

CHAPTER 1

AN EXPANDED VIEW OF PERFORMANCE MANAGEMENT*

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An Expanded View of Performance Management

The purpose of this chapter is to provide an expanded view of the performance management process that subsumes the traditional I/O psychology performance appraisal literature. It is an expanded view in relation to the traditional I/O psychology treatment of the topic in five different ways. First, it goes beyond an almost exclusive emphasis, some would say almost an obsession, on the measurement of performance and includes a consideration of what happens before and after performance is measured (that is, the role of time and context). Second, although the I/O

*This research was conducted in part while Herman Aguinis held the Mehalchin Term Professorship in Management at the University of Colorado Denver and visiting appointments at the University of Salamanca (Spain) and University of Puerto Rico. I thank Charles A. Pierce, Manuel London, and Jim W. Smither for comments on previous drafts. This chapter includes material from and is based on the following book: Aguinis, H. (2009). *Performance management* (2nd ed.). Upper Saddle River, NJ: Pearson Prentice Hall.

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psychology literature treats the topic as being almost exclusively in the industrial psychology domain, this chapter places performance management equally in the industrial psychology and organizational psychology domains (cf. Aguinis & Pierce, 2008). Third, the chapter goes beyond an almost exclusive emphasis on the individual level of analysis by considering unit- and organizational-level strategic goals and team performance. Fourth, it goes beyond the traditional performance appraisal literature and considers the explicit link between performance assessment and administrative decisions (for example, allocation of rewards, promotions). Fifth, it is an expanded view because it relies on research produced by other fields such as communication, education, information systems, international business, marketing, organizational behavior, public administration, social psychology, sociology, and business strategy. My hope is that this chapter's expanded view of the performance management process will make a contribution toward the closing of the science-practice gap in the area of performance management.

The Science-Practice Divide and Performance Management

There is a documented gap between research conducted by human resource management (HRM) and industrial and organizational (I/O) psychology academics and the practice of HRM and I/O psychology in organizations. For the most part, academics conduct research on topics only tangentially relevant to practitioners and, on the other side of the divide, practitioners implement practices that do not seem to be based on rigorous research (Cascio & Aguinis, 2008a; Rynes, Colbert, & Brown, 2002; Rynes, Giluk, & Brown, 2007). Muchinsky (2004) noted that, unfortunately, researchers, in general, are not necessarily concerned about how their theories, principles, and methods are put into practice outside of academic study. In fact, Latham (2007) recently issued a severe warning that "We, as applied scientists, exist largely for the purpose of communicating knowledge to one another. One might shudder if this were also true of another applied science, medicine" (p. 1,031). On the other hand, Muchinsky (2004) noted that practitioners, in general, are deeply concerned with matters of

implementation. This increasing science-practice schism is particularly puzzling in the case of I/O psychology because the field was created and seems to be predicated fundamentally on the principles of the scientist-practitioner model (Bass, 1974; Dunnette, 1990; McHenry, 2007; Murphy & Saal, 1990; Rupp & Beal, 2007).

The general science-practice gap is particularly evident in the area of performance management. Practitioners are interested in several issues directly related to performance management, including talent management, leadership development, intensification of work as employers try to increase productivity with fewer employees, and managing change (Fay, 2006; Schramm, 2006; Schwind, 2007). On the other hand, a review by Cascio and Aguinis (2008a) showed that the five most popular topics published in the *Journal of Applied Psychology* (JAP) from 2003 to 2007 are (1) job satisfaction/attitudes/involvement/commitment; (2) work groups/teams; (3) performance appraisal/feedback; (4) organizational cultures, climates, policies, citizenship; and (5) behavior, prediction of processes, and outcomes. That same review found that the five most popular topics published in *Personnel Psychology* (PPsych) also between 2003 and 2007 are (1) behavior, prediction of processes and outcomes; (2) performance appraisal/feedback; (3) psychometrics/testing issues; (4) test validity/validation issues, and (5) work groups/teams (Cascio & Aguinis, 2008a).

Three conclusions can be drawn from this information. First, given that Cascio and Aguinis (2008a) coded the articles published in JAP and PPsych using fifty different categories, the congruence between the two lists of the top five most popular topics is remarkable and suggests that these publication trends are sound indicators of common, underlying trends in the research produced in the field of I/O psychology. Second, a comparison of the topics in which practitioners are interested with those in which academics are interested shows tangential overlap only. While the topic "performance appraisal/feedback" is included on the lists for both journals, the majority of articles address topics that are not sufficiently broad to address practitioner concerns about talent management and leadership development, to mention just two. The third conclusion is that practitioners interested in implementing sound research-based performance management

practices can rely on the research produced by HRM and I/O psychology (for example, performance appraisal). However, given the tangential overlap between practitioner interests and publication trends in I/O psychology, there is a need to go beyond HRM and I/O psychology into additional fields of study.

The organization of the chapter is as follows. The first section defines performance management and describes six key purposes served by performance management systems. The second section describes the performance management process. The third and final section describes performance management best practices. For a more detailed discussion of each of the issues discussed in this chapter, see Aguinis (2009).

What Is Performance Management?

Consider the following situation (Aguinis, 2009, p. 2):

Sally is a sales manager at a large pharmaceutical company. The fiscal year will end in one week. She is overwhelmed with end-of-the-year tasks, including reviewing the budget she is likely to be allocated for the following year, responding to customers' phone calls, and supervising a group of ten salespeople. It's a very hectic time, probably the most hectic time of the year. She receives a phone call from the human resources (HR) department: "Sally, we have not received your performance reviews for your ten employees; they are due by the end of the fiscal year." Sally thinks, "Oh, those performance reviews. . . . What a waste of my time!" From Sally's point of view, there is no value in filling out those seemingly meaningless forms. She does not see her subordinates in action because they are in the field visiting customers most of the time. All that she knows about their performance is based on sales figures, which depend more on the products offered and geographic territory covered than the individual effort and motivation of each salesperson. And nothing happens in terms of rewards, regardless of her ratings. These are lean times in her organization, and salary adjustments are based on seniority rather than on merit. She has less than three days to turn in her forms. What will she do? She decides to follow the path of least resistance: to please her employees and give everyone the maximum possible rating. In this way, Sally believes the employees will be happy with their ratings and she will not have to deal with complaints

or follow-up meetings. Sally fills out the forms in less than twenty minutes and gets back to her “real job.”

As is illustrated by this vignette, which describes a situation that is painfully familiar to many readers, performance management systems are often under-utilized and also misused. In fact, in many organizations, poorly implemented performance management systems can do more harm than good, as was demonstrated by a legal case in the construction industry (FMI Corporation, 2000). A female employee was promoted several times and succeeded until she started working under the supervision of a new manager. She stated in her lawsuit that, once she was promoted and reported to the new manager, that boss ignored her and did not give her the same support or opportunities for training that her male colleagues received. After eight months of receiving no feedback from her manager, she was called into his office, where the manager told her that she was failing, resulting in a demotion and a \$20,000 reduction in her annual salary. When she won her sex-discrimination lawsuit, a jury awarded her \$1.2 million in emotional distress and economic damages.

