chapter 1

Performance Management in Context

People think they're too busy for performance management. That's your number one job

—Jack Welch

Learning Objectives

By the end of this chapter, you will be able to do the following:

- Compare and contrast the concepts of performance management and performance appraisal.
- Appraise strategic, administrative, informational, developmental, organizational maintenance, and documentation purposes of performance management
- Create a presentation providing persuasive arguments to argue for the business case and benefits for employees, managers, and organizations of implementing a well-designed performance management system.
- Assess the multiple negative consequences that can arise from the poor design and implementation of a performance management system.
- Judge the extent to which dysfunctional performance ratings may be signs that the performance management system is broken.
- Prepare a list of the key features of an ideal performance management system.
- Propose relationships and links between performance management and other human resources functions, including recruitment and selection, training and development, workforce planning, and compensation.
- Assess the impact of globalization and technological and demographic changes on the design and implementation of performance management systems.

Definition of Performance Management

Consider the following scenario:

> Sally is a sales manager at a 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, dealing with vendors, and supervising a group of 10 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 direct reports; they are due by the end of the fiscal year." Sally thinks, "Oh, again, 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 direct reports 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, based on her own experience, she thinks that little will happen in terms of compensation and 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? In the end, 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 15 minutes and gets back to her "real job."

There is something very wrong with this picture, which unfortunately happens all too frequently in many organizations and across industries. Although Sally's HR department calls this process "performance management," it is not.

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.* Let's consider each of the definition's two main components in more detail:

1. *Continuous process.* Performance management is ongoing. It involves a never-ending process of setting goals and objectives, observing performance, talking about performance, and giving and receiving ongoing coaching and feedback.[1]
2. *Alignment with strategic goals.* Performance management requires that managers ensure that employees' activities and outputs are congruent with the organization's goals and, consequently, help the organization gain a competitive advantage.[2] Performance management, therefore, creates a direct link between employee and team performance and organizational goals and makes the employees' contribution to the organization explicit.

Just like in Sally's case, many organizations have what is labeled a "performance management" system. However, we must distinguish between performance management and performance appraisal. A system that involves employee evaluations once a year without an ongoing effort to provide feedback and coaching so that performance can be improved is not a true performance management system. Instead, this is only a performance appraisal system. Performance appraisal is the measurement and description of an employee's strengths and weaknesses. Thus, while performance appraisal is an important component of performance management, it is just a part of a bigger whole because performance management is much more than just performance measurement.[3]

As an illustration, consider how Bank of America Merrill Lynch has transitioned from a performance appraisal system to a performance management system. Merrill Lynch was acquired by Bank of America and then merged into Bank of America Corporation, creating Bank of America Merrill Lynch, which is one of the world's leading financial management and advisory companies. Specifically, it employs more than 15,000 financial advisors in offices in about 35 countries and manages private client assets of approximately US$ 2.2 trillion. As an investment bank, it is a leading global underwriter of debt and equity securities and strategic adviser to corporations, governments, institutions, and individuals worldwide. Bank of America Merrill Lynch started the transition from giving employees one performance appraisal per year to focusing on one of the important principles of performance management: the conversation between managers and employees in which feedback is exchanged and coaching is given if needed. In January, employees and managers set employee objectives. Mid-year reviews assess what progress has been made toward the goals and how personal development plans are faring. Finally, the end-of-the-year review incorporates feedback from several sources, evaluates progress toward objectives, and identifies areas that need improvement. Managers also get extensive training on how to set objectives and conduct reviews. In addition, there is a Web site that managers can access with information on all aspects of the performance management system. In sharp contrast to their old performance appraisal system, Bank of America Merrill Lynch's goal for its newly implemented performance management program is worded as follows: "This is what is expected of you, this is how we're going to help you in your development, and this is how you'll be judged relative to compensation."[4]

Much like those that focus on performance appraisal only, performance management systems that do not make explicit the employee contribution to the organizational goals are not true performance management systems. Making an explicit link between employee and team performance objectives and the organizational goals also serves the purpose of establishing a shared understanding about what is to be achieved and how it is to be achieved[5]. This is painfully clear in Sally's case described earlier: from her point of view, the performance review forms did not provide any useful information regarding the contribution to the organization of each of her direct reports. Sally's case is, unfortunately, more common than we would like. For example, a survey of 13,000 employees worldwide conducted by the Corporate Executive Board (CEB) found that about 95% of managers are not satisfied with their organization's performance management system. Moreover, 66% of employees say that the performance review process not only does not help but actually *interferes* with their productivity![6]

Our discussion thus far makes it clear that performance management systems serve multiple purposes.[7] The information collected by a performance management system is most frequently used for salary administration, performance feedback, and the identification of employee strengths and weaknesses. In general, however, performance management systems can serve the following six purposes: strategic, administrative, informational, developmental, organizational maintenance, and documentation purposes.[8] Let's consider each of these purposes next.

Purposes of Performance Management Systems

Strategic Purpose

The first purpose of performance management systems is to help top management achieve strategic business objectives. By linking the organization's goals with individual and team 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 and team goals with organizational goals serves as a way to communicate what are the most crucial business strategic initiatives.

The second strategic purpose of performance management systems is that they play an important role in the *onboarding* process.[9] Onboarding refers to the processes that lead new employees to transition from being organizational outsiders to organizational insiders. Performance management serves as a catalyst for onboarding because it allows new employees to understand the types of behaviors and results that are valued and rewarded, which, in turn, leads to an understanding of the organization's culture and its values.

Company Spotlight 1.1

HOW SEARS USES PERFORMANCE MANAGEMENT TO FOCUS ON STRATEGIC BUSINESS PRIORITIES

The top management team at Sears is utilizing performance management practices and principles to align human resources with business strategy. Headquartered in Hoffman Estates, Illinois, as of 2018, Sears is the 31st largest retailing company in the United States. And it is the fifth-largest American department store company by sales behind Walmart, Target, Best Buy, and the Home Depot), and the third largest broad-line retailer in the United States, with approximately $22.14 billion in annual revenues and approximately 651 retail stores. Sears is a home appliance retailer and offers tools, lawn and garden products, home electronics, and automotive repair and maintenance. Following the merger with Kmart Corp. and Sears, Roebuck & Co., 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 where store managers strive for financial literacy and are challenged to identify opportunities for greater profits. Several aspects of the performance management system are being utilized 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, who became CEO of Potbelly after leaving Sears, used to spend 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 500 employees who are 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's culture because senior management views encouraging key desired behaviors as critical to the company's success in the marketplace.[10]

Administrative Purpose

The second function of performance management systems is to furnish 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 high-potential employees, identification of poor performers, layoffs, and merit increases. Therefore, the implementation of reward systems based on information provided by the performance management system falls within the administrative purpose. For example, the government in Turkey mandates performance management systems in all public organizations in that country with the aim to prevent favoritism, corruption, and bribery and to emphasize the importance of impartiality and merit in administrative decisions.[11]

Informational Purpose

Performance management systems serve as an important communication device. First, they inform employees about how they are doing and provide them with information on specific areas that may need improvement. Second, related to the strategic purpose, they provide information regarding expectations of peers, supervisors, customers, and the organization and what aspects of work are most important.

Developmental Purpose

As noted earlier, feedback is an important component of a well-implemented performance management system. This feedback should be used in a developmental manner. Specifically, 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, team, 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.

Feedback is useful only when employees are willing to receive it. Organizations should strive to create a "feedback culture" that reflects support for feedback, including feedback that is nonthreatening and is focused on behaviors and coaching to help interpret the feedback provided.[12]

Another aspect of the developmental purpose is that employees receive information about themselves that can help them individualize their career paths. For example, by learning about their strengths, they are better able to chart a more successful path for their future. Thus, the developmental purpose refers to both short-term and long-term aspects of development.

Organizational Maintenance Purpose

The fifth purpose of performance management systems is to provide information to be used in workforce planning. Workforce planning comprises a set of systems that allows organizations to anticipate and respond to needs emerging within and outside the organization, to determine priorities, and to allocate human resources where they can do the most good.[13] An important component of any workforce planning effort is the *talent inventory*, which is information on current resources (e.g., skills, abilities, promotional potential, and assignment histories of current employees). Buying talent is extremely expensive, and top performers know their worth in the market through social media and career sites. In the case of executives, the stock market is a good metric.[14] For example, when Kasper Rørsted left his position of CEO at packaged-goods company Henkel to become CEO of Adidas, Adidas gained $1 billion. Performance management systems are the primary means through which accurate talent inventories can be assembled. Moreover, as we will describe later, these are critical in terms of keeping track of high-potential employees.[15]

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 HR interventions. For example, accurate data on employee performance can be used to evaluate whether employees perform at higher levels after participating in a training program. These activities cannot be conducted effectively in the absence of a good performance management system.

