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# The perceived fairness of performance evaluations

by Frank Hartmann

**When it comes to procedural justice, Management Accounting and Human Resources functions have to get closer to create systems of performance evaluation that are perceived as fair – and that also take uncertainty into consideration.**

The conclusion of the research paper *The perceived fairness of performance evaluation: The role of uncertainty* that my colleague Sergeja Slapničar and I published in the journal *Management Accounting Research* begins as follows:

*An important, desired outcome of any performance evaluation system is to invoke positive work attitudes and behaviours of managers, and to increase their motivation and performance. Positive perceptions of procedural justice of the performance evaluation procedures [within an organisation] contribute to this type of outcome.*

*“Part of the complexity lies in the awkward relationship between HR and Management Accounting.”*

So, that’s simple – no one will question why procedural justice is important, or how it creates a better culture within a firm.

What makes the results of our paper a unique contribution to the whole question of procedural justice is that it is the first time that management accounting studies on fairness have applied a formal theoretical basis to their analysis. Further, we measure “process” or behavioural characteristics in addition to the “metric” characteristics typically measured by management accounting systems.

## Venus and Mars

It seems simple: the Human Resources (HR) function needs performance evaluation systems that are perceived as fair to keep managers motivated and happy, and the Management Accounting function should be able to create “fair” accounting systems that measure the economic performance of managers, ensuring that they are contributing to the financial “bottom line” of the firm. Together, the HR and Accounting functions should be able

to demonstrate that pay increases or bonuses, for example, are fair and based on managers clearly meeting their Key Performance Indicators. But we discovered – proved – that the issue is much more complex than that.

Part of the complexity lies in the awkward relationship between HR and Management Accounting. This is like Venus and Mars in terms of performance evaluation. In HR, people look at *process* characteristics. Psychology is important here. In HR, it is perceived as important that people have a say in their evaluation process, for example.

In Management Accounting, we look at *metric* characteristics. We all know what accounting is – it is a financial language, so it is able to express some important parts of firm performance, like revenue and profitability. Management Accounting is a system that tries to assess the economic performance of the firm for internal stakeholders and managers who need to take decisions, in consideration of the bottom line.

## No ‘one size fits all’

However, using that information to also assess the performance of individuals is quite a different affair. That’s how we propose to add insights with this research. The way we see accounting systems is not as straightforward as some of the more technically



oriented accountants think. We want to build a bridge between HR and Management Accounting.

So, we designed our accounting study around four characteristics: two metric characteristics and two process characteristics. The metric characteristics were *outcome vs. effort metrics* and *diversity of metrics used by superiors*. The process characteristics were *formalisation of process* and *voice of subordinate* in the performance evaluation process.

With our research, we are making the claim that both characteristic types are important, saying that 'good accounting systems bring them together'. In addition, we want to add a bit more realism to the accounting system's actual use. This is where *task uncertainty* and *tolerance for ambiguity* come in play.

### **Uncertainty and tolerance**

In the perception of procedural justice, *task uncertainty* has an increasingly

important part to play. In general, business is going through an uncertain time; tasks of managers may change from day to day or hour to hour. This reflects in *task uncertainty*.

If you are in a stable position so that you know what input leads to what output, that mechanistic aspect means that your performance is easy to measure. However, if you are in sales or marketing, for example, you have a very uncertain task. You never know what you'll be doing the next day, ▶

# The perceived fairness of performance evaluations (continued)

by Frank Hartmann



*“The way we see accounting systems is not as straightforward as some of the more technically oriented accountants think.”*

so getting a very clear picture of your performance is hard. We argue that in this case, for example, *diversity of metrics* may be particularly important as well as *voice of the subordinate*.

On an individual level, *tolerance for ambiguity* really colours the perception of justice in performance assessment. It's a classic psychological variable: how you are able to handle a variety of different informational cues while holding straight to your course. So our research, and the literature, shows that people good in accounting are

typically bad with ambiguity – they like to see figures, they like the bottom line, the predictable; while artists, for example, will score high in tolerance for ambiguity. Thus, the “good accountant” may be more comfortable with a more *formalised* assessment process, based on *outcome/effort* metrics.

Therefore, we have to take these factors – psychological factors – into account. Circumstantial differences in managerial settings may cause a different weighting to the four

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metric and process characteristics factors, so that characteristics may be more important in some situations than others depending on the *task uncertainty* or *tolerance for ambiguity* of an individual in their particular function. ■

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