2 PERFORMANCE MANAGEMENT AND PERFORMANCE APPRAISAL

LEARNING OBJECTIVES

2.1 Understand the similarities and differences between performance appraisal and performance management

2.2 Understand how goals are cascaded down from organizational strategy to individual performance in performance management systems

2.3 Understand the role of performance appraisal and performance management systems

2.4 Understand the risks and benefits of simplifying your performance management system

2.5 Learn about the challenges in managing individual performance

Why does performance appraisal exist? It is rarely seen as successful or even worthwhile in organizations, and it is useful to ask why so many organizations put themselves through the trouble. In the last 10–15 years, many scholars and practitioners have attempted to answer the question of why you should measure the performance of individual employees by situating performance measurement and performance appraisal in the context of a broader set of ideas labeled "performance management." That is, performance evaluation is important because it is a key tool for improving the performance of individuals, teams, departments, divisions, and organizations and for ensuring that all levels of the organization are working toward the same ends. We will define and describe the ideas that define performance management below, but for now, proponents think of performance management as a method for linking the goals and strategies of organizations with the performance of each member of the organization, while attempting to harmonize the activities of individuals, teams, departments, and divisions to further the key strategic goals of the organization. From this perspective, the careful measurement of individual performance is one part of a larger effort to coordinate the work of virtually every member of the organization toward serving particular strategic goals. That is, proponents of performance management describe it as a method for making sure that the goals, objectives, and plans of individuals, teams, departments, divisions and organizations are all consistent and making sure that these objectives are accomplished.

In this chapter, we first ask why we should study performance appraisal rather than performance management. We will argue that despite the similarities, there are some very important differences between performance appraisal systems and performance management, and that the study of performance appraisal systems continues to be a very important one for organizations and for developing a better understanding of behavior in organizations. To illustrate the similarities and differences between performance appraisal systems and performance management, we describe in some detail the underlying philosophy of performance management, the design and implementation of performance management

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systems, and the difficulties in evaluating the success or failure of performance management systems. In this section, we will argue that an important difference between performance management and performance appraisal systems is that performance management embodies a top-down approach to human resource management, whereas performance appraisal systems follow a mixed model that includes evaluations from supervisors or managers but that also involves employee input in the form of goal setting, self-evaluation, and systems designed to give employees some voice in both the design and the evaluation of their work. In the sections that follow, we consider the role of performance appraisal in performance management systems, and consider both performance management and performance appraisal in the context of designing effective human resource systems.

WHY STUDY PERFORMANCE APPRAISAL RATHER THAN PERFORMANCE MANAGEMENT?

This book is devoted to developing a better understanding of performance appraisal, in particular of why performance appraisal systems often seem to fail in organizations. In the last 10–20 years, there has been an increasing tendency, particularly in business publications and in schools of business, to argue that performance appraisal is or should be thought of as one component of a broader array of human resource management (HRM) policies that are collectively referred to as "performance management." Some scholars (e.g., Aguinis, 2013) have argued that traditional performance appraisal can *only* be sensibly understood as a component of a broader performance management system, not as a stand-alone topic. This raises the question of why it is worth writing a book about performance appraisal, rather than taking on the broader topic of performance management.

Performance management is clearly an important topic; in a later section of this chapter we discuss some of the unique contributions this approach offers. It is clear that in *some* organizations, performance appraisal or some substitute for traditional performance appraisal (e.g., informal performance feedback that is delivered as needed rather than on an annual basis) is part of a broader strategy of performance management, but we believe there are compelling reasons for studying performance appraisal as a topic on its own. First, despite the attention that companies like Accenture, Deloitte, or Medtronic have received for their efforts to get rid of or replace traditional performance appraisal, formal and regular (usually annual) performance appraisals are still quite common in organizations.[1] Performance management can represent a loose grab bag of activities that varies from organization to organization, but formal performance appraisals are still the norm in many organizations, and the core features of these appraisals are often quite consistent across organizations. Second, even if it is a part of a broader set of activities, performance appraisal is often at the heart of the success or failure of performance management systems, and the issues considered in this book are often pertinent even if a particular organization does not follow the traditional model of annual performance appraisals. Third, there is a very large, long-standing body of research dealing with a range of issues in performance appraisal, whereas serious research on performance management is still in its infancy (DeNisi & Murphy, 2017).

Finally, performance management and performance appraisal involve different assumptions about how organizations should be managed and how the behavior of individual

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SPOTLIGHT 2.1 PERFORMANCE APPRAISAL

THE STATE OF THE ART

Gorman, Meriac, Roch, Ray, and Gamble's (2017) survey of Fortune 500 organizations provides a good description of the way large organizations structure, conduct, and use performance appraisals. This survey suggests that performance appraisal is alive and well; the organizations surveyed devote significant resources to their appraisal systems and use performance appraisal as a critical element in a number of human resource decisions.

First, despite the widespread claim in the business press that performance rating is a thing of the past, it is clear that some form of performance rating is still the norm in most organizations. About a quarter of the organizations surveyed rely on multisource rating systems, but in most, the traditional form of appraisal, in which a supervisor or manager evaluates his or her direct reports, using rating scales that tap a variety of performance dimensions, still dominated. Second, it is still common for organizations to use appraisals for multiple (sometimes conflicting) purposes. Almost two-thirds of the organizations surveyed use performance appraisals for both administrative and developmental purposes.

Gorman et al. (2017) noted that much of the research on performance appraisal, especially studies of actual appraisal practices in organizations, is somewhat dated, and given all of the recent discussions of changes in performance appraisal and performance management, this might be a serious concern. However, the results of their survey suggest that the problems and issues performance appraisal researchers and practitioners have been struggling with since the 1970s are still with us, and that many of the challenges to traditional performance appraisal systems are still quite relevant to current organizational practices.

employees should be evaluated and directed. As we will show in several of the sections that follow, performance management assumes a top-down strategy, in which a handful of top leaders make important decisions about goals, strategies, and about how to accomplish these, and in which the results of these decisions then drive the goals, strategies, and plans of divisions, departments, work groups, and ultimately individual employees. Performance appraisal, in contrast, is often built on a foundation that includes important and influential employee input into the goals that are set, the evaluation of employee behavior, and the outcomes of performance evaluations. We view this more consultative strategy as more likely to succeed in the long term and as more consistent with a number of other developments in the design of work and work organizations, ranging from an increased emphasis on employee engagement to an increased emphasis on less hierarchical, more employee-centric organizations.

PERFORMANCE MANAGEMENT

What is "performance management"? The U.S. Office of Personnel Management (1998) defines performance management to include: (1) planning work and setting expectations, (2) continually monitoring performance, (3) developing the capacity to perform, and (4) periodically rating performance in a summary fashion, and rewarding good performance.[2] Pulakos (2004) notes that (1) planning work and setting expectations

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involves both identifying the behaviors and the results of those behaviors that are expected or desired, (2) both behaviors and results should be aligned with the broader strategy and goals of the organization, and (3) the main focus of performance management is on improving the employee's effectiveness contribution to the organization. Taking a similar tack, Aguinis (2013) defines performance management as a "continuous process of identifying, measuring and developing the performance of individuals and teams, and aligning performance with the strategic goals of the organization" (p. 2). Performance management has been widely studied in recent years, with numerous reviews of the performance management literature and models of the performance management process appearing within the last decade (Aguinis, 2009, 2013; Den Hartog, Boselie, & Paauwe, 2004; DeNisi & Pritchard, 2006; DeNisi & Smith, 2014; Pritchard, Harrell, DiazGrandos, & Guzman, 2008; Pulakos, 2004, 2009; Pulakos, Mueller-Hanson, O'Leary, & Meyrowitz, 2012). Recent reviews have focused on the apparent shortcomings of performance management, and on potential avenues for improving this process (Pulakos, Hanson, Arad, & Moye, 2015; Pulakos & O'Leary, 2011).