Documentation Purpose

Finally, performance management systems allow organizations to collect useful information that can be used for several necessary and sometimes legally mandated (as described in Chapter 10) documentation purposes. First, performance data can be used to validate newly proposed selection instruments. 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 administrative positions. Second, performance management systems allow for the documentation of important administrative decisions such as terminations and promotions. This information can be especially useful in the case of litigation.

Several companies implement performance management systems that allow them to accomplish the multiple objectives described earlier. For an example of one such company, consider the case of SELCO Community Credit Union in Eugene, Oregon, a not-for-profit consumer cooperative that was established in 1936.[16] SELCO serves more than 127,000 members. In 2016, SELCO closed with a record $1.4 billion in assets, $1.1 billion in loans, and $1.3 billion in deposits. SELCO offers many of the same services offered by other banks, including personal checking and savings accounts, loans, and credit cards. Being members of the credit union, however, allows individual members a say in how the credit union is run, something a traditional bank does not permit. 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 sit down and 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 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.

Although multiple purposes are desirable, 62% of HR executives from Fortune 500 companies say that their performance management system serves mostly administrative (e.g., salary decisions) and developmental (e.g., to identify employees' weaknesses and strengths) purposes.[17] As will be discussed in Chapter 9, these purposes place conflicting demands on those providing ratings because they must be both judges (i.e., make salary decisions) and coaches (i.e., provide useful feedback for performance improvement) at the same time.

Now, think about the performance management system implemented in your organization or the last organization for which you worked. Table 1.1 summarizes the various purposes served by a performance management system. Which of these purposes is being served by the system you are considering? Which is not? What are some of the barriers that prevent achieving all size purposes?

TABLE 1.1 • Purposes Served by a Performance Management System

1. *Strategic:* To help top management achieve strategic business objectives
2. *Administrative:* To furnish valid and useful information for making administrative decisions about employees
3. *Informational:* To inform employees about how they are doing and about the expectations of the organization, customers, and supervisor
4. *Developmental:* To allow managers and peers to provide coaching to their employees
5. *Organizational maintenance:* To create a talent inventory and provide information to be used in workplace planning and allocation of human resources
6. *Documentation:* To collect useful information that can be used for various purposes (e.g., test development, administrative decisions)

Subsequent chapters describe best practices on how to design and implement performance management systems. For now, however, let's say that well-designed and implemented performance management systems achieve all six purposes and make substantial contributions to the organization. This is why a survey of almost 1,000 HR management professionals in Australia revealed that 96% of Australian companies currently implement some type of performance management system.[18] Similarly, results of a survey of 278 organizations, about two-thirds of which are multinational corporations from 15 different countries indicated that about 91% of organizations implement a formal performance management system.[19] Moreover, organizations with formal and systematic performance management systems are 51% more likely to perform better than the other organizations in the sample regarding financial outcomes and 41% more likely to perform better than the other organizations in the sample regarding other outcomes, including customer satisfaction, employee retention, and other important metrics. In fact, a study conducted by Development Dimensions International (DDI), a global human resources consulting firm specializing in leadership and selection, found that performance management systems are a key tool that organizations use to translate business strategy into business results. Specifically, performance management systems influence "financial performance, productivity, product or service quality, customer satisfaction, and employee job satisfaction." In addition, 79% of the CEOs surveyed say that the performance management system implemented in their organizations drives the "cultural strategies that maximize human assets."[20] Based on these results, it is not surprising that senior executives of companies listed in the *Sunday Times'* list of best employers in the United Kingdom believe that performance management is one of the top two most important HR management priorities in their organizations.[21] Let's describe these performance management contributions in detail.

The Performance Management Contribution

There are many advantages associated with the implementation of a performance management system.[22] A performance management system can make the following important contributions for employees, managers, the HR function, and the entire organization:[23]

1. *Self-insight and development are enhanced.* The participants in the system are likely to develop a better understanding of themselves and of the kind of development activities that are of value to them as they progress through the organization. Participants in the system also gain a better understanding of their particular strengths and weaknesses that can help them better define future career paths.
2. *Self-esteem is increased.* Receiving feedback about one's performance fulfills a basic human need to be recognized and valued at work. This, in turn, is likely to increase employees' self-esteem.
3. *Motivation to perform is increased.* Receiving feedback about one's performance increases the motivation for future performance. Knowledge about how one is doing and recognition about one's past successes provide the fuel for future accomplishments. Also, motivation is increased when performance management satisfies employees' need for relatedness, competence, and autonomy, which all lead to improved work meaningfulness—and motivation.[24]

4. *Employee engagement is enhanced.* A good performance management system leads to enhanced employee engagement. Employees who are engaged feel involved, committed, passionate, and empowered. Moreover, these attitudes and feelings result in behaviors that are innovative and, overall, demonstrate good organizational citizenship and take action in support of the organization. Employee engagement is an important predictor of organizational performance and success and, consequently, engagement is an important contribution of good performance management systems.[25]

5. *Employees become more competent.* An obvious contribution is that employee performance is improved. This particular benefit of a performance management system is global. For instance, a recent analysis based on 120 human resource officers and managers from Tanzania found that the implementation of a performance management system translated into better employee performance, which ultimately improved organizational performance. The performance management system allowed leaders to determine the training needs of their employees and was a motivational strategy that led to better performance of both employees and organizations.[26] Thus, it is not surprising that performance management systems serve as a solid foundation for helping employees become more successful by establishing developmental plans.

6. *Voice behavior is encouraged.* A well-implemented performance management system allows employees to engage in voice behavior that can lead to improved organizational processes. Voice behavior involves making suggestions for changes and improvements that are innovative, challenge the status quo, are intended to be constructive, and are offered even when others disagree.[27] For example, the performance review meeting can lead to a conversation during which the employee provides suggestions on how to reduce cost or speed up a specific process.

7. *The definitions of job and criteria are clarified.* The job of the person being appraised may be clarified and defined more clearly. In other words, employees gain a better understanding of the behaviors and results required of their specific position. Employees also gain a better understanding of what it takes to be a successful performer (i.e., what are the specific criteria that define job success).

8. *Employee misconduct is minimized.*[28] Employee misconduct is an increasingly pervasive phenomenon that has received widespread media coverage. Such misconduct includes accounting irregularities, churning customer accounts, abusing overtime policies, giving inappropriate gifts to clients and potential clients hoping to secure their business, and using company resources for personal use. Although some individuals are more likely to engage in misconduct compared to others based on individual differences in personality and other attributes, having a good performance management system in place provides the appropriate context so that misconduct is clearly defined and labeled as such and identified early on before it leads to sometimes irreversible negative consequences.

9. *Declines in performance can be addressed early on.* Because good performance management systems include ongoing performance measurement, declines in performance can be noticed, which allows for immediate feedback and continuous coaching. When such declines are observed, remedial action can be taken immediately and before the problem becomes so entrenched that it cannot be easily remedied.

