

## Measuring Talent ROI Loss from Performance-Score Inflation and Faulty Promotion Mapping.

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### Abstract

Talent ROI is the value created by employees as compared to the amount spent on hiring, developing, and retaining the employees. Systems of performance evaluation are at the core of this measure of this value, as they inform compensation, promotion and the allocation of talents. But performance-score inflation, in which employees are graded systematically higher than deserved, has become a serious perversion in contemporary organisations. Such inflation does not match the evaluation results to the real employee ability and the results result in defective promotion choices and resource wastage. The proposed paper, which is based on the Agency Theory, Expectancy Theory, and the Resource-Based View (RBV), analyses that inflated performance metrics misalign incentive arrangements and undermine the performance-reward relationship. It is found in the analysis that such distortions lead to great loss of Personal ROI in promoting poor performers and poor utilisation of high-potential employees. Moreover, inflated appraisals deter organisational competitiveness by inefficiently allocating strategic human capital. The research finds that there should be a sound calibration system and data-driven performance system to make precise assessments and value sustainability.

**Keywords:** Talent ROI, performance inflation, promotion mapping, agency theory, HR analytics, employee evaluation, incentive distortion

### 1. Introduction

Performance management systems identify the alignment of the contributions of the employees to those of the organisations by assessing the performance, leading through rewards and making promotion decisions (Aguinis *et al.*, 2021). They are, however, hampered by the problem of inflation of performance scores in that managers give inflated scores regardless of what is actually produced. This can be a result of the need to sustain the morale or the desire to evade confrontation (Adler *et al.*, 2020). These types of inflation will distort the Talent ROI by creating false statements about the value of the employees and undermining the resource allocation decisions. The article will explore the impact of inflated appraisals and inaccurate promotion mapping on organisational efficiency and why proper, objective systems of performance measurement are required to maintain effectiveness in the long run.

2. Theoretical Framework

2.1 Agency Theory

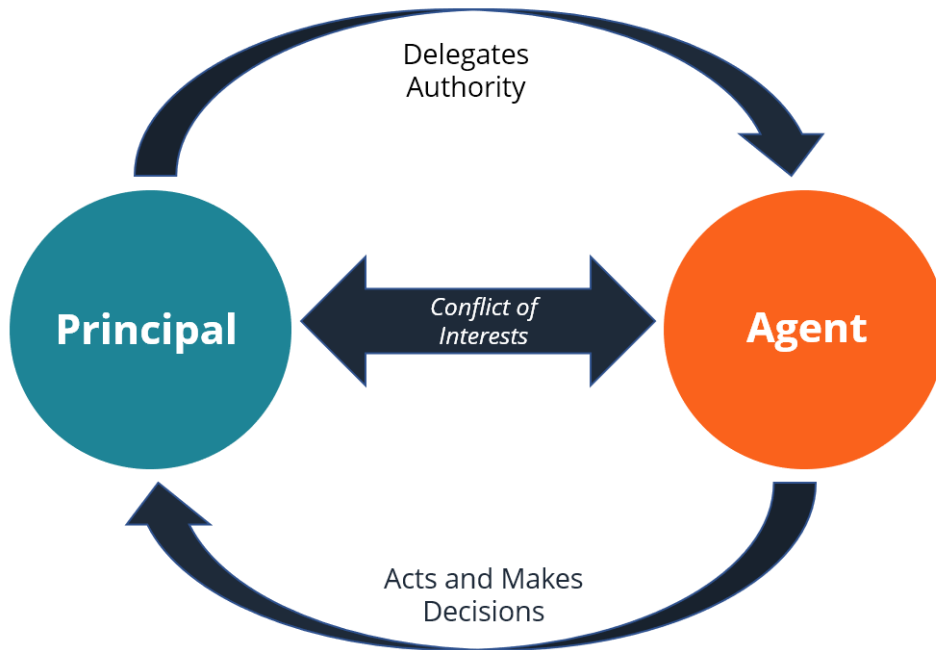


Figure 1: Agency Theory

(Source: Baker *et al.*, 2020)

The Agency Theory is the explanation of the relations between the principals (organisations) and the agents (employees or managers), focusing on conflicting interests and misalignment on incentives. In situations related to performance evaluation, managers can rate high to prevent interpersonal conflict or enable the team to stick together when these ratings are not reflective of the true performance (Baker *et al.*, 2020). This act brings a detachment between the organisational objectives and managerial behaviours. Consequently, overestimated appraisals will alter the incentive arrangements, thus resulting in inefficient reward and promotion allocation capabilities, thus lowering the overall efficiency of an organisation and the Talent ROI.