In addition to an increased risk of litigation, there are several other detrimental outcomes of poorly implemented systems, including employee burnout and job dissatisfaction, damaged relationships, and increased turnover (Brown & Benson, 2005; Gabris & Ihrke, 2001). In addition, there is a large opportunity cost because poorly implemented systems waste time and resources, including time and money.

Before designing a performance management system, there needs to be a clear definition of performance management. Performance management is a “continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization” (Aguinis, 2009, p. 3). Note that the key components of this definition are that this is a continuous process and that there is an alignment with strategic goals. If a manager fills out a form once a year because this is a requirement of the “HR cops,” then this is certainly not a continuous process. Also, evaluating employee performance (that is, performance appraisal) without clear considerations of the extent to which an individual

is contributing to unit and organizational performance and about how performance will improve in the future is also not consistent with this definition of performance management.

Why Implement a Performance Management System?

Performance management systems can serve six important purposes (cf. Cleveland & Murphy, 1989) (see Exhibit 1.1 for a summary).

Exhibit 1.1 Summary of Six Purposes of a Performance Management System.

Strategic: It links the organization's goals with individual goals, thereby reinforcing behaviors consistent with the attainment of organizational goals.

Administrative: It is a source of valid and useful information for making decisions about employees, including salary adjustments, promotions, employee retention or termination, recognition of superior performance, identification of poor performers, layoffs, and merit increases.

Communication: It allows employees to be informed about how well they are doing, to receive information on specific areas that may need improvement, and to learn about the organization's and the supervisor's expectations and what aspects of work the supervisor believes are most important.

Developmental: It includes feedback, which allows managers to coach employees and help them improve performance on an ongoing basis.

Organizational maintenance: It yields information about skills, abilities, promotional potential, and assignment histories of current employees to be used in workforce planning as well as assessing future training needs, evaluating performance achievements at the organizational level, and evaluating the effectiveness of human resource interventions (for example, whether employees perform at higher levels after participating in a training program).

Documentation: It yields data that can be used to assess the predictive accuracy of newly proposed selection instruments as well as important administrative decisions. This information can be especially useful in the case of litigation.

1. *Strategic purpose.* By linking the organization's goals with individual goals, the performance management system reinforces behaviors consistent with the attainment of organizational goals. Moreover, even if for some reason individual goals are not achieved, linking individual goals with organizational goals serves as a way to communicate what are the most crucial business strategic initiatives. As an illustration of how performance management can serve a strategic purpose, consider the case of Sears Holdings Corporation, the third largest broad-line retailer in the United States (\$55 billion in annual revenues, about 3,900 retail stores in the United States and Canada) and the leading home appliance retailer as well as a leader in tools, lawn and garden products, home electronics, and automotive repair and maintenance (Berner, 2005). Following the merger of Kmart Corp. and Sears, Roebuck & Company, Aylwin B. Lewis was promoted to chief executive and tasked with a strategic culture change initiative in hopes of reinvigorating the struggling retail company. A strategic objective is to move from an inward focus to a customer service approach. A second key objective is to bring about an entrepreneurial spirit whereby store managers strive for financial literacy and are challenged to identify opportunities for greater profits. Several aspects of the performance management system are now being used to achieve these strategic objectives. For example, employee duties and objectives are being revised so that employees will spend less time in back rooms and more time interacting with customers to facilitate purchases and understand customer needs. In addition, leadership communication with employees and face-to-face interaction are being encouraged. Lewis spends three days per week in stores with employees and frequently quizzes managers on their knowledge, such as asking about profit margins for a given department. The greatest compliment employees

receive is to be referred to as “commercial” or someone who can identify opportunities for profits. All Sears headquarters employees are also required to spend a day working in a store, which many had never done before. Executive management has identified five hundred employees, considered potential leaders, who are given training and development opportunities specifically aimed at cultural and strategic changes. In sum, the performance management system at Sears is used as a strategic tool to change Sears’ culture because senior management views encouraging key desired behaviors as critical to the company’s success in the marketplace.

2. *Administrative purpose.* Performance management systems are a source of valid and useful information for making administrative decisions about employees. Such administrative decisions include salary adjustments, promotions, employee retention or termination, recognition of superior individual performance, identification of poor performers, layoffs, and merit increases. In other words, the implementation of reward systems based on information provided by the performance management system falls within the administrative purpose. If an organization does not have a good performance management system in place, administrative decisions are more likely to be based on personal preferences, politics, and otherwise biased decisions. Having a good system in place is particularly relevant for the implementation of contingent pay (CP) plans, also called *pay-for-performance*. CP means that individuals are rewarded based on how well they perform on the job. Thus, employees receive increases in pay based wholly or partly on job performance. Originally, CP plans were used only for top management. Gradually, the use of CP plans has extended to sales jobs. Currently, CP plans are pervasive, and more than 70 percent of workers in the United States and the United Kingdom (Baty, 2006) are employed by organizations implementing some type of variable pay plan. Many of these organizations tie variable pay (for example, bonus, commission, cash award, lump sum) directly to performance. CP plans are becoming popular worldwide (Milliman, Nason, Zhu, & De Cieri, 2002), which highlights the important administrative purpose of performance management systems.

3. *Communication purpose.* A performance management system can be an excellent communication device. Employees are informed about how well they are doing and receive information on specific areas that may need to be improved. Also, related to the strategic purpose described above, performance management systems are a conduit to communicate the organization's and the supervisor's expectations and what aspects of work the supervisor believes are most important.
4. *Developmental purpose.* Feedback is an important component of a well-implemented performance management system. Managers can use feedback to coach employees and improve performance on an ongoing basis. This feedback allows for the identification of strengths and weaknesses as well as the causes for performance deficiencies (which could be due to individual, group, or contextual factors). Of course, feedback is useful only to the extent that remedial action is taken and concrete steps are implemented to remedy any deficiencies (Aguinis & Kraiger, 2009). Another aspect of the developmental purpose is that employees receive information about themselves that can help them individualize their career paths. Thus, the developmental purpose refers to both short-term and long-term aspects of development.
5. *Organizational maintenance purpose.* An important component of any workforce planning effort is the talent inventory, which is information on current resources (for example, skills, abilities, promotional potential, and assignment histories of current employees). Performance management systems are the primary means through which accurate talent inventories can be assembled. Other organizational maintenance purposes served by performance management systems include assessing future training needs, evaluating performance achievements at the organizational level, and evaluating the effectiveness of HRM interventions (for example, whether employees perform at higher levels after participating in a training program). None of these activities can be conducted effectively in the absence of a good performance management system.
6. *Documentation purpose.* Performance data can be used to assess the predictive accuracy of newly proposed selection instruments

(Cascio & Aguinis, 2008b). For example, a newly developed test of computer literacy can be administered to all administrative personnel. Scores on the test can then be paired with scores collected through the performance management system. If scores on the test and on the performance measure are correlated, then the test can be used with future applicants for the administrative positions. Second, performance management systems allow for the documentation of important administrative decisions. This information can be especially useful in the case of litigation.