10. *Motivation, commitment, and intentions to stay in the organization are enhanced.* When employees are satisfied with their organization's performance management system, they are more likely to be motivated to perform well, be committed to their organization, and not try to leave the organization.[29] For example, satisfaction with the performance management system is likely to make employees feel that the organization has a great deal of personal meaning for them. In terms of turnover intentions, satisfaction with the performance management system leads employees to report that they will probably not look for a new job in the next year and that they don't often think about quitting their present job. As an illustration of this point, results of a study including 93 professors at a university in South Africa suggested that the implementation of a good performance management system would be useful in preventing them from leaving their university jobs.[30]
11. *Managers gain insight into direct reports.* Direct supervisors and other managers in charge of the appraisal gain new insights into the person being appraised. Gaining new insights into a person's performance and personality will help the manager build a better relationship with that person. Also, supervisors gain a better understanding of everyone's contribution to the organization. This can be useful for direct supervisors, as well as for supervisors once removed.
12. *There is better and more timely differentiation between good and poor performers.* Performance management systems allow for quicker identification of good and poor performers. This includes identifying star performers—those who produce at levels much higher than the rest. For example, without a good performance management system, it is not easy to know which programmers are producing more and better code.[31] Also, this includes identifying high-potential employees who can be identified as future leaders—also called "HiPos." For example, PepsiCo's performance management system includes what it calls Leadership Assessment and Development (LeAD). A unique aspect of this system is the emphasis on identifying HiPos by measuring specific job and leadership requirements in the future.[32]
13. *Supervisors' views of performance are communicated more clearly.* Performance management systems allow managers to communicate to their direct reports their assessments regarding performance. Thus, there is greater accountability in how managers discuss performance expectations and provide feedback. When managers possess these competencies, direct reports receive useful information about how their performance is seen by their supervisor.
14. *Administrative actions are fairer and more appropriate.* Performance management systems provide valid information about performance that can be used for administrative actions such as merit increases, promotions, transfers, and terminations. In general, a performance management system helps ensure that rewards are distributed on a fair and credible basis. In turn, such decisions based on a sound performance management system lead to improved interpersonal relationships and enhanced supervisor–direct report trust.[33] For example, a good performance management system can help mitigate explicit or implicit emphasis on age as a basis for decisions. This is particularly important given the aging working population in the United States, Europe, and many other countries around the world.[34]

15. *Organizational goals are made clear.* The goals of the unit and the organization are made clear, and the employee understands the link between what she does and organizational success. This is a contribution to the communication of what the unit and the organization are all about and how organizational goals cascade down to the unit and the individual employee. Performance management systems can help improve employee acceptance of these wider goals (i.e., unit and organizational levels).
16. *There is better protection from lawsuits.* Data collected through performance management systems can help document compliance with regulations (e.g., equal treatment of all employees regardless of sex or ethnic background). When performance management systems are not in place, arbitrary performance evaluations are more likely, resulting in increased exposure to litigation for the organization.
17. *Organizational change is facilitated.* Performance management systems can be a useful tool to drive organizational change. For example, assume an organization decides to change its culture to give top priority to product quality and customer service. Once this new organizational direction is established, performance management is used to align the goals and objectives of the organization with those of individuals to make change possible. Employees are provided training in the necessary skills and are also rewarded for improved performance so that they have both the knowledge and motivation to improve product quality and customer service. This is precisely what IBM did in the 1980s when it wanted to switch focus to customer satisfaction: the performance evaluation of every member in the organization was based, to some extent, on customer satisfaction ratings regardless of function (i.e., accounting, programming, manufacturing, etc.).[35] For IBM, as well as numerous other organizations, performance management provides tools and motivation for individuals to change, which, in turn, helps drive organizational change. In short, performance management systems are likely to produce changes in the culture of the organization and, therefore, the consequences of such cultural changes should be considered carefully before implementing the system.[36] As noted by Randy Pennington, president of Pennington Performance Group, "The truth is that the culture change is driven by a change in performance. An organization's culture cannot be installed. It can be guided and influenced by policies, practices, skills, and procedures that are implemented and reinforced. The only way to change the culture is to change the way individuals perform on a daily basis."[37]

Table 1.2 lists the 17 contributions made by performance management systems. Recall Sally's situation earlier in the chapter. Which of the contributions included in Table 1.2 result from the system implemented at Sally's organization? For example, are Sally's employees more motivated to perform as a consequence of implementing their "performance management" system? Is their self-esteem increased? What about Sally's insight and understanding of her employees' contributions to the organization? Is Sally's organization now better protected in the face of potential litigation? Unfortunately, the system implemented at Sally's organization is not a true performance management system but simply an administrative nuisance. Consequently, many, if not most, of the potential contributions of the performance management system are not realized. In fact, poorly implemented systems, as in the case of Sally's organization, not only do not make positive contributions but also can be very dangerous because of their several negative outcomes. Let's consider those next.

TABLE 1.2 • Contributions of Performance Management Systems

• Self-insight and development are enhanced.
• Self-esteem is increased.
• Motivation to perform is increased.
• Employee engagement is enhanced.
• Employees become more competent.
• Voice behavior is encouraged.
• The definitions of job and criteria are clarified.
• Employee misconduct is minimized.
• Declines in performance can be addressed early on.
• Motivation, commitment, and intentions to stay in the organization are enhanced.
• Managers gain insight about direct reports.
• There is better and more timely differentiation between good and poor performers.
• Supervisors' views of performance are communicated more clearly.
• Administrative actions are fairer and more appropriate.
• Organizational goals are made clear.
• There is better protection from lawsuits.
• Organizational change is facilitated.

Company Spotlight 1.2

WHAT HAPPENS WHEN PERFORMANCE MANAGEMENT IS IMPLEMENTED POORLY?

Four women who worked at Nike's global headquarters filed a class-action lawsuit in federal court in Oregon in 2018, alleging that the sports clothing business violated the Equal Pay Act by participating in systemic gender pay discrimination and tolerating chronic sexual harassment. Former employees claimed that women are paid less for doing the same task as their male counterparts, receive smaller bonuses, and are less likely to get promoted. In April of that year, a *New York Times* article revealed an abusive and humiliating work environment for women. The claims have resulted in a reorganization of Nike's employees, the retirement of almost a dozen top executives, and a vow from then CEO Mark Parker to restructure the company and reconsider the company's hiring and compensation practices.

But the challenges that women face at Nike are far from unique. Women have lately brought similar class-action lawsuits against some of America's most successful firms, including pending cases against Google and Uber. What makes the lawsuit against Nike unique is that it goes beyond others in its demands. The requests made in the complaint against Nike are more extensive than those made in earlier lawsuits. Of course, it includes the requests that the corporation compensate women monetarily for allegedly hurting their careers and end the illegal practice of paying women less for similar work than males. However, the complainants wanted the court to force Nike "to develop and institute reliable, validated, and job-related standards for evaluating performance, determining pay, and making promotion decisions." They requested a court-appointed monitor that ensures that Nike complies with the plan. Finally, they also asked that Nike offer back jobs to the women who left because of the alleged discrimination. This is known as a "structural reform mandate," and it could involve various reforms that would prevent the company from repeating discriminatory practices in the future.[38]

When Performance Management Breaks Down: Dangers of Poorly Implemented Systems

What happens when performance management systems do not work as intended, as in the case of Sally's organization? What are some of the negative consequences associated with low-quality and poorly implemented systems? Some of these disadvantages are simply the opposite of the contributions discussed in the previous section because, in many ways, these consequences are symptoms that the performance management system is broken and something needs to be done about it. Consider the following list:

1. *Lowered self-esteem.* Self-esteem may be lowered if feedback is provided in an inappropriate and inaccurate way. This, in turn, can create employee resentment.
2. *Increased turnover.* If the process is not seen as fair, employees may become upset and leave the organization. They can leave physically (i.e., quit) or withdraw psychologically (i.e., minimize their effort and engage in cyberloafing until they are able to find a job elsewhere). This is particularly a problem for star performers, who are attracted to organizations that recognize individual contributions.[39]
3. *Damaged relationships.* As a consequence of a deficient system, the relationship among the individuals involved may be damaged, often permanently. For example, a recent study examined how workers and managers in banks in the U.K. altered their relationships with customers as the performance management changed. Specifically, researchers found that as the performance management system became more focused on financial performance, employees were less concerned about fairness and justice towards customers. Because of the change in the performance management system, employees' practices and their relationships with clients changed to include more materialist rather than moral values, which translated into less genuine relationships.[40]
4. *Decreased motivation to perform.* Motivation may be lowered for many reasons, including the feeling that superior performance is not translated into meaningful tangible (e.g., pay increase) or intangible (e.g., personal recognition) rewards.
5. *Employee burnout and job dissatisfaction.* When the performance assessment instrument is not seen as valid and the system is not perceived as fair, employees are likely to feel increased levels of job burnout and job dissatisfaction. As a consequence, employees are likely to become increasingly irritated.[41]
6. *Use of misleading information.* If a standardized system is not in place, there are multiple opportunities for fabricating information about an employee's performance.