2.2 Expectancy Theory

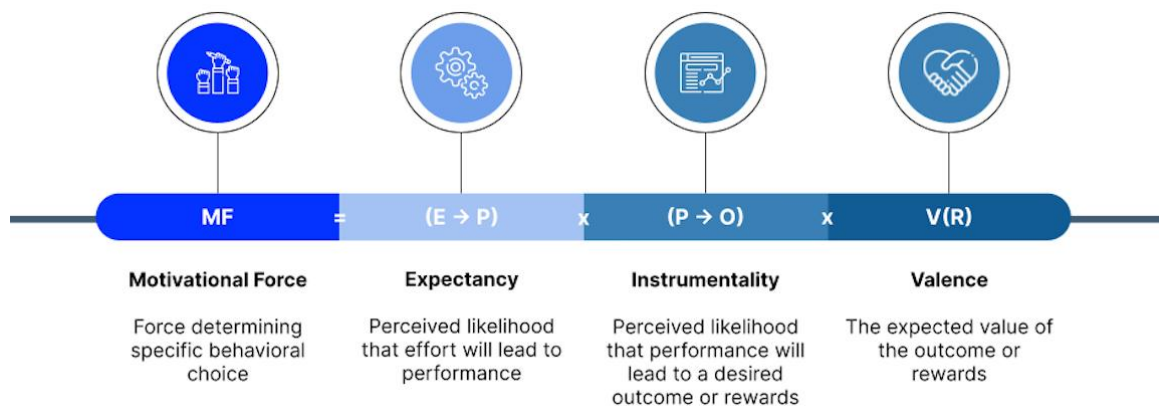


Figure 2: Expectancy Theory

(Source: Kuvaas *et al.*, 2020)

The Expectancy Theory assumes that motivation in employees is motivated by the perceived employee-reward correspondence. This connection is distorted by inflated performance appraisals where rewards cease to be pegged on real works. Employees can feel that their efforts are not fairly appreciated, which undermines motivation and engagement (Kuvaas *et al.*, 2020). In the long run, this would discourage productivity and hamper organisational performance because high-performing workers might feel underappreciated, and low-performing workers will get disproportionate compensation.

### **2.3 Resource-Based View (RBV)**

The Resource-Based View (RBV) highlights the fact that human capital is a vital source of long-term competitive advantage. To realise strategic goals, organisations depend on attracting and employing high performers well. But performance-score inflation contributes to talent being misallocated and encourages employees who might not have the required capability (Gallardo-Gallardo *et al.*, 2020). Such misplaced allocation undermines the resource base on which the organisation competes effectively and the ultimate appreciation of the investment in human resources.

## **3. Performance Score Inflation Dynamics**

### **3.1 Causes of Inflation**

Various organisational and behavioral factors lead to performance-score inflation. Leniency bias arises when managers have the intention of giving higher ratings to escape adverse relationships with employees. Inflation is also promoted by organisational politics because managers can gain loyalty by giving positive ratings or retain internal connections (DeNisi and Murphy, 2020). Critical evaluations are also discouraged by cultural pressures especially in organisations that value harmony and employee satisfaction. Moreover, the lack of uniform testing norms encourages subjectivity to prevail over performance tests. A combination of these reasons leads to the normalisation of inflated ratings, making performance management systems less credible and effective.

### **3.2 Measurement Consequences**

Performance inflation has serious effects, especially in measurement accuracy. Overrated ratings diminish the differentiation amongst employees and it is impossible to distinguish the good and bad ones. This creates the occurrence of artificial clustering as the majority of employees get close ratings irrespective of their level of actual performance (Pulakos *et al.*, 2020).

This type of clustering compromises the credibility of performance data upon which sound decisions are to be made. Besides, biased assessments undermine the integrity of talent analytics, which results in poor insights and weak HR policies. Consequently, companies have difficulties in resource allocation, which ends up lowering Talent ROI.

## **4. Faulty Promotion Mapping**

### **4.1 Promotion Decision Models**

Performance evaluation is the primary basis of promotional decisions and the underlying assumption since higher ratings indicate ability and readiness to be promoted. In merit-based systems, promotions are supposed to reward top-performing employees and place talent adjustment with the organisational demands. But in reality, promotion is frequently affected by subjective factors like managerial discretion and organisation politics (Lazear and Gibbs, 2021). This brings discrepancies between assessment criteria and the actual decision-making practices, resulting in a possible mismatch between employee competence and task demands.