As noted earlier, many performance management systems are under-utilized and, hence, do not serve all of these six purposes. For example, results of a survey of industrial and organizational psychologists working in human resources departments in more than one hundred different organizations indicated that the two most frequent purposes are administrative (salary decisions) and developmental (to identify employees' weaknesses and strengths) (Cleveland & Murphy, 1989). There is much to gain if organizations are able to use their performance management systems for all six purposes. This would have an important impact on organizations as well as possibly entire countries, given the pervasiveness of performance management systems worldwide. For example, a recent survey of almost 1,000 HRM professionals revealed that 96 percent of Australian companies currently implement some type of performance management system (Nankervis & Compton, 2006). Similarly, results of a survey of 278 organizations, about two-thirds of which are multinational corporations, from fifteen different countries, indicated that about 91 percent of organizations implement a formal performance management system (Cascio, 2006). Moreover, organizations with formal and systematic performance management systems are 51 percent more likely to perform better than the other organizations in the sample regarding financial outcomes and 41 percent more likely to perform better than the other organizations in the sample regarding other outcomes, including customer satisfaction, employee retention, and other important metrics.

Maximizing the Purposes Served by Performance Management: Illustration

There are numerous examples of organizations that implement performance management systems that allow them to accomplish the multiple objectives described above. Consider the case of SELCO Credit Union in Eugene, Oregon, a not-for-profit consumer cooperative that was established in 1936 (Fandray, 2001). SELCO's eight branches serve nearly eighty thousand members. SELCO offers many of the same services offered by other banks, including personal checking and savings accounts, loans, and credit cards. Recently, SELCO scrapped an old performance appraisal system and replaced it with a new multipurpose and more effective performance management system. First, the timing of the new system is now aligned with the business cycle, instead of the employee's date of hire, to ensure that business needs are aligned with individual goals. This alignment serves both strategic and informational purposes. Second, managers are given a pool of money that they can work with to award bonuses and raises as needed, which is more effective than the complex set of matrices that had been in place to calculate bonuses. This improved the way in which the system is used for allocating rewards and therefore serves an administrative purpose. Third, managers are required to have regular conversations with their employees about their performance and make note of any problems that arise. This gives the employees a clear sense of areas in which they need improvement and also provides documentation if disciplinary action is needed. This component serves both informational and documentation purposes. Finally, the time that was previously spent filling out complicated matrices and forms is now spent talking with the employees about how they can improve their performance, allowing for progress on an ongoing basis. This serves a developmental purpose.

Many organizations may have a so-called performance management system, but this may be a performance appraisal at best and an administrative hurdle imposed by the HR department at worst. So it is not sufficient to have any type of performance management system, but one should have one that serves as many of

the six purposes described above as possible. The next section addresses a performance management process that allows organizations to maximize the benefits of their system.

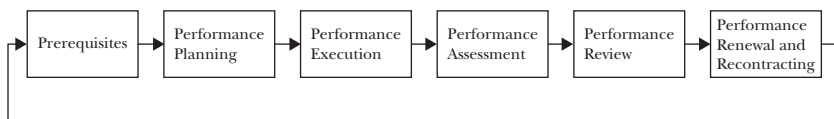
Performance Management Process

As noted earlier, performance management is a continuous process. However, when a system is first implemented, the process follows the following stages (Aguinis, 2009; Grote, 1996): (1) pre-requisites, (2) performance planning, (3) performance execution, (4) performance assessment, (5) performance review, and (6) performance renewal and recontracting. Each of these stages is described next. The flow of the performance management process is depicted graphically in Figure 1.1.

Stage 1: Prerequisites

There are two important prerequisites that are needed before a performance management system is implemented: (1) knowledge of the organization's mission and strategic goals and (2) knowledge of the job in question. If there is a lack of clarity regarding where the organization wants to go, or the relationship between the organization's mission and strategies and each of its unit's mission and strategies is not clear, there will be a lack of clarity regarding what each employee needs to do and achieve to help the organization get there. An organization's mission and strategic goals are a result of strategic planning, which allows an organization to clearly define its purpose or reason for existing, where it wants to be in the future, the goals it wants to achieve, and the strategies it will use to attain these goals. Once the goals for the entire organization have been established, similar goals cascade downward, with departments setting objectives to support

Figure 1.1 Flow of the Performance Management Process.



the organization's overall mission and objectives. The cascading continues downward until each employee has a set of goals compatible with those of his or her unit and the organization.

As an example, Exhibit 1.2 shows how the Key Bank of Utah successfully developed a performance management system that

Exhibit 1.2 Cascading of Goals from the Organizational to the Departmental and Individual Level at Key Bank of Utah.

Organizational Level

- *Mission statement:* The mission of the corporation is to operate as a high-performing financial institution providing a wide range of profitable, competitive, and superior financial services in our market.
- *Goals:* To attract and retain an outstanding staff who are highly motivated and productive and who vigorously pursue revenue-generating and cost-reduction strategies.
- *Strategy:* Critically review our existing branches and departments to ensure that all branches are consistent in their goals, strategies, and profit objectives.

Departmental Level

- *Mission (department level):* We will increase the knowledge, management skills, and decision-making abilities of our branch managers so that we will minimize losses and other operating expenses while maximizing the profitability of our branching systems.

Individual (Supervisor) Level

- *Position description for HR manager:* Administers a comprehensive human resources program in the division to ensure the expertise, effectiveness, motivation, and depth (including providing appropriate management succession) to the division's staff members.

Individual (Employee) Level

- *Individual performance:* Information on various responsibilities, standards expected, goals to be reached, and actions to be taken to improve performance in the future.
-

is aligned with the strategic plan of the organization (Addams & Embley, 1988). To do this, the bank first involved managers at all hierarchical levels to develop an organization mission statement. Next, they developed goals and strategies that would help achieve Key Bank's mission. The mission statement, goals, and strategies at the organizational level served as the foundation for developing the strategies for individual departments and units. To develop these, senior managers met with each department manager to discuss the organization's goals and strategies and to explain the importance of having similar items in place in each department. Subsequently, each of the departmental managers met with his or her employees to develop a department mission statement and goals. One important premise in this exercise was that each department's mission statement and objectives had to be aligned with the corporate mission statement, goals, and strategies. After organizational and departmental goals and strategies were aligned, managers and employees reviewed individual job descriptions. Each job description was tailored so that individual job responsibilities were clear and contributed to meeting the department's and the organization's objectives. Involving employees in this process helped them to gain a clear understanding of how their performance affected the department and, in turn, the organization.

The second important prerequisite before a performance management system is implemented is to understand the job in question. This is done through job analysis. Job analysis is a process of determining the key components of a particular job, including activities, tasks, products, services, and processes. There are numerous types of job analytic tools, including some that focus on specific personality traits needed for various positions (Aguinis, Mazurkiewicz, & Heggstad, 2009). A job analysis is a fundamental prerequisite of any performance management system. Without a job analysis, it is difficult to understand what constitutes the required duties for a particular job. If we don't know what an employee is supposed to do on the job, we won't know what needs to be evaluated and how to do so.

Stage 2: Performance Planning

The performance planning stage has the goal for employees to have a thorough knowledge of the performance management system.

In fact, at the beginning of each performance cycle, the supervisor and the employee meet to discuss, and agree on, what needs to be done and how it should be done. This performance planning discussion includes a consideration of (1) results, (2), behaviors, and (3) development plan.