7. *Wasted time and money.* Performance management systems cost money and quite a bit of time. These resources are wasted when systems are poorly designed and implemented.
8. *Emerging biases.* Personal values, biases, and relationships are likely to replace organizational standards.
9. *Unclear ratings system.* Because of poor communication, employees may not know how their ratings are generated and how the ratings are translated into rewards. For example, a study of nurses in South Africa found that the implementation of performance management failed when it was not seen as useful for career progression, did not include performance improvement, and was not clear about how exceptional performance was going to be rewarded. The lack of a clear rating system not only threatened the implementation of performance management, but also created doubts about the transparency and accuracy of the system, which translated in perceptions of organizational unfairness and injustice.[42]
10. *Varying and unfair standards and ratings.* Both standards and individual ratings may vary across and within units and also be unfair.
11. *Unjustified demands on managers' and employees' resources.* Poorly implemented systems do not provide the benefits provided by well-implemented systems, yet they take up managers' and employees' time. Such systems will be resisted because of competing obligations and the allocation of resources (e.g., time). What is sometimes worse, managers may simply choose to avoid the system altogether, and employees may feel increased levels of overload.[43]
12. *Increased risk of litigation.* Expensive lawsuits may be filed by individuals who feel they have been appraised unfairly.

Performance Ratings: The Canary in the Coal Mine

Table 1.3 summarizes the list of negative consequences resulting from the careless design and implementation of a performance management system. As you can see from this list, many of the negative consequences are directly related to the issue of performance ratings. For example, ratings are biased, unjustified, inaccurate, a waste of time and resources, and their use leads to the departure of star performers and even litigation.

But performance ratings are the canary in the coal mine rather than the problem per se. Before modern sensors were invented, coal miners in the early 20th century used to carry a caged canary with them down into the mine tunnels. In the presence of toxic gases such as carbon monoxide, the canary would faint or even die, quickly alerting the miners of imminent danger. So the canary was not the problem but rather a sign of the presence of unobserved toxic gases. Similarly, what are the *unseen reasons* why performance ratings are biased, impractical, and cause more harm than good? What are the "toxic gases" that may be producing problems in the ratings? Consider just three of many possibilities. First, ratings may not be directly related to an organization's strategic goals. Second, they may not refer to performance dimensions under the control of the employee. Third, it may take too long for supervisors to fill out complicated and convoluted evaluation forms.

Given problems noticed with performance ratings, in the past few years, several organizations such as Eli Lilly, Adobe, Microsoft, Accenture, Goldman Sachs, IBM, Morgan Stanley, New York Life, Medtronic, Juniper Networks, and the Gap announced that they were going to seriously curtail or even discontinue their use. In fact, survey results by WorldatWork and Willis Towers Watson Talent Management indicate that between 8% and 14% of large corporations in North America have eliminated performance ratings since 2014.[44]

But, although the elimination of ratings seems to be the latest and newest innovation, performance management without ratings was implemented by GE in the 1960s. In addition to no summary ratings, this system at GE included frequent discussions of performance and an emphasis on mutual goal planning and problem-solving.[45] But years later, GE not only brought ratings back, but it became famous for the use of former CEO Jack Welch's "vitality curve" in which employees were ranked in the top 10%, middle 70%, or bottom 10% of the performance distribution. Going full circle, GE is now one of the companies reevaluating their use of the annual reviews.

So, in spite of widespread media coverage and hype about many companies "abandoning performance reviews and ratings,"[46] many of these companies quickly realized that, even if performance ratings are abolished, supervisors evaluate the performance of their direct reports implicitly—and so do peers—even if evaluations forms and ratings are not used. Also, without performance ratings, how are we going to identify, reward, and retain top performers? How will organizations make fair compensation and promotion decisions and deal with possible discrimination lawsuits? The answer is that performance ratings—*good-quality* performance ratings—are needed.[47] This is why companies such as Deloitte and many others that tried to eliminate performance ratings are now using ratings again—but they are using more than one number and emphasize developmental feedback.[48] Clearly, measuring performance is not easy. However, this is not a good excuse to abandon ratings given the large body of research that has accumulated over decades and resulted in clear implications for practice.[49] So Part II in this book addresses how to implement state-of-the-science performance management systems, including how to define and measure performance using different types of rating systems.

Now, once again, consider Sally's organization. What are some of the negative consequences of the system implemented by her company? Let's consider each of the consequences listed in Table 1.3. For example, is it likely that the performance information used is false and misleading? How about the risk of litigation? How about the time and money invested in collecting, compiling, and reporting the data? Unfortunately, an analysis of

TABLE 1.3 • Negative Consequences of Poorly Implemented Performance Management Systems

• Lowered self-esteem
• Increased turnover
• Damaged relationships
• Decreased motivation to perform
• Employee job burnout and job dissatisfaction
• Use of false or misleading information
• Wasted time and money
• Emerging biases
• Unclear ratings system
• Varying and unfair standards and ratings
• Unjustified demands on managers' and employees' resources
• Increased risk of litigation

Company Spotlight 1.3

GOOD PERFORMANCE MANAGEMENT IMPLEMENTATION PAYS OFF AT ADOBE

Adobe Systems, one of the largest computer software companies in the world, decided to scrap its obsolete annual performance appraisal in favor of a continuous performance management approach. The new approach allowed employees to proactively, rather than retroactively, get feedback on their current roles in the company, future career goals, and information on the knowledge, skills, and abilities needed to improve their performance. In the first year alone, Adobe estimated it saved 80,000 manager hours, the equivalent of 40 full-time employees, which would have been required by the old process. Two years later, Adobe found that morale had increased, turnover decreased by 30%, and involuntary departure increased by 50%.[50]

Thus far we have defined performance management and its purposes, spelled out its contributions, and discussed benefits of good systems as well as dangers or bad ones. So, it's time to summarize what decades of research has concluded about what an ideal performance management system looks like. These characteristics can have slight variations across contexts. But, overall, they are considered fairly universal.[51]

Sally's situation, taken with the positive and negative consequences listed in Tables 1.2 and 1.3, leads to the conclusion that this system is likely to do more harm than good. Now think about the system implemented at your current organization or at the organization you have worked for most recently. Look at Tables 1.2 and 1.3. Where does the system fit best? Is the system more closely aligned with some of the positive consequences listed in Table 1.2 or more closely aligned with some of the negative consequences listed in Table 1.3? Returning to the canary analogy, are ratings healthy or not? If not, what are the unseen "toxic gases" that may be the underlying reasons why ratings are "unhealthy"?

Thus far we have defined performance management and its purposes, spelled out its contributions, and discussed the benefits of good systems as well as dangers or bad ones. So, it's time to summarize what decades of research have concluded about what an ideal performance management system looks like. These characteristics can have slight variations across contexts. But, overall, they are considered fairly universal.

Characteristics of an Ideal Performance Management System

The following characteristics are likely to allow a performance management system to be successful. Clearly, 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.[52] 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 performance management system that seems to require too much time and attention. Also, there may be organizational or even country-level constraints that prevent the implementation of a good performance management system. For example, consider the case of Korea, which is a country that espouses collectivist values over individual performance, and it is a society that is male-dominated and also dominated by political and administrative leaders, and where these sociocultural norms have a clear influence on organizational decision making and practices.[53] These institutional constraints that are so pervasive in Korea and so many other emerging market countries must be taken into consideration in terms of what type of performance management system will be possible to implement as well as the effectiveness of such a system. However, regardless of the societal, institutional, and practical constraints, 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 and deliver the benefits listed in Table 1.2.