### **4.2 Mapping Distortion**

Faulty promotion mapping is caused by the use of inflated performance ratings as the main basis of advancement decision-making. High ratings in this case are not always related to high productivity or competence. Over-evaluated employees might get promoted to occupations that they are not ready to do yet end up in a role mismatch

and become less productive. On the other hand, truly high-performing individuals can be neglected unless their efforts are properly captured in evaluation scores (Mensah, 2021). This misfit does not only impact individual performance but also interferes with team dynamics and organisational effectiveness, which adds more to the loss of Talent ROI.

## **5. Talent ROI Loss Model**

### **5.1 ROI Calculation Framework**

The calculation of the ROI of talent is done by taking the value created by workers to that of their employment as follows:

$$ROI = (Return - Investment) / Investment$$

'Return here' covers employee productivity, innovation, and contribution to organisational objectives, and 'investment' takes in the salaries, training and development expenses. To estimate both elements, valid performance measurement is a requirement. Yet, in the event of inflated performance scores, it overestimates the return and causes a false measurement of the Talent ROI (Sotomayor and Benabou, 2022). This distortion hinders organisations from detecting inefficiencies and maximising allocation of resources.

### **5.2 Components of ROI Loss**

The loss of talent ROI is due to a number of aspects that are interdependent. The wrong promotions will lead to people being appointed to positions they cannot deliver; this will lower the productivity. The excesses of high-performing staff also make the situation worse, since the potential of such employees is not maximised. Also, overstated appraisals also contribute to a lack of an effective compensation system, in which compensation is not based on real performance (Baker *et al.*, 2020). All this decreases the effectiveness of human capital investments, which results in the decrease of organisational performance and profitability.

### **5.3 Analytical Loss Model**

Loss of the Talent ROI could be conveyed as the variance between predicted and actual returns:

$$ROI Loss = Expected ROI - Actual ROI$$

Expected ROI is the worth that would be created with proper performance assessment and ideal allocation of talents. True ROI reflects the results in cases of inflated evaluation systems. This difference between these two measurements forms the wastefulness of performance inflation. This model illustrates that the presence of few errors in evaluating the accuracy can result in big losses in the long term and highlights the need to have a fine performance measurement system.

## **6. Organisational Impact**

### **6.1 Productivity Decline**

Performance inflation decreases the productivity of organisations because it encourages individuals that might not possess the qualifications for doing high positions. Such a misfit causes inefficiencies in the execution of tasks and decision-making. This leads to reduced total production and low performance of an organisation, especially in competitive markets where efficiency is the key factor.

### **6.2 Employee Turnover**

Employees who perform at high levels tend to quit organisations whose performance appraisal is seen as inaccurate or unfair. Employee satisfaction decreases when rewards and promotions are not correlated with real contributions, contributing to a higher rate of turnover (Aguinis *et al.*, 2021). This also contributes to loss in Talent ROI since organisations incur extra expense in terms of recruitment and training.

Kind of performance reviews also affect misalignment between human capital and strategic planning of the organisation. Promotion of wrongfully determined data might lead to organisations not getting the right people into the key positions. Such discrepancy undermines the process of strategy implementation and the capacity of an organisation to attain long-term goals.

## **7. Corrective Mechanisms**

### **7.1 Forced Distribution Models**

Forced distribution systems also involve managers using predetermined awards of performance ratings to differentiate among employees. The strategy mitigates rating inflation since it restricts high scores that can be implemented. Despite being controversial, it can bring objectivity and enhances the reliability of performance appraisals (Adler *et al.*, 2020).

### **7.2 Calibration Committees**

The calibration committees entail various managers examining and aligning the performance scores of teams. Through this, individual bias is minimised and the evaluation criteria are consistent. Calibration committees make the performance data more reliable by including differing points of views and contributing to justifiable decisions (DeNisi and Murphy, 2020).

### **7.3 Data-Driven HR Analytics**

Developed HR analytics use data to objectively assess the performance of employees. Combining various performance metrics would help organisations lessen the use of subjective ratings and increase the accuracy of decisions. These systems allow evaluation processes to be monitored and adjusted over time, keeping in touch with organisational goals (Cappelli and Tavis, 2021).

## **8. Conclusion**

Inflation of performance scores of a performance-based management approach compromises the performance management of the present century by misrepresenting performance ratings and resulting in inefficient allocation of talent. It causes loss of Talent ROI as it encourages employees who are not performing well but dismisses the ones who have potential as employees. Agency Theory, Expectancy Theory and the Resource-Based View can be applied to understand the issue, as they are the explanation of the incentive misalignment and misplacement of human capital. In response to this, companies should embrace objective, transparent and data-driven evaluation systems. Performance assessment can be enhanced with the help of calculation and sophisticated analytics that will make the assessment more accurate and fairer. The future study needs to focus on longitudinal studies to gain a better idea of the long-term impact of performance evaluation practices on organisational effectiveness and Talent ROI.

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