Performance management is related to but distinct from performance appraisal. First, performance management is a broader concept, since it embodies both performance evaluation and the design of jobs, teams, departments, and divisions in such a way that they are all pursuing interlocking goals and strategies. Second, the type of performance evaluation that is used in a performance management program might differ from traditional performance appraisal in many ways (e.g., more frequent, less formal). It might involve different sources of information about performance (e.g., Ledford, Benson, & Lawler [2016] suggest that the newest programs of performance management use crowd sourcing to obtain information about performance). Finally, some performance management programs will include systematic activities (e.g., training, job redesign) to assist employees whose current performance is not meeting standards.

Although performance management programs might entail frequent evaluations of performance, it is still common practice in most organizations to conduct some sort of annual performance appraisal, often linked to salary adjustments (Milkovich & Wigdor, 1991). For example, Pulakos (2009) described a model performance management system that could be established following an eight-step process:

1. Leaders set organizational, division, and department goals.
2. Managers and employees set objectives and discuss behavioral expectations.
3. Managers and employees hold ongoing performance discussions.
4. Employees provide input regarding their own perceptions of their performance.
5. Knowledgeable rating sources provide input on employee performance.
6. Managers rate performance.
7. Managers and employees hold formal review sessions.
8. HR decisions are made, including pay, promotion, and termination.

This performance management system is similar in many ways to a traditional performance appraisal system; the thing that makes this a performance management system rather

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than a variation of a performance appraisal system is the process of linking the goals pursued by different organizational units described in steps 1–3. Other descriptions of performance management (e.g., Aguinis, 2013) suggest that evaluations have a different focus in performance management than in traditional performance appraisal. In particular, traditional performance appraisal systems have a retrospective focus, looking at what you did over the last year and applying appropriate rewards or sanctions. Performance management, in contrast, can have a prospective focus, using performance feedback as a tool for changing future behavior.[3] That is, rather than evaluating what you did last year, a manager might give feedback about what you are doing right now and use that feedback to try and improve future behavior.

Key Concepts in Performance Management

There are two broad features most performance management systems share, *harmonization* and *enforcement*. First, these systems are designed to explicitly link the goals and strategy of the organization with the goals and activities of every division, department, work team, and employee. Aguinis (2013) notes, “Performance management systems that do not make explicit employee contributions to organizational goals are not true performance management systems” (p. 3). Thus, one hallmark of a successful performance management system is that all levels of the organization are pursuing a set of interlocking goals and each unit (down to the single individual) is pursuing a set of goals that is designed, ultimately, to help the organization accomplish its key goals. Second, they include a variety of mechanisms to ensure that once these goals are set throughout an organization, each individual and each unit of the organization works diligently to achieve their particular goals. In particular, virtually all performance management systems are built around a cycle of evaluating performance, providing feedback, and supporting the improvement of performance. This process might operate on the familiar annual performance cycle, but it is more likely to be a frequent or even continuous process. We use the term “harmonization” to reflect the strong interdependence of the goals pursued at all levels of the organization. More specifically, performance management involves using the highest-level goals and strategy pursued by an organization as a basis for setting concrete performance goals for individuals, teams, departments, and divisions. We use the term “enforcement” because the actions an organization might take to make sure that its members are all pursuing the correct goals can range from what you might call soft power (e.g., providing feedback and encouragement) to more direct efforts to direct the behavior of employees, ranging from salary adjustment to re-assignment and even dismissal.

Performance management can be thought of as an extension or refinement of some of the key ideas of management by objectives (MBO), an approach to managing and evaluating performance that was popular in the 1980s and 1990s. MBO has three main components: goal setting, participation in decision making, and objective measurement (Rodgers & Hunter, 1991). The key idea in MBO was that supervisors and subordinates could work together to both define performance goals and agree on objective metrics by which to measure progress toward accomplishing key goals. Performance management takes what is arguably a less participative approach toward setting goals, one in which the goals of each person, team, and unit in an organization pursue goals that are cascaded down from the top of the organization rather than being set jointly by the employee and his or her supervisor. On the other hand, it takes a less restrictive approach toward evaluating

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progress, in the sense that evaluations and feedback are ongoing and are not limited to specific objective metrics agreed upon by the rater and the ratee.

Pulakos (2009) notes that a poorly designed or poorly implemented performance management system can decrease employee motivation and productivity, and undermine relationships between employees and managers. She also notes that performance management systems can be designed for a range of different purposes (e.g., for pay and rewards versus employee development, much in the same way as performance appraisal systems), and that systems tailored for one purpose might not be effective when used for other purposes. Like most other systems in organizations, performance management systems work best if there is "buy-in" (i.e., support for the system and its components among leaders, managers, supervisors, and employees).

Proponents of performance management are optimistic about the potential contribution of this approach to the success of organizations and their members. For example, Aguinis (2013) listed 16 potential benefits of performance management systems, including increases in motivation, self-insight, and self-esteem; increased fairness and transparency in administrative actions; increasing clarity regarding organizational goals and job demands; increased employee competence and decreased employee misconduct; better protection from lawsuits; increased commitment to organizations; better communication regarding performance expectations; and more openness to organizational change. Some of these same outcomes might be achieved by improving performance appraisal systems, but proponents of performance management insist that frequent, forward-looking performance feedback has a different effect than a backward-looking annual appraisal, no matter how well done.

Aguinis (2013) documents the increasing international spread of performance management. Other scholars are not so optimistic. For example, Pulakos et al. (2015) report surveys showing that 95% of managers are dissatisfied with their performance management system and that 90% of HR heads believe their performance management system depends on inaccurate information.

It can be hard to determine precisely what "performance management" means, because the programs actually implemented in different organizations can vary so extensively. At its most general level, performance management can encompass many of the activities a firm undertakes to improve an employee's performance, beginning with the evaluation of performance and subsequent feedback to the employee, and continuing through training and administration of rewards (such as pay increases and promotions). It is increasingly common for organizations to adopt or to claim to adopt some form of performance management as a centerpiece of their HR strategy (Aguinis, 2013; Aguinis, Joo, & Gottfredson, 2011), but it is far from clear whether "performance management" means the same thing as you go from one organization to another. We examine the challenges in evaluating performance management systems in more detail in a later section, but in order to fully understand these challenges, it is useful to examine the key steps in implementing a system of performance management.

Implementing Performance Management Systems

The development of performance management systems starts with an assessment of the mission, goals, vision, and strategy of the organization. Virtually all organizations have some form of mission statement, but the relationship between these statements (which are often an embarrassing collection of buzzwords and platitudes) and the actual behavior of

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the organization are not always clear. For example, consider the description of company mission and goals provided by the Volkswagen Group in 2013, which reads, "The Group's goal is to offer attractive, safe and environmentally sound vehicles which can compete in an increasingly tough market and set world standards in their respective class."[4] Like virtually all mission statements, it includes a claim to represent world-class standards. (A truck stop 20 miles south of us claims to serve the "world's best cinnamon buns." So, not surprisingly, does a restaurant in town.) This statement set a specific goal of offering environmentally sound vehicles that can compete in a tough market, but the relationship between that goal and the actions of the organization seems to have turned out to be quite complicated. At the time this statement was written, Volkswagen was allegedly involved in a large-scale effort to mislead enforcement agencies about the actual environmental soundness of their diesel vehicles, a strategy that in the short term probably helped them to compete but that in retrospect might not look quite so wise. In a similar vein, Lehman Brothers, a company that was allegedly in misleading activities that contributed substantially to a worldwide financial collapse, had a mission statement which read in part:

- We are one firm, defined by our unwavering commitment to our clients, our shareholders, and each other. Our mission is to build unrivaled partnerships with and value for our clients, through the knowledge, creativity, and dedication of our people, leading to superior returns to our shareholders.
- As a trusted partner, we provide comprehensive financial advisory, capital raising and risk management services to corporations and governments worldwide. Extending our global presence and capabilities, we continue to develop innovative and tailored solutions to deliver the full resources of our Firm to our clients.
- Lehman Brothers, an innovator in global finance, serves the financial needs of corporations, governments and municipalities, institutional clients, and high net worth individuals worldwide. Founded in 1850, Lehman Brothers maintains leadership positions in equity and fixed income sales, trading and research, investment banking, private investment management, asset management and private equity.[5]

These honeyed words do not appear to describe the actual behaviors or strategies of this organization, at least during the run-up to the global financial meltdown of the late 2000s.