- *Strategic congruence.* The system should be congruent with the unit's and organization's strategy. In other words, individual goals must be aligned with unit and organizational goals.
- *Context congruence.* The system should be congruent with the organization's culture as well as the broader cultural context of the region or country. The importance of context in implementing highly effective performance management systems is emphasized throughout the book. However, for now, consider the example of an organization that has a culture in which communication is not fluid and hierarchies are rigid. In such organizations, an upward feedback system in which individuals receive comments on their performance from their direct reports would be resisted and likely not very effective. Regarding broader cultural issues, consider that performance management research published in scholarly journals has been conducted in about 40 countries around the world.[54] Taken together, this body of work suggests that culture plays an important role in the effectiveness of a performance management system. For example, in countries like Japan, there is an emphasis on the measurement of both behaviors (i.e., how people do the work) and results (i.e., the results of people's work), whereas, in the United States, results are typically preferred over behaviors. Thus, implementing a results-only system in Japan is not likely to be effective. Specifically, although performance is measured similarly around the world (see standardization criterion below), the interpersonal aspects of the system are adapted and customized to the local culture. For example, performance management systems in the subsidiaries are more likely to differ from those in the headquarters as power distance differences (i.e., the degree to which a society accepts hierarchical differences) increase between countries.
- *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; a detailed discussion of this topic is presented in Chapter 5). 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 need improvement.
- *Practicality.* Systems that are too expensive, time-consuming, and convoluted will obviously not be effective. Good, easy-to-use systems (e.g., performance data are

entered via user-friendly Wen and mobile apps) are available for managers to help them make decisions. Finally, the benefits of using the system (e.g., increased performance and job satisfaction) must be seen as outweighing the costs (e.g., 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 she needs to increase the speed of service delivery when the supplier does not get the product to 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, frequent informal 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 performance system that has no consequences in terms of outcomes that they value. For example, a study compared performance management systems in the former East versus former West Germany. Results showed that in former West German companies, there was a stronger link between the performance management system and administrative decisions such as promotions. This relationship was weaker in former East German companies, and this difference is probably due to the socialist political system in the former German Democratic Republic, which has had a long-lasting effect.[55]
- *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 administrative decisions, a system that 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 information. In other words, measures are relevant (i.e., include all critical performance facets), not deficient (i.e., do not leave any important aspects out), and are not contaminated (i.e., 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 the control of the employee. For example, the *gondolieri* in the city of Venice (Italy) have had a performance management system for about 1,000 years. 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 performance dimensions. However, the system was contaminated because it included the following requirement, which is unrelated to performance: "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]."[56]

- *Acceptability and fairness.* A good system is acceptable and is perceived as fair by all participants. Fairness in performance appraisal is one the most important characteristics to ensure that the implementation of a performance management system translates into high performance.[57] For example, a study involving 150 employees from universities in Pakistan found that the higher the perceptions of fairness in a performance management system, the more motivated employees were to improve their performance, which ultimately will translated into improving the performance of the firm.[58] Perceptions of fairness are subjective, and the only way to know if a system is seen as fair is to ask the participants about the system. Such perceptions include four distinct components. First, 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 (e.g., United States) to more collectivistic (e.g., Korea) cultures.[59] If a discrepancy is perceived between work and evaluation or between evaluation and rewards, then the system is likely to be seen as unfair.[60] Second, 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. Third, we can assess perceptions regarding *interpersonal justice*, which refers to the quality of the design and implementation of the performance management system. For example, what are employees' perceptions regarding how they are treated by their supervisors during the performance review meeting? Do they feel that supervisors are empathic and helpful? Finally, *informational justice* refers to fairness perceptions about performance expectations and goals, feedback received, and the information given to justify administrative decisions. For example, are explanations perceived to be honest, sincere, and logical? 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 the distributive, procedural, interpersonal, and informational perspectives because each type of justice perception leads to different outcomes.[61] 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.[62] A study of 108 employees in Malaysia's oil and gas industry showed that justice perceptions about the performance management system predicted employees' organizational commitment behaviors.[63] Thus, to improve perceptions of justice in the performance management system, leaders should focus on delivering the information in a clear, understandable, and timely way. For instance, a leader should be very clear when explaining to employees the expectations about their performance, which will contribute to enhancing all four justice dimensions.

- *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. This is particularly important in today's diverse and global organizations, including individuals from different cultural backgrounds, which may lead to different views regarding what performance is and how it should be measured.[64] Second, input about employee performance should be gathered from the employees themselves before the performance review meeting.[65] 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.[66]
- *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 review 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.* As noted earlier, 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. 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.[67]

Table 1.4 lists the characteristics of an ideal performance management system. Implementing a performance management system that includes the characteristics just described will pay off. Successfully implementing a performance management system can give workers the direction and support that they need to improve their productivity.

Now, think about the performance management system implemented in your organization or the last organization for which you worked. Which of the features listed in Table 1.4 are included in the system you are considering? How far is your system from the ideal?

TABLE 1.4 • Characteristics of an Ideal Performance Management System

• Strategic congruence
• Context congruence
• Thoroughness
• Practicality
• Meaningfulness
• Specificity
• Identification of effective and ineffective performance
• Reliability
• Validity
• Acceptability and fairness
• Inclusiveness
• Openness
• Correctability
• Standardization
• Ethicality

Integration with Other Human Resources and Development Activities

Performance management systems serve as important "feeders" to other human resources and development activities. For example, consider the relationship between performance management and *training.* Performance management provides information on developmental needs for employees. In the absence of a good performance management system, it is not clear that organizations will use their training resources in the most efficient way (i.e., to train those who most need it in the most critical areas). One organization that can link its performance management system to training initiatives is General Electric (GE). GE's performance management system includes over 180,000 salaried employees spread across almost 180 countries. Recently, GE updated its performance management practices, moving from a formal "once-a-year" performance review to an app-based system that allows managers to provide more immediate feedback and coaching to their employees. The app accepts voice and text inputs, attached documents, and even handwritten notes. Managers can use the app's categories such as "priorities,, "touch points," "summary," and "insights" to send short messages (up to 500 characters) to individual team members or groups. For example, a manager can use the app to provide suggestions to employees on areas of developmental needs and where employees may benefit from additional training. Based on this data, the manager, employee, and human resources department can work together to schedule training classes and off-site training opportunities. GE is already seeing the benefits of this partnership between performance management and training, with some divisions reporting a fivefold increase in employee productivity.[68]

Unfortunately, despite the successful GE example, most organizations do not use performance management systems to determine training content and waste an opportunity to use the performance management system as the needs assessment phase of their training efforts.[69] Specifically, a survey including 218 HR leaders at companies with at least 2,500 employees revealed that there is tight integration between performance management and learning/development activities in only 15.3% of the organizations surveyed.[70]

Performance management also provides key information for *workforce planning.* As noted earlier, an organization's talent inventory is based on information collected through the performance management system. Development plans provide information on what skills will be acquired soon. This information is also used in making *recruitment and hiring* decisions. Knowledge of an organization's current and future talent is important when deciding what types of skills need to be acquired externally and what types of skills can be found within the organization.

Finally, there is an obvious relationship between performance management and compensation systems. Compensation and reward decisions are likely to be arbitrary in the absence of a good performance management system, which is an issue described in detail in Chapter 10.

In short, performance management is a key component of talent management in organizations. It allows for assessing the current talent and making predictions about future needs both at the individual and organizational levels. Implementing a successful performance management system is a requirement for the successful implementation of other HR functions, including training, workforce planning, recruitment and selection, and compensation.

The Future is Now: Performance Management and the Nature of Work and Organizations Today

We know that performance management is pervasive across industries and around the world today. But performance management has a long history and is not something new. In fact, the Wei dynasty (魏朝) in China, which was a Han dynasty that was in power between the years 220 and 265, implemented a performance management system for government employees. An important component was something called the nine-rank system, by which workers were rated based on their performance. A low ranking meant the worker would be fired. Fast forward to 19th-century England. The performance of officers in the Royal Navy was routinely rated by their peers. At approximately the same time, Robert Owen, a Welsh industrialist, set up a large cotton mill in New Lanark (Scotland), which can still be visited today. He mounted a block of wood on each machine with four sides painted based on a performance rating system: white was best, then yellow, then blue, then the worst, which was black. At the end of each workday, the marks were recorded, and each worker was evaluated by turning the block to the appropriate side, which would face the aisle. Owen would walk the mill floor daily to see the block color on each machine. It is safe the say that performance management is one of the oldest topics in talent management in the history of humankind.

