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FROM MEASUREMENT TO OWNERSHIP: THE EVOLUTION AND ORGANIZATIONAL IMPLICATIONS OF MODERN PERFORMANCE MANAGEMENT

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"*Great vision without great people is irrelevant*." - Jim Collins, *Good to Great*

At the core of performance management and human resources more generally is the idea that people make the difference in organizations. Research has shown time and time again that effective deployment of human capital is a key differentiator in business (Pfeffer, 1994; Becker & Gerhart, 1996; Wright, Gardner, & Moynihan, 2003). People, and more specifically their distinct knowledge and skills, function as the most reliable source of competitive advantage for companies in today's economy (Bassi & McMurrer, 2007). Realizing the need for continual development of the workforce, American companies spent an estimated total of $164.2 billion, or $1,196 per employee, on workforce training and development in 2012 (ATD, 2013). Effective performance management has the ability to significantly enhance such development efforts; employees could increase their productivity by as much as 26% under effective performance management systems (Aguinis, 2009). As companies strive to do more with less, properly designed and executed performance management functions as an essential mechanism for increasing employee productivity and continually improving business results.

The modern work world is moving toward more flexible, lean operating models. Research shows that Gen X and Y workers are more attuned to this business culture with their emphasis on results in contrast to the process orientation of the more traditional Baby Boomer generation (Tolbize, 2008). Younger workers value flexibility concerning the logistics of completing work in favor of emphasizing the value of their outputs. Placing emphasis on results versus process alters the way in which performance must be defined, measured, assessed, and communicated.

In the 21st century business world, performance management systems championing annual reviews are being left behind. Performance management has evolved from a cost-containment process to a holistic, 360-degree data analytics tool beyond the confines of forced rankings, Likert scales, balanced scorecards, and the like (WorldatWork, 2007). Moving forward, the pressing need is for more proactive and participative performance management that not only requires greater ownership of employees for their personal development and organizational contributions, but also provides them with the means to do so.

From Measurement to Ownership: An Evolution

Performance management as a systemic approach stands in stark contrast to its more discontinuous predecessor, performance measurement. Performance management is generally defined as a continual process of identifying, measuring, and developing performance in

organizations by linking employees' performance to their organizations' overall missions and objectives (Aguinis, 2009). When correctly implemented, the process communicates to employees what their organizations prioritize, fosters individual accountability for results, and improves performance at both individual and organizational levels (Bae, 2006).

Over time, the objective of performance management has shifted. The concept developed first as a means of documentation to minimize the potentially negative repercussions personnel decisions (George, 2008). With the evolution of HR as a key business driver, the focus of performance management shifted to employee development and growth to underpin sustainable business outcomes. The need for workforce development spurred a shift toward employee motivation, retention, and advancement as employers began cultivating necessary competencies internally rather than seeking such talents externally. As these strategies unfolded, evaluation methods to measure their effectiveness and systems to support their expansion quickly followed. By the 1960s, performance measurement processes were in place in more than 60% of American businesses, modeled after methods used by the Army to develop officers (Huprich, 2008).

As performance management evolved, evaluation continued to play an important role, although increasing emphasis came to be placed on two additional aspects: clarifying performance expectations and providing performance feedback (Bae, 2006). Clarifying expectations refers to the determination of desired traits, behaviors, and/or results signifying success in a role (Bae, 2006). Performance evaluation, the most frequently referenced aspect of performance management, is when supervisors gather information on employee performance to compare to expectations. Evaluation is a key aspect of gauging past performance and estimating employees' potential to perform in the future. However, little is accomplished in the way of employee development and performance improvement if valuable information is lost in translation and never put into practice by the employees themselves. Performance feedback, then, is the third, essential element of the process. This is also the most challenging phase of the process since managers must strike a balance between giving clear, specific, descriptive feedback and maintaining a supportive atmosphere (Bae, 2006). However, the ultimate utility of performance management depends on the ability of employees to act upon feedback that they receive, making these difficult discussions integral to the success of performance management.

When considered together, these three elements of performance management (defining performance expectations, evaluating results, and providing feedback) interact to attune employee behaviors to the needs of the organization and to progressively enhance outcomes. Because of the cyclical nature of this process, it is critical that organizations foster supportive relationships with not only high performers, but also with the average and below average performers to be retained and developed. Otherwise, it is likely that employees who could with effort improve their contributions will become increasingly demotivated, resulting in negative impacts on work outcomes.