Mission statements and descriptions of the goals, vision, and strategy of organizations are most likely to be useful in developing performance management systems when they are specific, realistic, and honest. For example, Aguinis (2013) describes the case of a bank that started with a description of organization-level mission, goals, and strategy that (1) laid out a mission of providing a wide range of financial services that would exceed those of their market competitors in value, (2) created a goal of attracting and retaining outstanding staff capable to accomplishing this mission, and (3) described a strategy that involved critically reviewing existing branches and departments to ensure that their activities and capabilities were consistent with these goals and strategies. This type of mission statement could reasonably lead to some concrete statements about the actual strategy, plans, and goals of this organization. In general, consistent, concrete, and realistic descriptions of the mission, goals, and strategies of the organization are the first requirement of a successful

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performance management system. These missions, goals, and strategies then become the basis for cascading high-level strategy down to smaller and smaller units in the organization.

Although mission statements are often too vague and abstract to provide clear and realistic goals that can be cascaded through an organization, a close examination of the strategy pursued by an organization to compete might be more informative. In general, organizational strategies tend to cluster around three key dimensions: (1) cost, (2) flexibility, and (3) customer service (Dekker, Groot, & Schoute, 2013). Cost-oriented strategies emphasize efficiency in using the firm's resources to deliver products or services at a low cost. Flexibility strategies emphasize developing innovative products and changing products and services as customers' preferences and needs change. Customer service strategies aim at delivering high-quality products and services that match the needs of customers. As Dekker et al. (2013) note, many organizations pursue hybrid strategies that involve some mix of these three dimensions. Organizations that follow a well-defined strategy (e.g., Walmart focuses on managing costs through its interactions with suppliers and its human resource policies) will find it easier to develop a set of cascading goals and methods for achieving them.

Cascading

If a coherent, plausible, and realistic mission and a sensible set of goals and strategies can be defined by an organization, the next challenge is to translate that organization-level plan to goals and strategies for each division and department. This is probably easier for divisions and departments that are close to the core of the strategic plan than for those that provide support roles. Going back to the example of the bank cited earlier, which settled on a strategy of attracting, selecting, and retaining high-quality staff, the implications of this strategy are probably clearer for the human resources department than (for example) the accounting department. Nevertheless, the whole philosophy of performance management implies that each division and department of an organization must start by asking how its activities help the organization accomplish its key goals and implement its core strategy, and to eliminate activities that do not serve these ends.

In theory, this process of harmonizing the activities, goals, and strategies of organizational units with those of the organization as a whole might sound straightforward, but perhaps it is not always so easy. For example, virtually every department has or sponsors activities that are social in nature (e.g., outings, holiday parties). You could make an argument that these support the functioning of the organization by building or maintaining morale, but if this is true, how far should this be pushed? What proportion of a department's time and resources should be devoted to direct versus indirect support for the goals of the organization (here, building morale would be considered indirect support)? Under what conditions should a department undertake actions that do not spring from the current organizational mission, strategy, or plan? If the answer is that they sometimes should, and that this might depend on the judgment of managers or unit leaders (organizational plans and strategies are, after, all subject to change, and they rarely can anticipate all contingencies), what is the difference between an organization that cascades its plans, goals, and strategies and one that does not? The answer is not always obvious.

Next, a link needs to be established between the goals, plans, and strategies of organizational units and the job descriptions of the employees in that unit. Again, this is probably easier for jobs near the core of the strategy than for those at the periphery.

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Going back to the Volkswagen Group mission statement, one implication of this mission is that the job descriptions of engineers charged with designing cars should probably emphasize developing technologies that optimized the mix of environmental quality and affordability.[6] Because these two criteria were probably incompatible, at least for the cars in question, cascading the overall corporate strategy down to the engineers who designed the cars probably put them in an untenable position; you can argue that the Volkswagen Group would have been better off revising its overall strategy rather than attempting to enforce incompatible goals on its engineers.

Finally, the cascading process brings members of the organization to the point where they need to form their own performance goals and plans, again with an eye on maximizing the link between what they do as individual employees and overall goals of the organization. This is one point where buy-in is particularly important. Employees who internalize the goals, plans, and strategies of their organization are more likely to develop individual goals and performance plans that are consistent with those higher-level goals, plans, and strategies.

SPOTLIGHT 2.2 CASCADING GOALS

A UNIQUE STRENGTH AND A UNIQUE WEAKNESS OF PERFORMANCE MANAGEMENT

One of the distinctive features of the various performance management systems described by Aguinis (2013), Pulakos (2009), and others is the idea that performance goals should flow from the overall strategy of the organization. That is, most performance management systems start with the assumption that goals should be arranged in a cascading fashion, where the overall strategy and objectives of the organization drive the goals of each division, department, work group, and even each employee. This is a unique strength of performance management, especially when considered in comparison to the way goals are set in traditional performance appraisal systems. Cascading goals helps to focus everyone's attention on *why* they are doing particular things in addition to thinking about *what* people do in the workplace. In contrast, discussions of the ways performance goals are set in more traditional performance appraisal systems focus largely on discussions and negotiation between managers and individual employees. We suspect that these discussions are more often driven by what the employee and supervisor are accustomed to (i.e., the reason why particular goals are set may have more to do with what has been done in the past than with what the organization is hoping to accomplish) than by the strategy of the firm.

The strategy of cascading goals has the advantage of helping to unify and focus the efforts of all units and members of an organization in a common direction. This is a potentially powerful unifying force, especially if the members of this organization clearly understand and support those goals. On the other hand, if taken too far, this strategy removes individual employees from the equation, defining their jobs, the goals, and metrics they should focus on and the standards for evaluating their performance entirely in terms of a set of strategies designed by a handful of people at the top of the organization. The challenge in traditional performance appraisal systems is for employees and supervisors to be mindful of what their work group, department, division, and so on is trying to accomplish when setting goals and defining standards for evaluating individual employees. The challenge in performance management systems is to give employees and managers sufficient flexibility to define the way they do their work to give them a genuine stake in accomplishing goals they have set, as opposed to goals set by someone higher in the organization.

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Employees who have to be encouraged or even coerced into developing performance plans and goals that are driven by the higher-level goals of the organization, but that they do not support, will almost certainly perform at a lower level (Erez & Kanfer, 1983).

Develop a Measurement Approach

The practice of cascading goals, plans, and strategies throughout an organization can be thought of as the aspirational component of performance management. That is, this practice helps to identify what employees, teams, departments, and divisions *should* do. Metrics is where the rubber meets the road; the process of measuring performance and success is what moves what *should* happen toward what *will* happen or what the organization will try to encourage.

Given its emphasis on cascading goals and strategies and harmonizing all levels of an organization to pursue a common set of goals, the literature on performance management is sometimes strangely silent on the development and use of metrics to evaluate the performance of organizations as a whole or the performance of units within the organization (e.g., departments, divisions). For example, two recent, widely cited texts (Aguinis, 2013; Pulakos, 2009) have several chapters devoted primarily to the evaluation of individual performance, but neither deals in any detailed way with questions such as how the performance, effectiveness, or success of organizations should be conceptualized or measured, or how the performance of departments or divisions should be addressed.

Literature in several disciplines (e.g., strategic accounting) has identified a range of metrics that might be used to evaluate the performance of organizational units and perhaps of organizations on the whole. For example, Dekker et al. (2013) describe the use of market performance, cost and resource use, production efficiency, innovation, quality, and individual performance metrics in evaluating the success of a unit, and they note that different classes of measures are likely to be most useful for evaluating the performance of organizational units or organizations that pursue different strategies.