But the nature of work and organizations today is quite different from those in China in the 3rd century and England and Scotland in the 19th century. Due to technological advancements, globalization, and demographic changes, we are now witnessing nothing less than a new industrial revolution. Technological changes have occurred on an ongoing basis in the past two centuries. But the Internet and cloud computing have fundamentally changed the way people work.[71] These advancements give everyone in the organization, at any level and in every functional area, amazing access to information—instantaneously from anywhere. Vast amounts of data, often referred to as "Big Data," are collected on an ongoing basis: what employees are doing, what they are producing, with whom they are interacting, where they are doing, and what they are doing. What does this mean for performance management? The old days of paper-and-pencil performance evaluations are mostly gone. So are the old days of static in-house enterprise technology platforms. Instead, performance management can be implemented using dynamic online systems accessed via Web and mobile apps.[72]

The use of cloud computing for performance management is much more than a mere translation of paper evaluation forms to digital format. Cloud computing technology allows supervisors and peers to provide performance evaluations on an ongoing basis and in real-time. It allows employees to receive feedback also on an ongoing basis and in real-time. Related to the strategic and informational purposes of performance management, it allows organizations to update goals and priorities and communicate them real time to all organizational members, thereby allowing them to also update their team and individual goals and priorities. So the cascading of goals, which we will discuss in Chapter 2, can be implemented successfully across thousands of employees in just a few weeks. Also, cloud computing allows for a clearer understanding of the role of managers in the performance management process. For example, how often are they communicating with direct reports about their performance? How often do "check-ins" take place? Companies such as Zalando, an e-retailer delivering merchandise to about 15 European countries, are already implementing these advancements. Specifically, it put in place an online app that crowdsources performance feedback from meetings, problem-solving sessions, completed projects, launches, and campaigns.[73] Zalando employees can request feedback from their supervisors, peers, and internal customers that lets people provide both positive and more critical comments about each other in a playful and engaging way. An important innovation is that the system then weights responses by how much exposure the rater has to the person being rated, or the ratee. Every time an employee requests feedback, the online app prompts a list of questions that can be answered by moving a slider on the touchscreen of a smart phone or tablet. This is a good example of "constant feedback" (Chapter 9 addresses issues about feedback in more detail). Clearly, this is very different from a traditional annual performance appraisal, which is currently the target of sharp criticism.

The availability of Big Data is also changing performance management in important ways. Specifically, about 80% of organizations use some type of electronic performance monitoring (EPM).[74] In its early days, EPM included surveillance camera systems and computer and phone monitoring systems. But today, EPM includes wearable technologies and smartphones, including Fitbits and mobile GPS tracking applications. Indeed, in the contemporary workplace, every e-mail, instant message, phone call, and mouse-click leaves a digital footprint, all of which can be used as part of a performance management system. But we should not be enamored by the presence of Big Data and, instead, should think about "Smart Data." Beginning with Chapter 4, we will discuss how to define, measure, and gather data that are useful and accurate.

Technological advancements and the Internet have also served as catalysts for globalization. Consider the example of a firm that is based in the United States, does its software programming in Sri Lanka, its engineering in Germany, its manufacturing in China, and has a call center in Brazil. All of this is possible due to improved Web-based communications and flow of information. And full-time, part-time, and contract employees and consultants all work together across time zones on a daily basis without having ever met in person—although they may have regular interactions using Skype. Performance management is a global phenomenon and organizations all over the world are implementing various types of performance management systems. But, as discussed earlier, context matters. The availability of online tools allows for the customization of performance management systems such that every step of the performance management system, as discussed in the next chapter, can be customized and tailored to local contexts. For example, consider the case of providing feedback. People from more individualistic cultures such as the United States expect to receive feedback, and many performance management systems include training for supervisors on how to provide one-on-one feedback in the most effective way.[75] However, in collectivistic cultures such as China and Guatemala, open discussions about an individual's performance clash with cultural norms about harmony and the direct report may perceive negative feedback as an embarrassing loss of face. This is why successful performance management systems need to consider local norms—including societal and organizational cultural issues. Chapter 7 addresses several issues about how to implement successful performance management systems.

Finally, another important change relates to demographic trends. In the United States and many other Western countries, baby boomers (i.e., born approximately 1946–1964) are retiring in large numbers, members of Generation X (i.e., born approximately 1965–1976), and Generation Y or Millennials (i.e., born approximately 1977–1995) are now entering the workforce in large number. Gen X and Gen Y employees are "digital natives." Also, they are used to immediate feedback—just like when receiving a grade immediately after completing a Web-based exam in high school and college. A performance management system must consider generational differences to be successful. For example, it is important to include "check-in" mechanisms to give managers and direct reports the opportunity to discuss performance issues on an ongoing and real-time basis. These issues will be addressed in Chapter 9 and elsewhere.

In closing, to be successful and produce the benefits for employees, managers, the HR function, and organizations listed in Table 1.2, performance management must evolve from a dreaded and painful once-a-year "soul-crushing" exercise to an agile and dynamic performance enabler. But, as the saying goes, the devil is in the details. The remainder of the book will delve deep into strategic and operational steps to design and implement state-of-the-science performance management systems.

SUMMARY POINTS

- 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.
- Although many organizations have systems labeled "performance management," they usually are only performance *appraisal* systems. Performance appraisal emphasizes the assessment of an employee's strengths and weaknesses and does not include strategic business considerations. Also, performance appraisal systems usually do not include extensive and ongoing feedback that an employee can use to improve her performance in the future. Finally, performance appraisal is usually a once-a-year event that is driven by the HR department, whereas performance management is a year-round way of managing business that is driven by managers.
- Performance management systems serve multiple purposes. First, they serve a strategic purpose because they help link employee and team

activities with the organization's mission and goals, they identify results and behaviors needed to carry out the strategy, and they maximize the extent to which employees exhibit the desired behaviors and produce the desired results. Second, they serve an administrative purpose in that they produce information used by the reward system and other HR decision-making (e.g., promotions, termination, disciplinary actions). Third, they serve an informational purpose because they enable employees to learn about their performance in relation to the organization's expectations. Fourth, they serve a developmental purpose in that performance feedback allows individuals to learn about their strengths and weaknesses, to identify training needs, and to make better decisions regarding job assignments. Fifth, performance management systems serve an organizational maintenance purpose because they provide useful information for workforce planning and for evaluating the effectiveness of other HR systems (e.g., comparing performance before and after an expensive training program to determine whether training made a difference). Finally, performance management systems also serve a documentation purpose; for example, they support HR decisions and help meet legal requirements.

- Implementing a well-designed performance management system has many advantages. From the perspective of employees, a good system enhances self-insight and development, increases self-esteem and motivation, helps improve performance, clarifies job tasks and duties, and clarifies the definitions of job and criteria. From the perspective of managers, good systems allow them to gain insight into employees' activities and goals, allow for more fair and appropriate administrative actions, allow them to communicate organizational goals more clearly, let them differentiate good and poor performers, help drive organizational change, encourage voice behavior, and improve employee engagement. Finally, from the perspective of the HR function and the organization, a good system provides protection from litigation and can also help minimize employee misconduct, which can have so many negative consequences for the organization.
- Poorly designed and implemented performance management systems can have disastrous consequences for all involved. For example, star employees may quit, those who stay may be less motivated, and relationships (e.g., supervisor–direct report) can suffer irreparable damage. Also, poorly designed systems can be biased, resulting in costly lawsuits and wasted time and resources. In the end, low-quality or poorly implemented systems can be a source of enormous frustration and cynicism for all involved. Many of the negative consequences associated with poor performance management systems are related to dysfunctional performance ratings. But performance ratings are the canary in the coal mine rather than the problem per se. In other words, bad ratings serve as signals that the performance management system is broken.
- Ideal performance management systems are rare. Such ideal systems are
  - congruent with strategy (i.e., there is a clear link among individual, unit, and organizational goals)
  - congruent with context (i.e., the system is consistent with norms based on the culture of the organization and the region and country in which the organization is located)
  - thorough (i.e., all employees are evaluated, they include all relevant performance dimensions)
  - practical (i.e., they do not require excessive time and resources)
  - meaningful (i.e., they have important consequences)
  - specific (i.e., they provide a concrete employee improvement agenda)
  - able to identify effective and ineffective performance (i.e., they help distinguish employees at different performance levels)
  - reliable (i.e., the measurement of performance is consistent)
  - valid (i.e., the measures of performance are not contaminated or deficient)
  - acceptable and fair (i.e., people participating in the system believe the processes and outcomes are just)
  - inclusive (i.e., they include input from multiple sources on an ongoing basis)
  - open (i.e., they are transparent and there are no secrets)

- correctable (i.e., they include mechanisms so that errors can be corrected)
- standardized (i.e., performance is evaluated consistently across people and time)
- ethical (i.e., they comply with ethical standards)

Many trade-offs take place in the real-world implementation of performance management systems; however, the closer the system is to the ideal characteristics, the greater the return will be for the employees, managers, the HR function, and the organization as a whole.