Challenges to Performance Management

If employed correctly, performance management yields positive effects for both individuals and organizations. However, challenges to the development of such a system should not be ignored. These include finding the right focus, establishing a clear connection between employee

contributions and organizational outcomes, matching a system to the needs of a diverse, dynamic workforce, and overcoming aversion to candid feedback. A delineation of these challenges brings into focus factors to consider when designing and implementing a modern performance management system.

Clarifying the role of performance management in contemporary business environments is one challenge. Much of the business world still treats performance management as an administrative process rather than one critical to business outcomes (WorldatWork, 2010). As a consequence, systems struggle to gain employee support. In a study of more than 550 organizations, for example, only 30% of survey respondents reported trusting their organizations' performance management systems and seven out of ten employees responded that their companies' systems were of no help with respect to their development or performance improvement efforts (WorldatWork, 2007; Aguinis, Joo, & Gottfredson, 2011). Thus, when designing performance management systems there is a clear need for careful consideration not only of the system's objectives but also of how to gain critical support and buy-in.

The ambiguous relationship between individual contributions and organizational goals is a second challenge to performance management. In a 2010 study, WorldatWork found that as business performance fluctuated, individual performance ratings tended to remain stable. This finding supports an earlier study that found a much closer relationship between individual goals and organizational objectives at the senior management level than at the non-management level (WorldatWork, 2007). There is an evident need to develop approaches that are adaptable to changing conditions and more closely associate individual and organizational outcomes further down the hierarchy.

Another challenge to performance management lies in generational differences in orientations toward feedback. More senior employees (e.g., Baby Boomers) have been shown to be particularly sensitive about receiving feedback while younger employees tend to seek out more direct, candid feedback (Tolbize, 2008). This, combined with differences in work orientations (emphasis on process versus results), creates the need for systems that ensure adequate levels of standardization while tailoring feedback and development opportunities to specific audiences.

A final, enduring issue is a general, widespread discomfort with the concept of performance management. Managers dislike distinguishing among employees, especially when such distinctions necessitate difficult discussions about mediocre or poor performance (WorldatWork, 2010). The traditional annual evaluation process is no longer effective, and employees in particular are averse to the subjective nature of evaluations in the absence of objective data on which to base feedback (Bae, 2006). Managers and employees alike are concerned that existing systems too often fail to drive desired results.

Considering these difficulties, what are key inclusions for a successful model?

Reengineering Performance Management for Modern Business

Even in progressive organizations, performance management systems have tended to be top-down efforts focused on the highest performers (WorldatWork, 2007). The viability of such strategies is

questionable in a globally minded and relatively unpredictable work environment. Now more than ever there is a need for organizational processes that allow and encourage employees to take direct ownership of their development and their organizational contributions. This gives rise to two important sub-goals of performance management - one intrinsic and the other extrinsic.

Encouraging employee embeddedness

Research has shown that as employees become more deeply embedded in their organizations, they are more likely both to stay with those organizations and, more importantly, to perform as desired (Lee, Mitchell, Sablynski, Burton, & Holtom, 2004). Employee embeddedness is derived mainly from understanding of the relationship between their day-to-day contributions and organizational results as well as the existence of meaningful personal relationships among colleagues, managers, and direct reports (George, 2008). When employees perceive their contributions as significant and are relationally connected to their coworkers, they become more personally concerned with the wellbeing of their organizations and are more intrinsically motivated to contribute to collective success. Embeddedness therefore plays a motivational role in encouraging workers to perform highly.

Fair Returns for Contributions

Ultimately, employees expect fair returns for the contributions they make to their organizations, commonly referred to as pay-for-performance. There has been significant use of this compensation strategy with the shift toward results-orientation in recent years (Perry, Engbers, & Jun, 2009). One recent study showed that 66% of surveyed HR leaders regarded differential reward distribution as a major goal of their performance management systems (WorldatWork, 2010). However, in practice the majority of employees do not perceive close connection between contributions and earnings (Lagace, 2003). This places two major burdens on modern performance management systems: to establish a clearer connection between performance and pay where appropriate and to assure that this connection fosters organizational success.

Developing a Performance Management Structure for Success

"*It is failure that is easy. Success is always hard*" – Henry Ford

Given traditional challenges to performance management and emerging challenges of a more complex, fast-paced business environment, the initial reaction might be to abandon these systems altogether. However, with upwards of 90% of organizations engaged in performance management processes, such abandonment is unlikely (Lawler, 2012; Cascio, 2006). The only feasible solution, therefore, lies in reform.