We are skeptical of one of the apparent assumptions of the performance management literature, that if individual members of the organization tailor their jobs and their performance goals to the strategic plans of the organization, and if they are evaluated on these terms and encouraged to increase the effectiveness with which they advance those goals, the organization as a whole will improve and prosper. There is a large literature dealing with aggregation and cross-level inference that suggests we should be cautious in assuming that if individual members of the organization become more effective in their jobs (and if jobs and performance goals are shaped with reference to the overall mission, strategy, and vision of the organization), the organization will become more effective (e.g., Mossholder & Bedian, 1983). There is evidence that changes in individual performance (or the implementation of policies and procedures aimed at increasing individual performance) can have an impact on the performance and success of organizations, but that this effect is neither simple nor certain (Delaney & Huselid, 1996; Huselid, 1995; Pritchard, Jones, Roth, Steubing, & Ekeberg, 1988).

One reason it is difficult to link individual and organizational performance is that adequate measures of organizational performance may not always be easy to obtain, and it may vary depending on the nature of the organization and the strategy it is attempting to pursue. For example, bottom-line financials are almost always relevant, but they may not adequately capture the performance and effectiveness of some organizations

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(e.g., government agencies, nonprofits, military organizations), and as organizations get more complex and more multinational, assessing organizational performance will become increasingly complicated (Bititci, Garengo, Dörfler, & Nudurupati, 2012).

The Performance of Groups and Teams

When you attempt to aggregate from predictions about the performance of a single individual to predictions about the performance groups, departments, divisions, or organizations, one of the first complications you will face is that much of the work in organizations is characterized by some level of interdependence. That is, your ability to perform your job well, or your department's ability to perform its job well, often depends on how well other individuals or departments are doing *their* jobs. As you aggregate to higher levels, such as organizations, states, or nations, interdependence becomes increasingly common and increasingly complex.

Most work groups or teams demonstrate some level of *task interdependence*, in which any individual member depends (at least in part) on materials, products, ideas, information, or expertise that is possessed or shared by other group members in order to carry out tasks and responsibilities (Van Der Geht, Emans, & Van Der Vriert, 2001). Thus, if one member of a team increases his or her job-relevant knowledge, skills, or abilities, the probability that this increase will lead to an increase in performance depends to a large part on whether other team members will be willing and able to provide the resources necessary to perform well.

Most work groups or teams also demonstrate some level of *goal interdependence*, in the sense that they often share goals and (more importantly) feedback. That is, performance feedback is often provided to groups in relation to group goals or assignments (e.g., a work group is given responsibility for producing 120 units per week and receives feedback about success in reaching this goal each week), and it can be difficult to establish concrete links between feedback to the group and feedback that might be given to individual members of that group.

Interdependence becomes more complex when considering organizations rather than work teams. Thompson (1967) notes that the various departments in an organization might show any of three forms of interdependence: (1) pooled interdependence—where there is little interaction between departments, but where each department's input defines the success of the organization as a whole; (2) sequential interdependence—where one unit must successfully complete its task for the next unit to launch theirs (e.g., assembly lines); or (3) reciprocal interdependence—where departments interact extensively and each depends substantially on the other to complete its assigned tasks and functions. Within a single organization, any or all three of these forms of interdependence might be present.

Interdependence implies that even if one department or section of an organization is able to successfully increase its performance and effectiveness, that increase may not lead to any clear increase in *organizational* effectiveness. For example, suppose there are three departments in an organization that show strong reciprocal interdependence. If one of these departments fails to perform well, it is likely that the organization will underperform even if the other two departments are doing the best job they can.

In theory, a successful performance management program should minimize the effects of interdependence by harmonizing the efforts of individuals, groups, and higher-level units toward a common set of goals. It is true that the poorest-performing department or division might drag down the effectiveness of other departments or divisions, but if

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they are all at least working in a common direction, it is possible that organizations will be able to minimize the conflicts in the goals, plans, and objectives pursued by different individuals, groups, or units. The question of whether performance management programs do indeed lead to a consistent set of goals and strategies across all levels of an organization is, however, an empirical question that has not, to our knowledge, been adequately answered to date.

Give Feedback and Act on Evaluations

The evaluation of individual performance is a very important component of performance management, but evaluation is only useful if you *do* something with it. Like the performance appraisal literature, the performance management literature suggests three key uses of information about individual performance: (1) improvement and development—using performance feedback to improve subsequent performance by identifying current performance weaknesses and methods of overcoming them; (2) motivation—using performance evaluations to determine rewards and sanctions, which presumably influence the motivation to perform well in the future; and (3) driving personnel actions aimed at resolving recurring performance deficits—replacing ineffective performers, finding new assignments for workers who are not contributing in their current assignments, and providing training or resources to increase the effectiveness of employees.

In both the development and implementation of individual performance measures and their use for the three purposes above, there are scant differences between the suggestions, principles, and findings of research on performance management and comparable research on performance appraisal. Effective performance management requires three essential things: (1) sound and concrete plans, strategies, and goals that are shared and embraced across organizational levels; (2) sound measurement of individual job performance; and (3) smart decisions about how to use those measures to motivate and improve the performance of individuals, which hopefully will translate into better performance for groups, teams, departments, divisions, and entire organizations. Performance measurement is critically important because good measurement is the tool that tells you whether employees are actually doing the things the entire process of cascading goals, objectives, plans, and so on from the top to the bottom of an organization is designed to accomplish. Performance measurement is also the tool that is used to direct rewards and sanctions and a wide range of administrative decisions that are all intended to maximize individual performance, and thereby the performance of each of the levels of an organization.

A substantial portion of this book is devoted to understanding the reasons why performance appraisal systems so often fail (or are seen as failing) in organizations, and virtually all of the issues that will be discussed in Chapters 3–12 are pertinent to understanding whether and why efforts to measure performance, provide feedback, and act on the results of performance measures so often fail to live up to expectations. In general, it hardly matters whether performance measurement efforts are in the form of the traditional annual appraisal, or whether they come in the form of other sorts of performance assessment and feedback often advocated by proponents of performance management (e.g., continuous or frequent performance measurement or feedback), the underlying issues are largely the same. The topics we explore in Chapters 3–12 make it clear that performance measurement is often a challenging task; in Chapters 13 and 14, we explore ways to increase the likelihood that this critical task will be a success.

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PERFORMANCE APPRAISAL AND PERFORMANCE MANAGEMENT: SIMILARITIES AND DIFFERENCES

There are some important similarities between performance appraisal and performance management. They are both ultimately concerned with the effectiveness of individuals, work groups, and organizations, and both focus on identifying good performance and on increasing the likelihood that individual employees will be effective in their jobs. They both rely on group leaders, supervisors, or managers to help determine whether employees are performing well and to help them perform better. Some versions of performance management include performance evaluations that are quite similar to traditional performance appraisals (e.g., they might include annual evaluations by one's supervisor or manager, formal ratings, and individual feedback sessions; see, for example, Pulakos, 2009), whereas others are less structured and formal, but still devote considerable time and attention to the evaluation of job performance.

As Table 2.1 illustrates, there are two important differences between performance appraisal and performance management systems: those that involve their orientation in time and those that involve their assumptions about power and influence. First, performance appraisal systems are summative, providing information about how well you performed over the past year (or some other time period). To be sure, this information might be used to create incentives for future performance (e.g., merit raises), but the evaluation is in many respects backward-looking. Performance management, in contrast, often devotes less attention to evaluating what you did over the past year, with a much stronger focus on what you are doing right now, and how it might be improved in the future. In theory, some performance management systems might not include anything like an annual evaluation, and even in those that do include something along these lines, immediate feedback is usually seen as more important than evaluations of past accomplishments or failures.