Results. Results refer to what needs to be done or the outcomes an employee must produce. A consideration of results needs to include the key accountabilities, or broad areas of a job for which the employee is responsible for producing results. A discussion of results also includes specific objectives that the employee will achieve as part of each accountability. Objectives are statements of important and measurable outcomes. Finally, discussing results also means discussing performance standards. A performance standard is a yardstick used to evaluate how well employees have achieved each objective. Performance standards provide information about acceptable and unacceptable performance (for example, quality, quantity, cost, and time). Consider the job of university professor. Two key accountabilities are (1) teaching (preparation and delivery of instructional materials to students) and (2) research (creation and dissemination of new knowledge). An objective for teaching could be “to obtain a student evaluation of teaching performance of 3 on a 4-point scale.” An objective for research could be “to publish two articles in scholarly refereed journals per year.” Performance standards could be “to obtain a student evaluation of teaching performance of at least 2 on a 4-point scale” and “to publish at least one article in scholarly refereed journals per year.” Thus, the objective is the desired level of performance, whereas the standard is usually a minimum acceptable level of performance.

Behaviors. Although it is important to measure results, an exclusive emphasis on results can give an incomplete picture of employee performance. This is particularly true today because, in contrast to the hierarchical organization chart of the 20th-century organization, the 21st-century organization is far more likely to look like a web: a flat, intricately woven form that links partners, employees, external contractors, suppliers, and customers in various collaborations (Cascio & Aguinis, 2008b). Accordingly, for some jobs it may be difficult to establish precise objectives and standards. For other jobs, employees may have control over how they do their jobs, but not over the results of their behaviors. For example, the sales figures

of a salesperson could be affected more by the assigned sales territory than by the salesperson's ability and performance. Behaviors, or how a job is done, thus constitute an important component of the planning phase. This is probably why, in addition to sales figures, salespeople like to be appraised on such behavioral criteria as communications skills and product knowledge (Pettijohn, Parker, Pettijohn, & Kent, 2001).

A consideration of behaviors includes discussing competencies, which are measurable clusters of knowledge, skills, and attitudes (KSAs) that are critical in determining how results will be achieved (cf. Shippmann et al., 2000). Examples of competencies are customer service, written or oral communication, creative thinking, and dependability. Returning to the example of the professor, assume that teaching is done online and that numerous technology-related problems exist, so that the resulting teaching evaluations are deficient (that is, lower than the standard of 2). This is an example of a situation in which behaviors should be given more importance than results. In this situation, the evaluation could include competencies such as online communication skills (for example, in the chat room).

Development plan. An important step before the review cycle begins is for the supervisor and employee to agree on a development plan. At a minimum, this plan should include identifying areas that need improvement and setting goals to be achieved in each area. Development plans usually include both results and behaviors. Achieving the goals stated in the development plan allows employees to keep abreast of changes in their field or profession. Such plans highlight an employee's strengths and the areas in need of development, and they provide an action plan to improve in areas of weaknesses and further develop areas of strength (Reyna & Sims, 1995). In a nutshell, personal development plans allow employees to answer the following questions:

- How can I continually learn and grow in the next year?
- How can I do better in the future?
- How can I avoid performance problems faced in the past?

Information to be used in designing development plans comes from the appraisal form. Specifically, a development plan can be designed based on each of the performance dimensions evaluated. For example, if the performance dimension “communication” is rated as substandard, this area would be targeted by the development plan. In addition, however, development plans focus on the knowledge and skills needed for more long-term career aspirations. In addition to improved performance, the inclusion of development plans and, in more general terms, the identification of employee strengths and weaknesses as part of the performance management system have another important benefit: employees are more likely to be satisfied with the system (Boswell & Boudreau, 2000).

The direct supervisor or line manager has an important role in the creation and completion of the employee’s development plan. This active role will help the supervisor understand the process from the employee’s perspective, anticipate potential roadblocks and defensive attitudes, and create a plan in a collaborative fashion (Dunning, 2004). First, the supervisor needs to explain what would be required for the employee to achieve the desired performance level, including the steps that an employee must take to improve performance. This information needs to be provided together with information on the probability of success if the employee completes the suggested steps. Second, the supervisor has a primary role in referring the employee to appropriate development activities that can assist the employee in achieving her goals. This includes helping the employee select a mentor, appropriate reading resources, courses, and so forth. Third, the supervisor reviews and makes suggestions about the development objectives. Specifically, the supervisor helps assure the goals are achievable, specific, and doable. Fourth, the supervisor has primary responsibility for checking on the employee’s progress toward achieving the development goals. For example, the supervisor can remind the employee of due dates and revise goals if needed. Finally, the supervisor needs to provide reinforcements so the employee will be motivated to achieve the development goals. Reinforcements can be extrinsic and include rewards such as bonuses and additional benefits, but reinforcements can also

include the assignment of more challenging and interesting work that takes advantage of the new skills learned.

Supervisors themselves need to be motivated to perform functions that will support the employees' completion of their development objectives. For this to happen, supervisors must be rewarded for doing a good job in helping their employees develop. Consider how this is done at KLA-Tencor Corporation, one of the world's top ten manufacturers of semiconductor equipment (Ellis, 2003). At KLA-Tencor, between 10 and 30 percent of supervisors' bonus pay is directly tied to employee development. Employee development is measured in terms of employee training and certification levels. Managers are given at least quarterly updates on the status of their staff development. In addition, employees themselves are rewarded for engaging in development activities. In fact, only employees with up-to-date training and certification levels are eligible for bonuses. Thus, employee development is successful at KLA-Tencor because both employees and managers are directly rewarded for employee development. After several years of implementing these practices, employee development has become the norm and is part of KLA-Tencor's culture.

As an example of the implementation of development plans, consider the case of General Mills (Ellis, 2004), where individual development plans (IDPs) are promoted strongly throughout the company. The Minneapolis, Minnesota-based General Mills is an international foods company. Some of the best-known brands include Pillsbury, Cheerios, Green Giant, and Yoplait. The formally written IDPs are completed annually, but the expectation is for ongoing conversations between managers and employees, focusing not only on competencies that are well developed and those that are in need of improvement, but also on employees' career aspirations. The company's IDP season promotes the process for employees by hosting speakers, offering web-based learning tools, and holding workshops for employees and managers to get the most out of the process. Some of these sessions are specifically tailored to different kinds of positions within the company with different needs in the development process. Also, the IDP is kept separate from the annual performance appraisal, as the belief is that development planning cannot be sufficiently addressed in the context of appraisal.

Finally, a tool that has become popular in helping employees, particularly those in supervisory roles, improve performance by gathering information from different groups is the 360-degree feedback system (Morgeson, Mumford, & Campion, 2005). These systems are called 360-degree systems because information is gathered from individuals all around the employee. Specifically, information on what performance dimensions could be improved is gathered from superiors, peers, customers, and subordinates. This information is usually collected anonymously to minimize rating inflation. Employees also rate themselves on the various performance dimensions and compare self-perceptions with the information provided by others. A gap analysis is conducted to examine the areas for which there are large discrepancies between self-perceptions and the perceptions of others. A 360-degree feedback system report usually includes information on dimensions for which there is agreement that further development is needed. This information is used to create a development plan. Implementing a 360-degree feedback system should not be a one-time-only event. The system should be in place and data collected over time on an ongoing basis. The implementation of ongoing 360-degree feedback systems is sometimes labeled a 720-degree feedback system, referring to the fact that the collection of 360-degree data takes place at least twice. In short, administering the system only once will not be as beneficial as administering the system repeatedly.