- A performance management system is the key factor used in determining whether an organization can manage its human resources and talent effectively and has important linkages with other HR systems. For example, performance management provides information on who should be trained and in what areas, which employees should be rewarded, and what type of skills are lacking at the organization or unit level. Therefore, performance management also provides information on the type of employees that should be hired. When implemented well, performance management systems provide critical information that allows organizations to make sound decisions regarding their people resources.
- Performance management is adapting to the current nature of work and organizations involving technological and demographic changes and globalization. First, the Internet and cloud computing have fundamentally changed the way people work. Accordingly, performance management can be implemented using dynamic online systems accessed via Web and mobile apps that give everyone in the organization, at any level and in every functional area, amazing access to information—instantaneously from anywhere and at any time. Second, performance management is a global phenomenon and organizations are implementing various types of performance management systems worldwide. Thus, the availability of online tools allows for the customization of performance management systems and every step of the performance management system, as discussed in subsequent chapters, can be customized and tailored to local and cultural contexts. Third, Millennials are now entering the workforce in large numbers and they are "digital natives." To maximize its contributions, a successful performance management system must consider generational differences.

As should be evident by now, implementing an ideal performance management system requires a substantial amount of work, expertise, and effort. So, in a way, performance management *is* rocket science. The process of implementing a performance management system does not start when the system is put into place. The process starts much earlier because unless specific conditions are present before the system is implemented, the system will not achieve its multiple purposes. Chapter 2 provides a description of the entire performance management process.

EXERCISE 1-1

Ideal Versus Actual Performance Management System

The table here summarizes the key characteristics of an ideal performance management system as discussed in this chapter. Think about a performance management system you know. This could be the one implemented at your current (or most recent) job. If you don't have information about such a system, talk to a friend or acquaintance who is currently working, and gather information about the system used in his or her organization. Use the Y/N column in the table to indicate whether each of the features is present (Y: yes) or not (N: no) in the system you are considering. In some cases, some elements may be present to a matter of degree and may require that you include some additional information in the Comments column.

Next, prepare a brief report addressing the following issues:

1. How many of the 15 characteristics of an ideal system are present in the system you are evaluating?
2. Identify two characteristics that are not present at all, or barely present in your system. Discuss the implications that the lack of these characteristics has on the effectiveness of the system.
3. Identify one characteristic that is clearly present in your system. Discuss the implications of the presence of this characteristic on the effectiveness of the system.
4. Identify the characteristic in your system that is furthest from the ideal. What can be done to produce a better alignment between your system and the ideal? Who should be responsible for doing what so that your system becomes "ideal" regarding this characteristic?

Characteristics	Y/N	Definition	Comments
Strategic congruence		Individual goals are aligned with unit and organizational goals.	
Context congruence		The system is congruent with norms based on the organization's culture.	
		The system is congruent with norms based on the culture of the region and country where the organization is located.	
Thoroughness		All employees are evaluated.	
		All major job responsibilities are evaluated.	
		Evaluations include performance spanning the entire review period.	
		Feedback is provided on both positive and negative performance.	
Practicality		It is readily available for use.	
		It is easy to use.	
		It is not too expensive or time consuming.	
		It is acceptable to those who use it for decisions.	
		Benefits of the system outweigh the costs.	
Meaningfulness		Standards and evaluations for each job function are important and relevant.	
		Only the functions that are under the control of the employee are measured.	
		Evaluations take place at regular intervals and at appropriate moments.	
		System provides for continuing skill development of evaluators.	
		Results are used for important administrative decisions.	

Characteristics	Y/N	Definition	Comments
Specificity		Detailed guidance is provided to employees about what is expected of them and how they can meet these expectations.	
Identification of effective and ineffective performance		The system distinguishes between effective and ineffective behaviors and results, thereby also identifying employees displaying various levels of performance effectiveness.	
Reliability		Measures of performance are consistent. Measures of performance are free of error.	
Validity		Measures include all critical performance facets. Measures do not leave out any important performance facets. Measures do not include factors outside employee control or unrelated to performance.	
Acceptability and fairness		Employees perceive the performance evaluation and rewards received relative to the work performed as fair (distributive justice). Employees perceive the procedures used to determine the ratings and subsequent rewards as fair (procedural justice). Employees perceive the way they are treated in the course of designing and implementing the system as fair (interpersonal justice). Employees perceive the information and explanations they receive as part of the performance management system as fair (informational justice). Set clear rules that are applied consistently by all supervisors.	
Inclusiveness		Employee input about their performance is gathered from the employees before the appraisal meeting. Employees participate in the process of creating the system by providing input on what behaviors and results will be measured and how performance should be measured. Multiple sources of information (e.g., peers, supervisors, direct reports) are used to evaluate performance	
Openness		Performance is evaluated frequently, and feedback is provided on an ongoing basis. Appraisal meeting is a two-way communication process and not one-way communication delivered from the supervisor to the employee.	

(*Continued*)

Characteristics	Y/N	Definition	Comments
		Standards are clear and communicated on an ongoing basis. Communications are factual, open, and honest.	
Correctability		There is an appeals process, through which employees can challenge unjust or incorrect decisions.	
Standardization		Performance is evaluated consistently across people and time. Ongoing training of the individuals in charge of appraisals occurs to increase consistency.	
Ethicality		Supervisors suppress their personal self-interest in providing evaluations. Supervisors evaluate performance dimensions only for which they have sufficient information. Employee privacy is respected.	

EXERCISE 1-2

Distinguishing Performance Management Systems from Performance Appraisal Systems

What are the differences between a performance appraisal system and a performance management system? How are the two systems related to each other? After answering these questions, consider the following 11 criticisms. Which of the following criticisms pertain to performance appraisal systems but not to performance management systems? Which criticisms pertain to both performance appraisal and performance management systems? Use *X*s on the table below to denote answers. Then, provide an explanation for categorizing the 11 criticisms in the way you did.

Criticism 1: "[There can be] inconsistency between comments and scores on an employee's evaluation."

Criticism 2: "The annual performance review is a bad management tool. To start with, it is not timely. If your direct report is deficient in some ways, you wait 11 months to say something about it. How does that help next week's performance?"

Criticism 3: "Never make the evaluation a hit-and-run. It should take the form of a dialogue between the supervisor and direct report, not an isolated event but rather a part of performance/career management more generally."

Criticism 4: "A number of years ago, the U.S. Equal Employment Opportunity Commission (EEOC) created a 'Like Me' task force. Its general conclusion—there was a human tendency to favor employees who are like the managers making the employment assessment."

Criticism 5: "Few managers jump with glee at appraisal time. When they triage workplace demands, many times appraisals end up at the bottom. As a result, late appraisals are often the norm and not the exception."

Criticism 6: "Because performance is ultimately measured on a nonstop, continuous basis, managers may become overwhelmed with cognitive load, paperwork, and generally more work to do."

Criticism 7: "What's left is the more important strategic role of raising the reputational and intellectual capital of the company—but HR is, it turns out, uniquely unsuited for that."

Criticism 8: "Goal-setting, when done wrong, gives the employee the wrong goals—those, for instance, which are not aligned with the organization's strategic orientation."

Criticism 9: "Often an employee with substandard performance is evaluated as meeting expectations or even better, and the average employee receives an above-average evaluation."

Criticism 10: "[The process does not involve helping or making employees] set goals for the future."

Criticism 11: "Coaching can be tricky. When done wrong, it can be devastating. For example, a coach's feedback can have detrimental effects if it focuses on the employee as a whole as opposed to specific work behaviors at work."