TABLE 2.1 ■ Comparing Performance Appraisal and Performance Management

	Critical Differences Between Performance Appraisal and Performance Management
Time orientation	Performance appraisal—the orientation is summative (evaluating performance over the past year or past several months), focusing on an evaluation of what someone has done Performance management—the orientation is toward what is happening now (e.g., more immediate feedback) and how future behavior can be corrected or improved
Orientation toward power, authority, and influence	Performance appraisal—the orientation is consultative, with employee input routinely included as an important part of defining work goals and evaluating work performance Performance management—the orientation is authoritarian, with an emphasis on top-down design or work goals, plans, and strategies, in which decisions made at the top of the organization are cascaded down to define what each division, department, work group, and individual does and how they should be evaluated

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Second, and more important, performance management and performance appraisal systems are built on different ideas about power and influence. Performance management strongly emphasizes top-down planning, in which goals, plans, and objectives cascade down from the top levels of the organization. Taken to its logical conclusion, performance management is a modern extension of Taylorism, in which decisions are made about how people work, what goals they should pursue, and how they should be evaluated at the top of the organization, with no provision and indeed no need for input or decisions from the employees who will actually perform the work. Thus, performance management can be, if taken too literally, authoritarian in its structure.

Performance appraisal, in contrast, has come to include considerable input from employees as a fundamental component of performance appraisal systems. This consultative orientation is not something that was always embraced in performance appraisal systems; appraisal systems were once every bit as authoritarian as many current performance management systems. However, as several chapters in this volume note, contemporary performance appraisal systems almost always include one or more of the following features: (1) performance goals that are set by employees or negotiated between employees and supervisors or managers, (2) self-ratings or some form of self-evaluation, and (3) mechanisms to give employees opportunities to review and comment on or object and appeal to their evaluations. Performance appraisal systems in which evaluations are strictly top-down exercises without any input, sign-off, or review by employees are rare in contemporary organizations.

In our view, the top-down versus consultative difference is critically important. First, there appears to be a strong trend in American organizations away from top-down, Tayloristic systems. Contemporary research and business publications place a good deal of emphasis on topics such as empowerment (Blanchard, Carlos, & Randolph, 2001; Chen, Lam, & Zhong, 2007; Ziguang, Wing, & Jian, 2007), employee-centric organizations (Lee-Hoffmann, 2011; Reeves, 2015; Sharma & Sahoo, 2013), and organizational structures that minimize hierarchy and that involve employees more directly in planning work, setting goals and objectives, and evaluating performance (e.g., Robertson, 2015). The unifying feature of all of these trends is the belief that it is important to give employees the tools and the responsibility to design, plan, manage, and evaluate their own work, and we see this belief as antithetical to performance management, but highly consistent with contemporary performance appraisal. If these trends persist in organizations, it is hard to see how performance management, as currently conceptualized, can survive. Performance appraisal systems, on the other hand, embrace the core assumption behind these trends (i.e., that it is critical to involve and empower employees if organizations hope to succeed).

HUMAN RESOURCE MANAGEMENT, STRATEGIC HRM, AND PERFORMANCE MANAGEMENT

One of the challenges in research on performance management is determining precisely what this term means. The various definitions cited earlier in this chapter (e.g., Aguinis, 2013; Pulakos, 2004; U.S. Office of Personnel Management, 1998) share some commonalities (e.g., aligning individual and team goals with broader organizational strategies, evaluating performance, and providing feedback), but they do not always agree regarding the

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boundaries of this concept or the relationship between performance management and other management concepts. One way to flesh out the concept of performance management is to describe its relationship to the array of human resource management practices in organizations, as well as its relationship to the broader construct of strategic human resource management.

First, human resource management includes a range of policies and practices that involve bringing people into organizations, preparing them to perform the jobs they have been hired for, evaluating their performance, developing new knowledge and skills, compensating and rewarding job performance, evaluating job performance and providing performance feedback, and assuring the flow of qualified candidates to meet future leadership needs in an organization. Some of the activities that fall under the heading of human resource management are also clearly part of performance management, but others (e.g., recruitment, succession planning) probably are not.

Strategic human resource management (SHRM) is concerned with the relationship between the architecture of HRM activities and firm performance (Becker & Huselid, 2006). Here, architecture is used as a metaphor to describe the system of human resource activities, with the assumption that we need to think about how the entire system of HRM-related activities works rather than thinking about individual components as solutions to particular problems (e.g., using pay increases to motivate performance improvements). The focus of SHRM is on how the human components of organizations can add value to the organization.

SHRM is broader than traditional human resource management, in that it considers a wider array of issues that are likely to influence the ability of an organization to execute its competitive strategy. For example, SHRM involves a careful assessment of what strategies the organization *is* following and what strategies it *should be* following to succeed in its desired niches, as well as the fit between these strategies and the organization's HRM practices (Becker & Huselid, 2006; Schuler & Jackson, 1987). Strategic HRM also involves evaluating key contextual variables, such as the characteristics and capabilities of the available workforce and the culture of the organization, which may have a bearing on the feasibility of implementing particular competitive strategies.

Performance management focuses on a subset of activities and processes that are most tightly related to individual and team performance, starting with the development of goals and performance plans, and continuing through the evaluation of performance and the provision of performance to the point where performance is tied to rewards or other outcomes valued by employees. Performance management also includes the development of capabilities to perform. Figure 2.1 illustrates the span of activities that are part of performance management, human resource management, and strategic human resource management. From this perspective, performance management represents a subset of the range of activities that constitute traditional HRM, which in turn represent a subset of activities that might fall under the heading of strategic HRM.

Performance management can, in turn, be broken down into at least three components: (1) determining *what* individuals and teams should do to contribute to accomplishing key organizational goals (e.g., performance coaching and goal development), (2) determining *how well* they do this and providing timely information regarding performance to individuals and teams (e.g., performance evaluation and feedback), and (3) using this information to improve performance capability, both by increasing motivation (e.g., through rewards) and

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FIGURE 2.1 ■ Human Resource Management, Strategic HRM, and Performance Management

SPOTLIGHT 2.3 IS PERFORMANCE MANAGEMENT SIMPLY MANAGEMENT?

You might wonder why a book that deals with performance appraisal and performance management does not have more chapters devoted specifically to the topic of performance management. There is a two-part answer. First, performance appraisal and performance management share some key concerns (i.e., the process of evaluating peoples' job performance and giving them feedback designed to improve that performance). Most of the research on the underlying steps in this process was developed in the context of performance appraisal, with many key studies being published before performance management emerged as a distinct topic. Second, and more important, we have become convinced that there is less to performance management than meets the eye. In particular, the aspects of performance management that are in any way distinct from performance appraisal are simply long-standing parts of the job description of a manager. In other words, we are not convinced that there is a meaningful distinction between performance management and management in general.

Consider the essential steps in performance management. They involve: (1) making sure that the activities of your subordinates contribute to the higher-level goals of your department, division, organization, and so on; (2) evaluating the performance of your subordinates; (3) providing performance feedback; and (4) helping to create conditions that support and encourage the performance of your subordinates. We think these are, or should be, parts of the standard job description of a manager. Managers, or at least the good ones, were certainly doing all of these things well before the term "performance management" was invented, and they will continue to do them well after this term has joined the junk heap that contains management buzzwords from the past. Regardless of whether your

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(Continued)

organization has a performance management system, it is a good bet that effective supervisors and managers do all of these things, and that these activities take up the great majority of that supervisor's or manager's time. Like Molière Bourgeios Gentleman, who is surprised and delighted to learn that he has been speaking prose all his life without knowing it, we suspect that most managers who read a text on performance management will be surprised and delighted to learn that they have been engaging in performance management all of their working lives without the aid of a performance management program. If they have been managing effectively, they are already engaged in performance management. In this light, a performance management program begins to look more like remedial training for managers and supervisors who do not yet know how to do their jobs.

by increasing knowledge and skills that are relevant to both the current job or project and to future assignments (e.g., through training and career development). Different definitions and discussions of performance management differ substantially on some of the specific details of how these three components should be operationalized (e.g., should performance feedback be frequent and informal?), but these three ideas are present in most variations on the theme of performance management.

CAN PERFORMANCE MANAGEMENT BE SIMPLIFIED?