Once the prerequisites are met and the planning phase has been completed, we are ready to begin the implementation of the performance management system. This includes performance execution, assessment, review, and renewal and recontracting.

Stage 3: Performance Execution

Once the review cycle begins, the employee strives to produce the results and display the behaviors agreed on earlier as well as to work on development needs. The employee has primary responsibility and ownership of this process. Employee participation does not begin at the performance execution stage, however. As noted earlier, employees need to have active input in the development of the job descriptions, performance standards, and the creation of the rating form. In addition, at later stages,

employees are active participants in the evaluation process in that they provide a self-assessment and the performance review interview is a two-way communication process.

Although the employee has primary responsibilities for performance execution, the supervisor also needs to do his or her share of the work. Supervisors have primary responsibility over the following issues:

- *Observation and documentation.* Supervisors must observe and document performance on a daily basis. It is important to keep track of examples of both good and poor performance.
- *Updates.* As the organization's goals may change, it is important to update and revise initial objectives, standards, and key accountabilities (in the case of results) and competency areas (in the case of behaviors).
- *Feedback.* Feedback on progression toward goals and coaching to improve performance should be provided on a regular basis, and certainly before the review cycle is over.
- *Resources.* Supervisors should provide employees with resources and opportunities to participate in development activities. Thus, they should encourage (and sponsor) participation in training, classes, and special assignments. Overall, supervisors have a responsibility to ensure that the employee has the necessary supplies and funding to perform the job properly.
- *Reinforcement.* Supervisors must let employees know that their outstanding performance is noticed by reinforcing effective behaviors and progress toward goals. Also, supervisors should provide feedback regarding negative performance and how to remedy the observed problem. Observation and communication are not sufficient. Performance problems must be diagnosed early, and appropriate steps must be taken as soon as the problem is discovered.

As an example of this shared responsibility in an actual organization, consider the case of Lockheed Martin Corporation, an advanced technology company that was formed in March 1995 with the merger of two of the world's premier technology companies: Lockheed Corporation and Martin Marietta Corporation. Lockheed Martin has approximately 140,000 employees worldwide

(*The Baltimore Sun*, 2003). They are engaged in the research, design, development, manufacture, and integration of advanced technology systems, products, and services. Lockheed Martin's performance management system includes the active participation of both employees and their supervisors. Specifically, employees write their own performance management objectives based on organization and unit objectives. Then, managers approve the objectives and are encouraged to give ongoing feedback about the progress toward meeting the objectives. The actual performance appraisal form is an electronic, one-page computer screen. The program was designed to "involve employees in setting their own goals, to make those goals clear, and to provide regular feedback on their progress toward achieving those goals."

What determines whether an employee is performing well or not? A combination of three factors allows some people to perform at higher levels than others: (1) declarative knowledge, (2) procedural knowledge, and (3) motivation. Declarative knowledge is information about facts and things, including information regarding a given task's requirements, labels, principles, and goals. Procedural knowledge is a combination of knowing what to do and how to do it and includes cognitive, physical, perceptual, motor, and interpersonal skills. Motivation involves three types of choice behaviors: (1) choice to expend effort (for example, "I will go to work today"), (2) choice of level of effort (for example, "I will put in my best effort at work" versus "I will not try very hard"), and (3) choice to persist in the expenditure of that level of effort (for example, "I will give up after a little while" versus "I will persist no matter what").

Because performance is affected by the combined effect of three different factors, managers must find information that will allow them to understand whether the source of the problem is declarative knowledge, procedural knowledge, motivation, or some combination of these three factors. If an employee lacks motivation but the manager believes the source of the problem is declarative knowledge, the manager may send the employee to a company-sponsored training program so that he can acquire the knowledge that is presumably lacking. On the other hand, if motivation is the problem, then the implementation of some type of CP plan may be a good intervention. This is why performance

management systems need not only to measure performance but also to provide information about the source of any performance deficiencies, which is done in the performance assessment stage.

Stage 4: Performance Assessment

In the assessment phase, both the employee and the manager are responsible for evaluating the extent to which the desired behaviors have been displayed, and whether the desired results have been achieved. Although many sources can be used to collect performance information (for example, peers or subordinates), in most cases the direct supervisor provides the information. This also includes an evaluation of the extent to which the goals stated in the development plan have been achieved. This is the stage of the performance management process that has received the greatest attention from I/O psychology researchers (Aguinis & Pierce, 2008; Bennett, Lance, & Woehr, 2006).

It is important that both the employee and the manager take ownership of the assessment process. The manager fills out his or her appraisal form, and the employee should also fill out his or her form. The fact that both parties are involved in the assessment provides good information to be used in the review phase. When both the employee and the supervisor are active participants in the evaluation process, there is a greater likelihood that the information will be used productively in the future. Specifically, the inclusion of self-ratings helps emphasize possible discrepancies between self-views and the views that important others (that is, supervisors) have. It is the discrepancy between these two views that is most likely to trigger development efforts, particularly when feedback from the supervisor is more negative than are employee self-evaluations.

The inclusion of self-appraisals is also beneficial regarding important additional factors. Self-appraisals can reduce an employee's defensiveness during an appraisal meeting and increase the employee's satisfaction with the performance management system, as well as enhance perceptions of accuracy and fairness and therefore acceptance of the system (Shore, Adams, & Tashchian, 1998).

As an illustration, consider the case of ENSR, a full-service global provider of environmental and energy development services to industry and government (LaChance, 2006). ENSR's two thousand professionals provide clients with consulting, engineering, remediation, and related services from more than seventy worldwide locations, including forty-five in the United States. ENSR has created and utilizes a scorecard with six categories that are directly linked to its five-year vision: health and safety, employee engagement, client loyalty, cost management, profitability, and revenue growth. This information is used in the company's evaluation of current performance for individuals and groups with a scorecard that shows current performance against "average" internal performance and "top 25 percent performance." Managers are expected to utilize the scorecard in discussions about performance and to discuss the relationship between the metrics and the directives and initiatives from senior management. The scorecard is a tool used to motivate employees to achieve top performance and to provide a clear link between each individual and team activity to the strategic objectives of the organization. In summary, ENSR utilizes a balanced scorecard tool to assist managers in assessing and reviewing performance and ensuring a close link to the objectives of the organization.

Stage 5: Performance Review

The performance review stage involves the meeting between the employee and the manager to review their assessments. This meeting is usually called the appraisal meeting or discussion. The appraisal meeting is important because it provides a formal setting in which the employee receives feedback on his or her performance. In spite of its importance in performance management, the appraisal meeting is often regarded as the "Achilles' heel of the entire process" (Kikoski, 1999). This is because many managers are uncomfortable providing performance feedback, particularly when performance is deficient (Ghorpade & Chen, 1995). This high level of discomfort, which often translates into anxiety and the avoidance of the appraisal interview, can be mitigated through training those responsible for providing feedback. Providing feedback in an effective manner is extremely important

because it leads not only to performance improvement but also to employee satisfaction with the system. For example, a study involving more than two hundred teachers in Malaysia, including individuals with distinct Chinese, Malay, and Indian cultural backgrounds, found that when they received effective feedback, they reported greater satisfaction with the system, even when they received low performance ratings (Rahman, 2006). At this point, however, let's emphasize that people are apprehensive about both receiving and giving performance information, and this apprehension reinforces the importance of a formal performance review as part of any performance management system. For example, Jack Welch, former CEO of GE, has addressed this issue in many of his public appearances since he retired. At an appearance in front of an audience of about two thousand managers, he asked them if their organizations had integrity (Rogers, 2006). As was expected, a vast majority of managers, about 95 percent, raised their hands. Then he asked the same audience if their organization's leaders provide subordinates with honest and straightforward performance feedback. Only about 5 percent of the people raised their hands. Avoiding giving negative feedback is very dangerous because it conveys the message that mediocrity is acceptable and damages the morale of the top performers.

