to achieve also such other goals as:

1. Planning employees' career.
2. Determining pay increases (pay for performance).
3. Encourage the openness and regularity of communications about job performance between supervisors and their subordinates.

The only employees' performance evaluation method used in the Sherwin-Williams Company is the rating scale method which consists of five scales: outstanding, exceed expectation, meet expectation, improvement needed, and below expectation. The main reasons why the company chose this method are because it is easy and does not take much time to apply. The management of company realizes that five scales may create a central tendency error, an error where the raters tend to rate the ratees as average (in this case, tend to rate toward scale 3). To avoid such error, the raters are required to submit the result of evaluation to their immediate superiors. The evaluation result will be final after having approval from the immediate superiors. This check and recheck mechanism so far can minimize the central tendency error.

Generally, the Sherwin-Williams Company uses three criteria as benchmarks of its employees' performance. The criteria are as follows:

Criterion 1: Financial goals such as sales, profits and account receivables of the company and/or the profit centers (company stores).

Criterion 2: Methods which means how the employees achieve those financial goals. This includes managerial skills (only apply for employees who have managerial responsibilities), technical skills and work habits.

Criterion 3: Developmental which means how the supervisors or managers develop and prepare their subordinates as the successors of their positions. This criterion applies only for supervisors and managers.

The specific criteria vary for each departments, subsidiaries and business units.

The evaluation process for international employees (the employees who are assigned out of their home country) basically is only a little bit different from the evaluation process for local employees (the employees who are assigned in their home country).

In evaluating the international employees, the raters are supposed to consider the environment factors since the environment has a significant influence to the performance of international employees. The raters should not put the rates on the same scales for the same performances if the environments are different.

In designing the global performance evaluation system, the management of the Sherwin-Williams Company bases on the following principles:

1. The employees must have inputs to the system. It means the employees directly or indirectly involve in and influence the system design.
2. Fair.
3. Compatible with other systems in the company primarily with the global compensation system.
4. Simple.

The design itself consists of ten steps as follows:

1. Form the cross-functional team.
2. Gather information about employees concern toward global performance evaluation system.
3. Summarize findings.
4. Define the overall scope of the global performance evaluation system.
5. Gather data from job descriptions.
6. Do a research about global performance evaluation practices in other MNCs.
7. Design the global performance evaluation system.
8. Implement the system.
9. Gather the feedback of implementation.
10. Modify the system as needed.

#### Primary References

1. Beer, M. (1977). Making performance appraisal work. In J. Gabarro (Ed.), *Managing people and organizations* (pp. 195-212). Boston, MA: Harvard Business School Publications.
2. Carrell, M. R., Elbert, N. F. and Hatfield, R. D. (1995). *Human resource management: Global strategies for managing a diverse workforce* (5th ed., Ch. 8). Englewood Cliffs, NJ: Prentice-Hall, Inc.
3. Dowling, P. I., Schuler, R. S. and Welch, D. E. (1994). *International dimensions of human resource management* (2nd ed., Ch. 4). Belmont, CA: Wadsworth Publishing Company.
4. Logger, E. and Vinke, R. (1995). Compensation and appraisal of international staff. In A-W. Harzing and J. Van Ruyseveldt (Eds.), *International human resource management* (pp. 252-269). London, England: Sage Publications in association with the Open University of the Netherlands.
5. Mohrman, A. M. Jr., Resnick-West, S. M. and Lawler III, E. E. (1989). *Designing performance appraisal systems: Aligning appraisals and organizational realities*. San Francisco, CA: Jossey-Bass Publishers.
6. Oddou, G. and Mendenhall, M. (1995). Expatriate performance appraisal: Problems and solutions. In M. Mendenhall and G. Oddou (Eds.), *Readings and cases in international human resource management* (2nd ed., pp. 383-393). Cincinnati, OH: South-Western College Publishing.
7. Pucik, V. 1993. Globalization and human resource management. In V. Pucik, N. M. Tichy and C. K. Barnett (Eds.), *Globalizing management: Creating and leading the competitive organization* (pp. 61-81). New York, NY: John Wiley & Sons, Inc.

---

Budi W. Soetjipto, SE, MBA is a lecturer at the Department of Management, Faculty of Economics, University of Indonesia, Depok as well as a research staff and training instructor at the Institute of Management, Faculty of Economics, University of Indonesia, Jakarta, and a research assistant at the Department of Management and Labor Relations, Cleveland State University, Cleveland, Ohio, U.S.A. The author holds a Sarjana Ekonomi degree in Management from the University of Indonesia and a Master of Business Administration in Management and Labor Relations from the Cleveland State University. He is now pursuing a Doctor of Business Administration in Management and Labor Relations at the Cleveland State University.

---