The performance management processes described in this chapter are complex and time-consuming, and some companies have looked for ways to streamline this process (Vara, 2015). Perhaps the most notable example is Deloitte, a global firm offering consultation, auditing, and financial advisory services; Buckingham and Goodall (2015) describe this system in detail. Like many organizations, Deloitte found themselves devoting a great deal of time and money to performance management; Deloitte's review suggested that they were spending *2 million hours per year* completing forms, holding meetings, and conducting performance reviews.

In re-designing their performance evaluation system, Deloitte abandoned many of the features of the performance management systems described in the literature. They do not use cascading objectives, annual performance reviews, or 360-degree feedback systems. In contrast to other organizations that evaluate multiple aspects of performance each year, Deloitte opted for a radically simplified performance evaluation strategy. At the end of every project (or every quarter for long-term projects) each individual's team leader is asked four simple questions, shown in Table 2.2.

The Deloitte system certainly is simple. Rather than asking peers, supervisors, or others to evaluate performance, this performance review method depends on the opinions of a single team leader. Rather than anchoring evaluations in terms of what the person being evaluated actually *does* in his or her job, this method focuses on general impressions of performance and worth. In theory, this system provides both transparency and recognition of performance (Buckingham & Goodall, 2015). In our view, the Deloitte experience

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TABLE 2.2
Deloitte's Four Questions
Given what I know of this person's performance, and if it were my money, I would award this person the highest possible compensation increase and bonus [*measured on a five-point scale from "strongly agree" to "strongly disagree"*].
Given what I know of this person's performance, I would always want him or her on my team [*measured on the same five-point scale*].
This person is at risk for low performance [*yes or no*].
This person is ready for promotion today [*yes or no*].

suggests that performance evaluation systems *can* be simplified. The question is whether they *should* be streamlined to the extent described by Buckingham & Goodall (2015). We believe the answer is clearly no.

Like other organizations, Deloitte uses the results of their performance reviews to drive high-stakes decisions, such as pay increases or promotions. Suppose you are a team member who receives low ratings from your team leader, and therefore does not receive a raise or are denied a promotion. The four questions listed in Table 2.1 do not tell you anything about *what* you are doing well or poorly, only that your team leader is not impressed. Suppose further that ratings like these are used to make a number of decisions about raises or promotions, and at the end of a year you find out that men receive more raises than women, or that older workers do not get promoted, or that white employees receive raises and promotions at a much higher rate than black employees. We should note that we do not know of any reason to believe that these outcomes *are* happening at Deloitte, but suppose this is how things turned out. In our opinion, Deloitte would be in a very difficult position.

The Risk of Over-Simplifying

Federal law, ranging from the Civil Rights Acts of 1964 and 1991 to the Age Discrimination in Employment Act, the Americans with Disabilities Act, and other similar laws all embody a similar set of principles. Businesses are generally free to make decisions about hiring, firing, pay, promotions, and conditions of work *except* when it can be shown that these decisions have a systematically adverse effect on groups of people defined in terms of race and ethnicity, gender, age, religion, national origin, disability, and the like. When decisions about employment or the conditions of work have a systematically adverse effect of this sort, they are forbidden by law *unless* the organization can show that they are job related. For example, if a performance appraisal system leads an organization to give higher raises to men than to women, or to promote younger workers but not older ones or the like, it is up to the organization to demonstrate that this appraisal system does in fact reliably and fairly measure job performance. We do not see how a system like the one described by Buckingham and Goodall (2015) could possibly meet this test. How, for example would Deloitte be able to demonstrate that it is job performance and not simple dislike for particular types of people that is driving these ratings? The usual tools for accomplishing

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this rely heavily on a demonstration that the appraisal system is tightly linked to the job. For example, if you can show that the job a person occupies requires them to engage in planning, in managing the resources of their work group, and in communicating the results of work to group members and to the organization, an appraisal system that includes well-documented evaluations of planning, resource management, and communication is more likely to survive legal scrutiny than a system that relies entirely on the general impressions of a single rater. We are all for simplicity, but a case can be made that a system like the one described here is overdoing things and that it runs important risks for the organization.

Werner and Bolino (1997) reviewed 46 federal district court, 16 court of appeal, and 2 Supreme Court decisions dealing with discrimination and adverse impact in termination and promotion decisions based on performance appraisals. In reviewing the decisions in those cases, they found that the courts relied heavily upon whether or not (1) performance appraisals are clearly related to the content of the job being performance, and (2) there were due process considerations in appraisals and the decisions based on appraisals. A critical question that is not being considered by organizations that are abandoning performance appraisals is how they will defend against charges of discrimination if they cannot turn to some formal appraisal in their defense? Our review of research and practice in this area suggests that organizations that abandon formal appraisal systems that are based on a careful analysis of the jobs people perform in favor of informal feedback or a few vague questions are practically *begging* for trouble if their appraisal leads to even the appearance of race, sex, or age discrimination.

CAN PERFORMANCE BE MANAGED?

In surveys of employee attitudes, performance management is consistently cited as one of the most unsatisfying and unsatisfactory aspects of their organization (Pulakos, 2009). There are several reasons for this angst. First, there is deep distrust in supervisors' and managers' ability to fairly and accurately evaluate performance. Second, as we lay out in some detail in several chapters that follow, there are numerous structural and contextual features in organizations that make it difficult for managers to provide honest feedback, and smart managers will respond to these pressures by inflating the ratings they assign to most subordinates. Because of skepticism over performance evaluation, regardless of whether this evaluation is in the form of annual performance appraisals or frequent and informal performance feedback, there is also well-founded skepticism among employees that they will receive fair and adequate rewards if they do perform well.

Performance management has become an extremely popular concept. It is widely embraced in business schools in the United States, and it has become a guiding philosophy for human resource management. It might be surprising, therefore, to find out how little evidence there is that performance management actually has a clear effect on the performance or effectiveness of organizations (DeNisi & Murphy, 2017; DeNisi & Smith, 2014). That is, the belief that organizations will become more effective if they install a performance management system is not clearly supported with credible empirical data. We want to be clear here. The data do not show that performance management cannot or does not work; rather, there have not been enough studies in this area to tell with any certainty whether or not different performance management strategies actually work.

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One reason why it can be hard to determine whether or not a performance management system works is that the actual goals of the system are not always made explicit, and that they will not necessarily be the same for organizations that pursue different competitive strategies (Dekker et al., 2013). Thus, it might be hard to say with any precision what the behavior of individuals; the effectiveness of teams, departments, and divisions; or the success of organizations should look like if performance management were successful.

Pulakos (2009) notes that organizational-level goals are often lofty and vague, and that it is notoriously difficult and time-consuming to cascade goals from the top of the organization to other organizational levels. Even if an organization is able to devise a coherent strategy and to develop goals for different units that will drive the accomplishment of that strategy, the evaluation of individual performance often represents the Achilles heel of performance management. Regardless of whether this evaluation takes the form of the traditional annual appraisal meeting or the more fluid, frequent, and informal feedback advocated by many proponents of performance management (e.g., Aguinis, 2013), the fundamental problems with evaluating individual performance remain. Supervisors and managers often lack the information they need to make fair and accurate evaluations. If input is sought from multiple sources (e.g., peers, subordinates), it is a safe bet that there will be meaningful disagreements. Even if supervisors and managers have all of the information they need, there are numerous disincentives and few meaningful incentives to provide accurate appraisals. Even if accurate appraisals are somehow obtained, it is a good bet that feedback will not be accepted or acted upon. Finally, organizations routinely shoot themselves in the foot by implementing HR policies in ways that make them almost certain to fail. For example, organizations that claim to pay for performance routinely set aside only small amounts of money for merit pay, making it effectively impossible to fairly reward good performers. For example, the 2012 WorldatWork survey[7] noted that more than two-thirds of the organizations surveyed have some form of pay for performance, but more than three-quarters of these organizations follow merit pay programs in which top performers receive increases that are not much bigger than the increases given to average performers. The small spreads in pay commonly encountered in merit pay systems do not appear to correspond to the differences in performance and productivity of top performers versus average employees (Aguinis & Bradley, 2015; O'Boyle & Aguinis, 2012).