In most cases, the appraisal meeting is regarded as a review of the past, that is, what was done (results) and how it was done (behaviors). For example, a survey including more than 150 organizations in Scotland showed that performance management systems in more than 80 percent of organizations emphasize the past (Soltani, 2003). However, the appraisal meeting should also include a discussion of the employee's development progress as well as plans for the future. The conversation should include a discussion of goals and development plans that the employee will be expected to achieve over the period before the next review session. In addition, a good appraisal meeting includes information on what new compensation, if any, the employee may be receiving as a result of his or her performance. In short, the appraisal discussion focuses on the past (what has been done and how), the present (what compensation is received or denied as a result), and the future (goals to be attained before the upcoming review session).

In general, Grossman and Parkinson (2002) offer the following six recommendations for conducting effective performance reviews:

1. Identify what the employee has done well and poorly by citing specific positive and negative behaviors.
2. Solicit feedback from your employee about these behaviors. Listen for reactions and explanations.
3. Discuss the implications of changing, or not changing, the behaviors. Positive feedback is best, but an employee must be made aware of what will happen if any poor performance continues.
4. Explain to the employee how skills used in past achievements can help him or her overcome any current performance problems.
5. Agree on an action plan. Encourage the employee to invest in improving his or her performance by asking questions such as “What ideas do you have for _____?” and “What suggestions do you have for _____?”
6. Set up a meeting to follow up and agree on the behaviors, actions, and attitudes to be evaluated.

Stage 6: Performance Renewal and Recontracting

The final stage in the performance process is renewal and recontracting. Essentially, this is identical to the performance planning component. The main difference is that the renewal and recontracting stage uses the insights and information gained from the other phases. For example, some of the goals may have been set unrealistically high given an unexpected economic downturn. This would lead to setting less ambitious goals for the upcoming review period.

The performance management process includes a cycle that starts with prerequisites and ends with performance renewal and recontracting. The cycle is not over after the renewal and recontracting stage. In fact, the process starts all over again: there needs to be a discussion of prerequisites, including the organization’s mission and strategic goals and the job’s KSAs. Because markets change, customers’ preferences and needs change, and

products change, there is a need to continuously monitor the prerequisites so that performance planning, and all the subsequent stages, are consistent with the organization's strategic objectives. Recall that, in the end, one of the main goals of any performance management system is to promote the achievement of organization-wide goals. Obviously, if managers and employees are not aware of these strategic goals, it is unlikely that the performance management system will be instrumental in accomplishing the strategic goals.

Additional Issues to Consider Regarding Team Performance

A team is in place when two or more people interact dynamically and interdependently and share a common and valued goal, objective, or mission (Reilly & McGourty, 1998). Examples of teams range from a group of top managers working together face-to-face on an ongoing basis with the goal of achieving corporate goals to a group of programmers in India and the United States writing programming code that eventually will be put together as one software program. Teams do not have to be permanent, and team members do not have to be in the same geographical location. In fact, team members do not need to have ever met in person to be members of the same team. As long as they work together, need each other, and share common goals, they are considered to be members of the same team. Numerous organizations are structured around teams, including teams called autonomous work groups, process teams, and self-managing work teams (Scott & Einstein, 2001).

Organizations that choose to include a team component in their performance management system must provide answers to the following questions:

1. How do we assess relative individual contribution? How do we know the extent to which particular individuals have contributed to team results? How much has one member contributed in relation to the other members? Are there any slackers or free-riders on the team? Is everyone contributing to the same

- extent, or are some members covering up for the lack of contribution of others?
2. How do we balance individual and team performance? How can we motivate team members so that they support a collective mission and collective goals? In addition, how do we motivate team members to be accountable and responsible individually? In other words, how do we achieve a good balance between measuring and rewarding individuals in relation to team performance?
 3. How do we identify individual and team measures of performance? How can we identify measures of performance that indicate individual performance versus measures of performance that indicate team performance? Where does individual performance end and team performance begin? Finally, based on these measures, how do we allocate rewards to individuals versus teams?

We can use the same six stages described earlier and include team performance by following these six basic principles (Salas, Burke, & Fowlkes, 2006):

1. *Make sure your team is really a team.* As noted above, there are different types of teams. Before a team component is introduced in the performance management system, we need to make sure the organization has actual teams.
2. *Make the investment to measure.* Measuring team performance, as is the case with measuring individual performance, takes time and effort. The organization must be ready to make this investment for the measures to yield useful data.
3. *Define measurement goals clearly.* Defining how the data will be used (for example, administrative versus developmental purposes, or both) is a decision that must be taken before measures of team performance are designed. As is the case with individual-level data and discussed throughout the book, there are different variables that must be taken into account in relationship to the measures' purpose (for example, what will be the sources of data, how data will be collected, and so forth).

4. *Use a multi-method approach to measurement.* The measurement of team performance is complex. Thus, multiple methods and sources of data are often necessary.
5. *Focus on process as well as outcomes.* Behavioral/process-oriented measures as well as results are as useful for individual as for team performance management systems. Thus, serious consideration must be given to how both types of measures will be used within the context of managing team performance.
6. *Measure long-term changes.* Although short-term processes and results are easier to measure, it is important to also consider long-term measures of performance. Team performance must be sampled over a variety of contexts and also over time.

Consider each of the stages of the performance management process shown in Figure 1.1 and how they can be modified to accommodate a team component. First, regarding prerequisites, in addition to considering the team as a whole, we need to identify KSAs that will allow individuals to make a positive contribution to the team. These include not only KSAs related directly to the task at hand, such as a programmer who needs to have knowledge of the programming language. These are KSAs that are especially conducive to team performance, such as communication, decision making, collaboration, team leadership, and self-control (Cheng, Daimy, & Moore, 2005; Reilly & McGourty, 1998; Rousseau, Aubé, & Savoie, 2006). Regarding performance planning, this stage must include team-level considerations. Specifically, results expected of the team, behaviors expected of team members, and developmental objectives to be achieved by the team and its members. Regarding performance execution, team members need to be committed to goal achievement and should take a proactive role in seeking feedback from one another as well as from the supervisor (if there is one). In terms of performance assessment, all team members must evaluate one another's performance as well as the performance of the team overall. In addition, the supervisor evaluates the performance of each team member as well as that of the team as a whole. Finally, members from other teams also evaluate the performance of the team. This would apply only if members of other teams have first-hand experience with the performance of the team in question.