Criticisms	Pertains to performance appraisal systems only	Pertains to performance management systems only	Pertains to both performance appraisal and management systems
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			

Source: Some of these criticisms were derived from the following sources: (a) Aguinis, H., Joo, H., & Gottfredson, R. K. (2011). Why we hate performance management—and why we should love it. *Business Horizons, 54*(6), 503–507. https://doi.org/10.1016/j.bushor.2011.06.001; (b) Adler, S., Campion, M., Colquitt, A., Grubb, A., Murphy, K., Ollander-Krane, R., & Pulakos, E. (2016). Getting rid of performance ratings: Genius or folly? A debate. *Industrial and Organizational Psychology, 9*(2), 219–252. https://doi.org/10.1017/iop.2015.106; (c) Ryan, Liz. (2009, June 30). CEOs should skip performance reviews in 2009. *Bloomberg Businessweek*. http://www.businessweek.com/managing/content/jun2009/ca20090630_736385.htm; (d) Segal, Jonathan, A. (2011, January 14). The dirty dozen performance appraisal errors. *Bloomberg Businessweek.* http://www.businessweek.com/managing/content/jan2011/ca20110114_156455.htm; and (d) Hammonds, Keith H. (2005, August 1). Why we hate HR. *Fast Company*. http://www.fastcompany.com/magazine/97/open_hr.html? page=0%2C0

CASE STUDY 1-1

Performance Management at Network Solutions, Inc.

Network Solutions, Inc.,* is a worldwide leader in hardware, software, and services essential to computer networking. Until recently, Network Solutions, Inc., used more than 50 different systems to measure performance within the company, many employees did not receive a review, fewer than 5% of all employees received the lowest category of rating, and there was no recognition program in place to reward high achievers. Overall, it was recognized that performance problems were not being addressed, and tough pressure from competitors was increasing the costs of managing human performance ineffectively. In addition, quality initiatives were driving change in several areas of the business, and Network Solutions decided that these initiatives should also apply to "people quality." Finally, Network Solutions wanted to improve its ability to meet its organizational goals and realized that one way of doing this would be to ensure that they were linked to each employee's goals.

Given this situation, Network Solutions' CEO announced that he wanted to implement a forced distribution performance management system in which a set percentage of employees were classified in each of several categories (e.g., a rating of 1 to the top 20% of performers; a rating of 2 to the middle 70% of performers; and a rating of 3 to the bottom 10% of performers). A global cross-divisional HR team was put in place to design and implement the new system. The first task for the design team was to build a business case of the new system by showing that if the organizational strategy was carried down to team contributions and team contributions were translated into individual goals, then business goals would be met. Initially, the program was rolled out as a year-round people management system that would raise the bar on performance management at Network Solutions by aligning individual performance objectives with organizational goals by focusing on the development of all employees. The desired outcomes of the new system included raising the performance level of all employees, identifying and retaining top talent, and identifying low performers and improving their performance. Network Solutions also wanted the performance expectations for all employees to be clear.

Before implementing the program, the design team received the support of senior leadership by communicating that the performance management system was the future of Network Solutions and by encouraging all senior leaders to ensure that those reporting directly to them understood the process and accepted it. In addition, they encouraged senior leaders to use the system with all their direct reports and to demand and utilize output from the new system. Next, the design team encouraged the senior leaders to stop the development and use of any other performance management system and explained the need for standardization of performance management across all divisions. Finally, the team asked senior leaders to promote the new program by training employees on talent management and by assessing any needs in their divisions that would not be addressed by the new system. The Network Solutions global performance management cycle consisted of the following process:

1. Goal cascading and team building
2. Performance planning
3. Development planning
4. Ongoing discussions and updates between managers and employees
5. Annual performance summary

Training resources were made available on Network Solutions' intranet for managers and individual contributors, which included access to all necessary forms. In addition to the training available on the intranet, one- to two-hour conference calls took place before each phase of the program was begun.

Today, part of the training associated with the performance management system revolves around the idea that the development planning phase of the system is the joint year-round responsibility of managers and employees. Managers are responsible for scheduling

*This case study is based, in part, on actual information. Network Solutions, Inc., is a pseudonym that is being used to protect the identity of the actual company in question.

meetings, guiding employees on preparing for meetings, and finalizing all development plans. Individual contributors are responsible for documenting the developmental plans. Both managers and employees are responsible for preparing for the meeting, filling out the development planning preparation forms, and attending the meeting.

With forced distribution systems, there is a set number of employees who must fall into set rating classifications. As noted, in the Network Solutions system, employees are given a rating of 1, 2, or 3. Individual ratings are determined by the execution of annual objectives and job requirements as well as by a comparison rating of others at a similar level at Network Solutions. Employees receiving a 3, the lowest rating, have a specified amount of time to improve their performance. If their performance does improve, then they are released from the plan, but they are not eligible for stock options or salary increases. If performance does not improve, they can take a severance package and leave the company or they can start on a performance improvement plan, which has more rigorous expectations and timelines than the original action plan. If performance does not improve after the second period, they are terminated without a severance package. Individuals with a rating of 2 receive average to high salary increases, stock options, and bonuses. Individuals receiving the highest rating of 1 receive the highest salary increases, stock options, and bonuses. These individuals are also treated as "high potential" employees and given extra development opportunities by their managers. The company also makes significant efforts to retain all individuals who receive a rating of 1.

Looking to the future, Network Solutions plans to continue reinforcing the needed cultural change to support forced distribution ratings. HR Centers of Expertise of Network Solutions continue to educate employees about the system to ensure that they understand that Network Solutions still rewards good performance; they are just measuring it in a different way than in the past. There is also a plan to monitor for and correct any unproductive practices and implement correcting policies and practices. To do this, Network Solutions plans on continued checks with all stakeholders to ensure that the performance management system is serving its intended purpose.

Consider Network Solutions' performance management system in light of what we discussed as an ideal system. Then answer the following questions:

1. Overall, what is the overlap between Network Solutions' system and an ideal system?
2. What are the features of the system implemented at Network Solutions that correspond to the features described in the chapter as ideal characteristics? Which of the ideal characteristics are missing? For which of the ideal characteristics do we need additional information to evaluate whether they are part of the system at Network Solutions?
3. Based on the description of the system at Network Solutions, what do you anticipate will be some advantages and positive outcomes resulting from the implementation of the system?
4. Based on the description of the system at Network Solutions, what do you anticipate will be some disadvantages and negative outcomes resulting from the implementation of the system?

CASE STUDY 1-2

Performance management at CRB, Inc.

A small car restoration business (CRB, Inc.) is interviewing you for a position as its human resources manager on a part-time basis, working 20 hours per week, while you complete your degree. You would be the first HR manager CRB has ever been able to afford to hire, and the husband and wife owners (Al and Mary Brown) have been operating the business for 10 years. In addition to you, they recently hired a part-time janitor. This brought the paid staff to six full-time employees: a foreman who is responsible for scheduling and overseeing the work, two auto body repair workers, a person who disassembles and reassembles cars, a painter, and a detail person who assists the painter with getting the car ready to paint and sanding and waxing it afterward. Al Brown handles sales and estimating prices, runs errands, chases down parts, and envisions the future. Mary has been doing the bookkeeping and general paperwork. The owners and employees are very proud of CRB's reputation for doing high quality work in the restoration of old cars made as far back as the 1930s.

CRB pays its employees based on "flagged hours," which are the number of paid hours that were estimated to complete the work. (For example, the estimate may say that it will take three hours to straighten a fender and prepare it for painting. When the auto body repair worker has completed straightening the fender, he would "flag" completion of three hours, whether it took him two hours or six hours to actually complete the work. It is to his benefit to be very fast and very good at what he does.) CRB pays the workers 40% of what it charges the customer for the flagged hours; the other funds are used to pay the employer's share of the taxes and overhead, with a small margin for profit. The foreman, who does some "flagged hours" auto body repair himself, is also paid a 5% commission on all the labor hours of the other employees, after the car is accepted as complete by the customer and the customer pays for the completed work.

Employees are given feedback by Al, the foreman, and customers on an infrequent basis. Right now, everything is going well, and the employees are working as a team. In the past, the situation was less certain, and some employees had to be fired for poor work. When an employee filed for government-paid unemployment compensation and claimed that he was out of work through no fault of his own, CRB challenged the filing and usually was able to prove that Al had given a memo to the employee requesting improvements in quality or quantity of work. There has never been a formal planning or appraisal process at CRB.

Mary Brown has read an article about performance management and is wondering whether CRB should implement such a system. Please answer her questions based on your understanding of this small business.

1. Critically assess whether a performance management system would work for such a small business.
2. Discuss benefits that such a system would provide for us as owners and for our employees.
3. Explain any dangers our company faces if we don't have a performance management system. What could be a problem if we go with a poorly implemented system?
4. What ten characteristics, at a minimum, should we include in a performance management system? Explain your answer with one to three sentences for each characteristic you recommend.
5. Explain how we could tie our current reward system to a performance management system.