CHALLENGES IN EVALUATING PERFORMANCE MANAGEMENT

There are three challenges to evaluating performance management. The first is definitional. Two firms that claim to have performance management systems in place may or may not employ the same practices. The limits of what is or is not performance management are often unclear. Comparisons between any two different performance management programs can be complex because these programs might differ in multiple ways.

The second challenge involves evidence. Several reviews of performance management research have concluded that there is little clear evidence that performance management works (DeNisi & Smith, 2014; Pulakos & O'Leary, 2011; Pulakos et al., 2015). Part of the problem is that the range of measures that might be used to indicate whether or not performance management is successful is quite large and varied. For example, Bititci et al. (2012) chart the development of models and measures of organizational performance

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and effectiveness over the last century, and note that while simple measures (e.g., annual profit) were accepted as good indices of organizational effectiveness in the first half of the 20th century, by the 1970s, metrics ranging from sustainability and intellectual property development and use to environmental and social performance were becoming part of the assessment of an organization's effectiveness. As organizations become increasingly globalized, measuring and integrating these metrics into a comprehensive statement about the effectiveness of an organization is becoming increasingly difficult. As a result, the task of empirically linking changes in performance at the individual or even the small-group level with changes in the performance and effectiveness of organizations can be a significant challenge.

The third challenge is disciplinary. Much of the research on performance management comes out of scientific disciplines in which there is a strong premium on developing new theories and models, and very little emphasis on testing whether these theories and models actually work (Edwards, 2010; Kacmar & Whitfield, 2000; Murphy & Russell, 2017). The absence of credible evidence that performance management works is not the same thing as evidence that it does not work, and the lack of confirmatory evidence may in part be explained by the fact that much of the published work in this area is in disciplines that (mistakenly, in our view) put little emphasis on empirically testing key theories or concepts.

Does It Work Versus What Works?

We started this section asking whether performance management works, but this might be the wrong question. Given the wide range of components that are present in performance management programs, the only way to answer this question would be to compare organizations that have performance management systems to organizations that do not have one, and we are not sure there *are* any organizations in which *none* of the components of performance management are present. It might be useful to change questions. Rather than asking whether performance management works, it is probably more useful to ask about the effects of particular components of performance management on the behavior of individuals in organizations and on the effectiveness of organizations (Haines & St-Onge, 2012).

Pulakos et al. (2012, 2015) identified several shortcomings in existing performance management programs; the latter paper as suggested some avenues for improving the practice of performance management. Rather than thinking about performance management as something managers "do" to employees, they suggest that performance management should be thought of as an ongoing series of interactions in which leaders and followers have joint responsibilities. They place considerable emphasis on motivating employees to adopt and commit to goals that are consistent with the overall goals and plans of the organization, and they note that effective motivation often involves giving employees more autonomy, opportunities for mastery, and purpose.[8] They emphasize the value of frequent feedback and experiential learning as ways of enhancing the value of performance management. Levy, Silverman, and Cavanaugh (2015) note that many of these suggestions are already in place in at least some organizations.

It is likely that each of the components of a performance management program has the potential to contribute to improving the performance of individuals and teams. Performance appraisal and performance feedback are frequent sources of complaints, but it is hard to argue that employees and organizations would not benefit if credible information

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about employee performance was shared with employees. One of the running themes of this book is that performance appraisal and feedback are definitely challenging; in Chapters 13 and 14, we discuss ways of maximizing the value and minimizing the pain of performance appraisals. Similarly, concerted efforts to provide both retrospective evaluations (traditional performance appraisal) and future-looking evaluations (e.g., the sort of frequent and immediate feedback advocated by Aguinis [2013] and others) strike us as potentially valuable. Finally, while the process of cascading goals and strategies is a difficult and time-consuming one, we believe it is very important for overcoming the difficulties often seen in translating improvements in individual performance to improvements at the organizational level. It is unlikely that there is a set of universal best practices for performance management (Becker & Huselid, 2006; Dekker et al., 2013), and one of the significant challenges to performance management researchers will be to identify the conditions under which different possible variations of performance are most likely to be a success.

WHAT IS THE ROLE OF PERFORMANCE APPRAISAL IN PERFORMANCE MANAGEMENT?

In Chapter 1, we outlined the defining features of the traditional forms of performance appraisal: that it is regular, summative, and evaluative and that it provides the basis for feedback and administrative decisions. Some models of performance management (e.g., Pulakos, 2009) include this type of appraisal, but the majority of the descriptions of performance management call for a very different approach to performance evaluation. For example, Aguinis (2013) calls for more frequent, if not continuous evaluations of performance. The assumption here is that summative feedback about what you did well and what you did poorly over the last year is not as valuable for changing behavior as feedback given at the point that behavior occurs.

The suggestion that performance feedback should be more frequent has been echoed by several scholars in this area (e.g., London & Smither, 2002; Steelman, Levy, & Snell, 2004). However, it is important to understand that the feedback that is part of performance management is both quantitatively (i.e., it occurs more often) and qualitatively different from the type of feedback people receive in their annual appraisals. In traditional performance appraisal, performance feedback is the result of a process of collecting, integrating, and evaluating performance relevant in each of the major dimensions of your job. In performance management, feedback is tied to specific tasks or behaviors, and is focused on whether the behavior was effective and how it can be improved. The type of frequent or continuous feedback that characterizes performance management will necessarily be informal and in all likelihood decoupled from administrative decisions (you are unlikely to get salary adjustments on a daily or weekly basis).

The idea that annual summative feedback might not be sufficient and that feedback should be more frequent raises the interesting question of determining the optimal frequency for performance feedback. Very frequent feedback is likely to have the advantage of immediacy, but there is a risk that very frequent feedback will become repetitive, especially if it is feedback about behaviors that are difficult to change in the short run. For example, suppose your mathematical skills are not up to par, making you slow in performing. Less frequent feedback loses this immediacy, but it has the advantage of being based on a potentially large sample of behavior.

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Lukas (2010) developed an analytic model to evaluate the optimal frequency of feedback in systems where performance-contingent pay influences employees' decisions to remain with an organization or to leave it. His model suggests that more frequent performance evaluations might not be beneficial. The model incorporates a number of assumptions that are difficult to test, but the results do suggest that more frequent performance feedback might not always be better than less frequent feedback. In particular, frequent feedback about aspects of performance that are difficult to change is likely to feel more like nagging, or even harassment, than like information that is helpful to the employee.

No matter how often it is done, performance evaluation is central to performance management. Given the emphasis on frequent feedback, performance management systems probably place a greater premium than more traditional performance appraisal systems on establishing a culture that makes feedback valuable and acceptable (Levy & Thompson, 2012). Both traditional performance appraisal systems and the more frequent evaluations that are part of most performance management systems function best when there is a high level of trust between supervisors and subordinates. As we will discuss in detail in Chapter 9, it is common for the recipients of performance feedback to believe that they are being unfairly evaluated and for them to reject, or at least resent, the feedback they receive. If feedback is a frequent aspect of day-to-day life in organizations, building trust between supervisors and subordinates is likely to be absolutely critical (Aguinis, 2013).

Regardless of how often it is done, both performance evaluation and performance feedback pose a set of challenges. First, the persons charged with evaluating performance and giving feedback must have the information needed to make sound judgments; the challenges to obtaining and integrating information about subordinate performance discussed in Chapter 5 apply regardless of whether the evaluation is a summative one covering the entire year or an on-the-spot evaluation covering a shorter period of performance. Second, persons charged with evaluating performance and providing feedback must have the tools and training to do the job. Chapters 10 and 11 are based largely on research that assumes the more traditional annual summative appraisal, but many of the issues covered in these chapters will be relevant regardless of the frequency of performance evaluation and feedback. Finally, performance evaluation is a statement of value, and virtually anything a supervisor (or another person involved in evaluation) does that goes beyond a simple count of what the ratee has produced will necessarily be a statement of value (i.e., a judgment of whether it is good or bad or whether it meets, exceeds or fails to meet expectations). This means that performance standards (discussed in Chapter 5) will be an important part of performance evaluation and feedback, regardless of whether it is done continuously or annually. If raters and ratees or different sets of raters have different standards for evaluating performance, they might come to very different judgments about performance, even if they all saw and remembered precisely the same behaviors and outcomes.