It is important to emphasize that three types of performance need to be assessed: (1) individual performance regarding task performance, which refers to the specific activities required by one's individual job, such as a programmer's ability write quality code; (2) individual performance regarding contextual performance, which refers to specific activities that contribute to team performance, such as team members cooperating with each other; and (3) team performance as a whole. Regarding the performance review, at least two meetings are needed. First, the supervisor meets with all members of the team together. The focus of this meeting is to discuss overall team performance, including results achieved by the team as a whole. Information for this meeting comes from team members evaluating their collective performance, other teams evaluating the team in question, and the supervisor's evaluation. Second, the supervisor meets with each team member individually. The focus of this meeting is to discuss how the individual's behaviors contributed to team performance. Information for this meeting comes from individuals evaluating their own performance, peer ratings of the individual's performance, and the supervisor's evaluation. Finally, the performance renewal and recontracting stage is identical to the performance planning stage; however, performance renewal and recontracting uses information gathered during the review period to make adjustments as needed. For example, some new key accountabilities and competencies may be included. Conversely, some goals may have to be adjusted either upward or downward.

In short, including team performance as part of the performance management system involves the same basic components that are included in individual performance. An important difference is that, in addition to individual performance, the system includes individual performance as it affects the functioning of the team, as well as the performance of the team as a whole.

Performance Management Best Practices

What do we know about performance management best practices? What are the features of a performance management system that are likely to produce good results in terms of individual, team, and organizational performance? The following characteristics are

likely to allow a performance management system to be successful, and several of the chapters in this book describe these features in detail. Note that practical constraints may not allow for the implementation of all these features. The reality is that performance management systems are seldom implemented in an ideal way (McAdam, Hazlett, & Casey, 2005). For example, there may not be sufficient funds to deliver training to all people involved, supervisors may have biases in how they provide performance ratings, or people may be just too busy to pay attention to a new organizational initiative that requires their time and attention. However, as scientist-practitioners, we should strive to place a check mark next to each of these characteristics: the more features that are checked, the more likely it will be that the system will live up to its promise.

- *Strategic congruence.* The system should be congruent with the unit and organization's strategy. In other words, individual goals must be aligned with unit and organizational goals.
- *Thoroughness.* The system should be thorough regarding four dimensions. First, all employees should be evaluated (including managers). Second, all major job responsibilities should be evaluated (including behaviors and results). Third, the evaluation should include performance spanning the entire review period, not just the few weeks or months before the review. Finally, feedback should be given on positive performance aspects as well as those that are in need of improvement.
- *Practicality.* Systems that are too expensive, time-consuming, and convoluted will obviously not be effective. Good, easy-to-use systems (for example, performance data are entered via user-friendly software) are available for managers to help them make decisions. Finally, the benefits of using the system (for example, increased performance and job satisfaction) must be seen as outweighing the costs (for example, time, effort, expense).
- *Meaningfulness.* The system must be meaningful in several ways. First, the standards and evaluations conducted for each job function must be considered important and relevant. Second, performance assessment must emphasize only those

functions that are under the control of the employee. For example, there is no point in letting an employee know he or she needs to increase the speed of service delivery when the supplier does not get the product to him or her on time. Third, evaluations must take place at regular intervals and at appropriate moments. Because one formal evaluation per year is usually not sufficient, informal quarterly reviews are recommended. Fourth, the system should provide for the continuing skill development of evaluators. Finally, the results should be used for important administrative decisions. People will not pay attention to a system that has no consequences in terms of outcomes that they value.

- *Specificity.* A good system should be specific: it should provide detailed and concrete guidance to employees about what is expected of them and how they can meet these expectations.
- *Identification of effective and ineffective performance.* The performance management system should provide information that allows for the identification of effective and ineffective performance. That is, the system should allow for distinguishing between effective and ineffective behaviors and results, thereby also allowing for the identification of employees displaying various levels of performance effectiveness. In terms of decision making, a system that classifies or ranks all levels of performance, and all employees, similarly is useless.
- *Reliability.* A good system should include measures of performance that are consistent and free of error. For example, if two supervisors provided ratings of the same employee and performance dimensions, ratings should be similar.
- *Validity.* The measures of performance should also be valid. In this context, validity refers to the fact that the measures include all relevant performance facets and do not include irrelevant performance facets. In other words, measures are relevant (include all critical performance facets), not deficient (do not leave any important aspects out), and are not contaminated (do not include factors outside of the control of the employee or factors unrelated to performance). In short, measures include what is important and do not assess what is not important and outside of the control of the employee. For example, the gondolieri in the City of Venice (Italy) have had a performance

management system for about one thousand years (Johnston, 2005). Among other relevant performance dimensions, older versions of the performance management system required gondolieri to demonstrate their level of rowing skills and their ability to transport people and goods safely. These are clearly relevant dimensions. However, the system was contaminated because it included the following requirement: "Every brother shall be obliged to confess twice a year, or at least once and if after a warning, he remains impenitent, he shall be expelled . . . [from the gondolieri guild]."

- *Acceptability and fairness.* A good system is acceptable and is perceived as fair by all participants. Perceptions of fairness are subjective, and the only way to know whether a system is seen as fair is to ask the participants. We can ask about distributive justice, which includes perceptions of the performance evaluation received relative to the work performed, and perceptions of the rewards received relative to the evaluation received, particularly when the system is implemented across countries. For example, differences in perceptions may be found in comparing employees from more individualistic (for example, the United States) to more collectivistic (for example, Korea) cultures (Chang & Hahn, 2006). If a discrepancy is perceived between work and evaluation or between evaluation and rewards, then the system is likely to be seen as unfair. In addition, we can ask about procedural justice, which includes perceptions of the procedures used to determine the ratings as well as the procedures used to link ratings with rewards. Because a good system is inherently discriminatory, some employees will receive ratings that are lower than those received by other employees. However, we should strive to develop systems that are regarded as fair from both distributive and procedural perspectives because each type of justice perception leads to different outcomes. For example, a perception that the system is not fair from a distributive point of view is likely to lead to a poor relationship between employee and supervisor and lowered satisfaction of the employee with the supervisor. On the other hand, a perception that the system is unfair from a procedural point of view is likely to lead to decreased employee commitment toward the organization

and increased intentions to leave (Erdorgan, 2002). One way to improve both distributive and procedural justice is to set clear rules that are applied consistently by all supervisors.

- *Inclusiveness.* Good systems include input from multiple sources on an ongoing basis. First, the evaluation process must represent the concerns of all the people who will be affected by the outcome. Consequently, employees must participate in the process of creating the system by providing input regarding what behaviors or results will be measured and how. Second, input about employee performance should be gathered from the employees themselves before the appraisal meeting (Cawley, Keeping, & Levy, 1998). In short, all participants must be given a voice in the process of designing and implementing the system. Such inclusive systems are likely to lead to more successful systems, including less employee resistance, improved performance, and fewer legal challenges (Elicker, Levy, & Hall, 2006).
- *Openness.* Good systems have no secrets. First, performance is evaluated frequently and performance feedback is provided on an ongoing basis. Therefore, employees are continually informed of the quality of their performance. Second, the appraisal meeting consists of a two-way communication process during which information is exchanged, not delivered from the supervisor to the employee without his or her input. Third, standards should be clear and communicated on an ongoing basis. Finally, communications are factual, open, and honest.
- *Correctability.* The process of assigning ratings should minimize subjective aspects; however, it is virtually impossible to create a system that is completely objective because human judgment is an important component of the evaluation process. When employees perceive an error has been made, there should be a mechanism through which this error can be corrected. Establishing an appeals process, through which employees can challenge what may be unjust decisions, is an important aspect of a good performance management system.
- *Standardization.* Good systems are standardized. This means that performance is evaluated consistently across people and time. To achieve this goal, the ongoing training of the individuals in charge of appraisals, usually managers, is a must.