This section asks the question, "what is the place of performance appraisal in performance management?" The answer, we believe, is that it is central to the entire enterprise. It may be done in ways that resemble the traditional annual appraisal (which is often coupled with decisions about salary adjustments) or it may be done on a more frequent and informal basis, but it is always done and it must be done well if performance management has any chance of succeeding. Even if you believe that performance management has replaced performance appraisal, we believe you will find all of the issues covered in the chapters that follow to be

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relevant to understanding how this critically important part of performance management works, and why if often fails to work.

PERFORMANCE APPRAISAL, PERFORMANCE MANAGEMENT, AND INTEGRATED HR INTERVENTIONS

Performance management could be thought of as one variant of a broader strategy of developing sets or clusters of interrelated human resource management activities, all with the goal of increasing performance and effectiveness. There is a significant research literature outside of the boundaries of current performance management research that asks the question of whether systematic efforts to improve the way human resource management functions in organizations actually works, and there are reasons to believe that this broad strategy can be effective.

There is considerable evidence that organizations that adopt bundles of inter-related human resource management practices, all aimed at improving the ability of the organization and its members to execute the core missions of the organizations, can benefit (Huselid, 1995). These bundles of practices (which might or might not include things that are labeled performance management) represent combinations of improvements in selection, training, performance evaluation, employee development, compensation, supervision, and job design, and there is plentiful evidence that adopting these groups of practices can improve the efficiency and performance of organizations (Arthur, 1994; Combs, Ketchen, Hall, & Liu, 2006; Delaney & Huselid, 1996; Huselid, 1995; Youndt, Snell, Dean, & Lepak, 1996). The role of performance appraisal systems in determining the effectiveness of these bundles (if any) is hard to determine (DeNisi & Smith, 2014), but it is likely to be important.

Sometimes, groups of inter-related HR practices are labeled "high-performance work practices," particularly when these practices transfer power and authority to employees. After reviewing 20 years of the literature on the topic and examining 181 articles, Posthuma, Campion, Masimova, and Campion (2013) created nine categories of high-performance work practices: compensation and benefits, job and work design, training and development, recruiting and selection, employee relations, communication, performance appraisal and management, promotions, and turnover, retention, and exit management. Within the performance appraisal and management category, these best practices included appraisals based on objective results or behaviors, appraisals for development, and frequent performance appraisal meetings. However, it is important to keep in mind that empirical evidence that these improvements (whether or not they are framed as part of performance management) actually lead to increases in the performance or effectiveness of organizations is mixed (Cappelli & Neumark, 1999). Becker and Huselid (2006) suggest that the best HRM strategies might depend on the competitive strategy an organization is attempting to follow (see also Dekker et al., 2013). On the whole, there seems to be evidence that high-performance work practices can contribute to organizational effectiveness, but there is also evidence of reverse causation—that is, that effective organizations have the resources and flexibility to adopt these practices (Shin & Konrad, 2017).

It is clear that systematic overhauls to human resource systems that adopt some combination of improvements in selection, training, performance evaluation, employee

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development, compensation, supervision, and job design can benefit organizations. It is possible that developing a consistent set of performance goals that are harmonized across an organization and pairing these with an improved system for frequent performance feedback could have the same effect, but the evidence to date is simply incomplete. Can improving performance appraisal systems lead to increases in the effectiveness of organizations? The answer might depend largely on how an effective organization is defined.

SUMMARY

The term "performance management" can refer to a wide range of actual policies and practices, but in general they are likely to include attempts to harmonize the goals, plans, and activities of each member of the organization and each unit within the organization so that all activities are aimed at accomplishing critically important organizational goals and then using performance measurement and feedback to enforce and support these goals, plans, and activities. Performance management programs necessarily include some form of performance evaluation, and in that sense, it might be reasonable to think of performance appraisal as simply a component of performance management.

We are not convinced that this is a completely sound approach. Ten different organizations that claim to have performance management systems might end up doing 10 completely different things. There is great enthusiasm for performance management, but we are still far from understanding whether this strategy works or the conditions under which it succeeds or fails. Performance appraisal, on the other hand, represents a phenomenon that is widespread in organizations and that is widely researched. Thus, at least for now, we see considerable value in studying performance appraisal, regardless of whether it becomes a component of a broader system of performance management.

Despite the efforts of some organizations to get rid of performance appraisal systems, they are only getting rid of some of the surface features of this process, and there is little reason to believe that the informal systems they put into place to replace it will overcome the challenges performance appraisal faces in organizations. Like it or not, performance appraisal is here to stay (albeit sometimes in quite different forms), and the goal of understanding why it succeeds or fails and of finding ways to turn what is often a noxious process dreaded by raters and ratees alike into some sort of a success is one that strikes us as critically important.

ANALYSIS: FROM STRATEGY TO PERFORMANCE GOALS

In this chapter, we noted that a key concept in performance management is the translation of high-level organizational goals and strategies into performance goals for each of the units of an organization. What might this look like in practice?

Suppose you started with a simple taxonomy of strategies organizations follow to gain a competitive advantage. Porter (1985) suggested that competitive strategies could be described in terms of both their scope (broad versus narrow) and their focus (cost versus differentiation). That is, organizations could attempt to gain competitive advantage through broad cost leadership (being broad-based, a low-cost producer), cost focus (being a price leader within a target segment of the economy), broad differentiation (being a unique source of valued goods, often sold at a premium), or focused differentiation (being a niche player, offering unique goods in a target segment of the economy). What sorts of human resource policies would support these four strategies?

Cost-based strategies will probably encourage human resource policies that focus on reducing

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labor costs. This might be done, for example, by building a labor force that is relatively bottom-heavy (i.e., fewer supervisors or highly paid workers) and minimizing turnover. Differentiation strategies, on the other hand, are likely to focus on talent management, placing a premium on hiring individuals with the skills and knowledge needed to build unique, high-quality products.

How will these strategic goals cascade down to unit-level and individual performance goals? In general, cost-focused strategies are likely to lead to performance goals that center on efficiency, whereas differentiation strategies are more likely to focus on quality and consistency. This might lead to the use of different performance dimensions or difference indicators of success or failure (e.g., reducing waste and scrappage might be an important indicator of successful performance in a manufacturing department of an organization that pursues cost-oriented strategies for gaining competitive advantage). It will probably be easier to translate broad organizational goals and strategies into performance management strategies in departments that are directly involved in the core processes of an organization (e.g., manufacturing, distribution) than in departments that provide staff support (e.g., human resources).

NOTES

1. See, for example, Lawler (2012) and https://www.worldatwork.org/docs/research-and-surveys/Survey-Brief-Compensation-programs-and-practices-2012.pdf.
2. http://www.opm.gov/policy-data-oversight/performance-management/overview-history/
3. Note, however, that the feedback, rewards, and sanctions that are part of traditional performance appraisal are put in place in part to shape the behavior of employees, suggesting that the retrospective-prospective distinction is not as fundamental as it might appear.
4. http://www.strategicmanagementinsight.com/mission-statements/volkswagen-mission-statement.html.
5. http://www.computerworld.co.nz/article/493981/lehman_brothers_company_it_saw_itself/
6. There are a number of more expensive technologies than the ones used by the Volkswagen Group that do produce environmentally sound cars; in the price range Volkswagen was aiming for, it is not clear whether the degree of environmental impact sought was technically feasible.
7. https://www.worldatwork.org/docs/research-and-surveys/Survey-Brief-Compensation-programs-and-practices-2012.pdf
8. In a performance management program with a heavy top-down emphasis, where top management sets the goals and strategy and everyone aligns with this set of goals and strategies, it might be difficult to achieve these outcomes.

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