- *Ethicality.* Good systems comply with ethical standards. Operationally, this means that the supervisor suppresses his or her personal self-interest in providing evaluations. In addition, the supervisor evaluates only performance dimensions for which she has sufficient information, and the privacy of the employee is respected (cf. Eddy, Stone, & Stone-Romero, 1999).

How do we know whether the performance management system is working? First, before implementing the system organization-wide, it is a good idea to pilot-test it because we can identify potential problems and glitches and we can take corrective action before the system is put in place. Pilot-testing consists of implementing the entire system, including all of its components, but only with a select group of people. Results are not recorded in employees' records. Instead, the goal is that the people participating in the pilot-test provide feedback on any possible problems and on how to improve the system.

For example, the pilot-test may reveal that the system was not as inclusive as originally intended and that only employees at or above a certain hierarchical position had participated in the process of designing the performance measurement instruments. Consequently, some employees felt that the system was not fair and that important performance dimensions were left out. So the system was not considered adequate regarding the inclusiveness, acceptability and fairness, and validity criteria. In short, the pilot-test provides useful information that allows for a fine-tuning of the system before it is implemented organization-wide. In this particular example, the instruments would be revised giving a voice to all employees.

When the testing period is over and the performance management system has been implemented organization-wide, it is important to use clear measurements to monitor and evaluate the system. In a nutshell, a decision needs to be made about how to evaluate the system's effectiveness, how to evaluate the extent to which the system is being implemented as planned, and how to evaluate the extent to which it is producing the intended results. As an example, the United States federal government takes the evaluation of performance management systems very seriously (Mulvaney, Zwahr, & Baranowski, 2006). Since the early 1990s,

several laws have been passed that mandate federal agencies to develop a strategic plan, a performance plan, and a performance report. Although these initiatives concern agencies and not individuals, ultimately the performance of any agency depends on the performance of the individuals working in that unit. The net result of such laws as the Government Performance and Results Act is an increase in accountability and funding allocation based on performance. Thus, federal agencies are required to evaluate the relative efficiency of their various management techniques, including performance management systems.

Evaluation data should include reactions to the system and assessments of the system's operational and technical requirements. For example, a confidential survey could be administered to all employees asking about perceptions and attitudes about the system. This survey can be administered during the initial stages of implementation and then at the end of the first review cycle to find out whether there have been any changes. In addition, regarding the system's results, one can assess performance ratings over time to see what positive effects the implementation of the system is having. Finally, interviews can be conducted with key stakeholders, including managers and employees who have been involved in developing and implementing the performance management system (Harper & Vilkinas, 2005).

Several additional measures can be used on a regular basis to monitor and evaluate the system:

- *Number of individuals evaluated.* One of the most basic measures is to assess the number of employees who are actually participating in the system. If performance evaluations have not been completed for some employees, we need to find out who they are and why a performance review has not been completed.
- *Distribution of performance ratings.* An indicator of quality of the performance assessments is whether all or most scores are too high, too low, or clumped around the center of the distribution. This may indicate intentional errors such as leniency, severity, and central tendency. Distributions of performance ratings can be broken down by unit and supervisor to determine whether any trends exist regarding rating distortion and whether these

distortions are localized in particular units. Note that there may be exceptional units in which most employees are outstanding performers and units in which most employees are poor performers. This is the exception to the rule, however, and such distributions usually indicate intentional errors on the part of raters.

- *Quality of information.* Another indicator of quality of the performance assessments is the quality of the information provided in the open-ended sections of the forms. For example, how much did the rater write? What is the relevance of the examples provided?
- *Quality of performance discussion meeting.* A confidential survey can be distributed to all employees on a regular basis to gather information about how the supervisor is managing the performance discussion meetings. For example, is the feedback useful? Has the supervisor made resources available so the employee can accomplish the development plan objectives? How relevant was the performance review discussion to one's job? To what degree have development objectives and plans been discussed?
- *System satisfaction.* A confidential survey could also be distributed to assess the perceptions of the system's users, both raters and ratees. This survey can include questions about satisfaction with equity, usefulness, and accuracy.
- *Overall cost/benefit ratio.* A fairly simple way to address the perceived overall impact of the system is to ask participants to rate the overall cost/benefit ratio for the performance management system. This is a type of bottom-line question that can provide convincing evidence for the overall worth of the system. This perceived cost/benefit ratio question can be asked in reference to an individual (employee or manager), her job, and her organizational unit. Note that the perceived cost/benefit ratio may not be the same as the actual cost/benefit ratio. However, as is the case with most organizational interventions involving people (Farmer & Aguinis, 2005), perceptions are crucial because they will determine the amount of support and resources to be allocated to the intervention.
- *Unit-level and organization-level performance.* Another indicator that the system is working well is provided by the measurement

of unit- and organization-level performance. Such performance indicators might be customer satisfaction with specific units and indicators of the financial performance of the various units or the organization as a whole. We need to be aware that it may take some time for changes in individual and group performance level to be translated into unit- and organization-level results. We should not expect results as soon as the system is implemented; however, we should start to see some tangible results at the unit level a few months after the system is in place.

Conclusion

In today's globalized, fast-paced, and interconnected world, it is relatively easy to gain access to the competition's technology and products. Thanks to the Internet and the accompanying high speed of communications, technological and product differentiation is no longer a key competitive advantage in most industries. For example, most banks offer the same types of products (for example, different types of savings accounts and investment opportunities). If a particular bank decides to offer a new product or service (for example, online banking), it will not be long until the competitors offer precisely the same product. As noted by James Kelley, performance management project leader at Idaho Power, "Technology is a facilitator, but not a guarantor, of effectiveness or efficiency of a company's workforce" (Generating buzz, 2006).

Organizations with motivated and talented employees offering outstanding service to customers are likely to pull ahead of the competition, even if the products offered are similar to those offered by the competitors. Customers want to get the right answer at the right time and they want to receive their products and services promptly and accurately. Only people can make these things happen and produce a sustainable competitive advantage. Performance management systems are key tools that can be used to transform people's talent and motivation into a strategic business advantage. Unfortunately, although 96 percent of HRM professionals report that performance management is their number one concern, fewer than 12 percent of HR executives and

technology managers believe that their organizations have aligned strategic organizational priorities with employee performance (Workforce performance is top HR priority, 2005). Researchers in the fields of HRM and I/O psychology have the tools and skills to produce knowledge that will help improve the implementation of performance management systems (Aguinis & Pierce, 2008). To do so, however, we first need to expand our view of performance management so we go beyond performance appraisal and place PM within the broader organizational context. Also, we need to integrate PM with other HRM functions (for example, staffing, training, compensation, and succession planning) and conduct research on issues of concern to practitioners (Aguinis & Pierce, 2008). Such research has great potential in terms of closing the much discussed science-practice gap (Cascio & Aguinis, 2008a).

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