As with any human resources structure, performance management must match the organizational context in which it functions. Just like variance among organizations themselves, investments in performance management vary greatly depending on resources, organizational philosophy, management practice, support, and other key organizational attributes. At the enterprise level, performance management must also act in concert with other HR practices to produce synergistic effects on employee and organizational performance (Jiang, Lepak, Han, Hong, Kim, & Winkler,

2012). Because of inter-organizational differences, it is impossible to make one-size-fits-all recommendations. It is possible, however, to propose principles for design and administration of appropriate systems in consideration of 21st century conditions.

The broad goal is to implement a system that encourages employees to take personal responsibility for their own development and performance outcomes, while also providing them with the means to do so. Focus should be on attributes that encourage successful performance, most notably enhancing employee embeddedness in the organization and perceptions of fair pay. While some companies may require creation of new structures and tools, others may benefit most from altering methods already in place. Investment bank Merrill Lynch provides one example of a successful performance management makeover.

Like countless others, Merrill Lynch traditionally relied on annual performance evaluations. The company has since moved to a more interactive process: employees and managers agree on objectives at the onset of the year, discuss progress at mid-year reviews, and incorporate feedback from throughout the year (and from several sources) at end-of-year evaluations (Aguinis, 2009). Managers are now trained extensively on the logistics and goals of the performance management process and have access to additional online resources pertaining to the system. In this way, Merrill Lynch has been able to re-engineer its existing process to incorporate more direct, frequent, and objective elements. The company's managers are now armed with the tools they need to work with their direct reports to set expectations, assess progress, discuss results, allocate rewards that are truly performance-based, and in general play a more collaborative role in enhancing firm performance (Aguinis, 2009).

Modern Performance Management: Principles for Success

It bears repeating that no particular performance management system will work in every business setting, although there are several broadly applicable principles found to be conducive across organizations; five such principles are delineated below. These elements are then captured in Figure 1 to illustrate their interactive and synergistic nature in producing holistic performance management systems that contribute to employee ownership and performance, which profoundly influence business outcomes. Other features identified earlier in the discussion affecting performance-related outcomes are also incorporated in the figure as they relate to the overall system. Relationships between the aspects of modern performance management are indicated by their proximity to one another in this model, and the concentrated influence of all considered factors is illustrated by arrows transcending the levels and converging on employee and organizational outcomes.

Participation

Employee participation in the performance management process is critical to success for two reasons: ownership and relationship building. As discussed earlier, by involving these key stakeholders in the process, organizations encourage identification with the company's mission and goals while simultaneously fostering motivation to perform for more intrinsic reasons. In this way, employees become increasingly aware of and involved in their own development, encouraging them to develop more autonomously. Self-appraisals are one obvious way to enhance

participation since they help dissipate employee discomfort with traditional top-down assessments and encourage more interactive relationships between managers and their subordinates (Bae, 2006). 360-degree performance appraisals and similar multisource approaches encourage employees to play an active role in their own development (as well as that of others), and provide performance information that otherwise would not be accessible. Henry Ford was once quoted saying, "If there is any one secret of success, it lies in the ability to get the other person's point of view and see things from that person's angle as well as from your own" (Anderson, 2013). In the realm of performance management, a participative process allows employees to learn not only from their managers, but also from themselves and those around them.

Validity and Value

If performance management is to drive business outcomes, the data and outcomes from the process must be quantifiable and valid. The first step here is to engage employees in work design and definition. This enables them to take an active role in defining constructs, identifying appropriate metrics, and testing the validity of all goals. Steps must then be taken throughout the process to ensure that validity and consistency are maintained and that results are linked to significant, successful changes in the workforce. Cross-manager calibration is one method of ensuring that consistency and equity are preserved across employees, functions, geographies, and levels of the organization. This is beneficial not only for compliance reasons, but also to offer employees equal opportunities to develop regardless of their reporting structures. For many companies, a combination of quantitative and qualitative data is optimal. Quantitative data provides numerical results illustrating trends; qualitative data provides insight into the meaning behind the numbers by allowing employees to expound on specific aspects. The measures used in any performance management system must also be revisited over time to evaluate relevance and value-add. Since performance management structures must function in businesses with limited resources, quality trumps quantity when it comes to performance indicators (George, 2008).

Training

Because development comes more naturally to some employees and managers than others, managers involved in employee development should be trained on how to successfully manage performance. Successful training covers both company-specific content such as approach to performance management, objectives, logistics, and systems as well as development skills such as coaching, having difficult conversations, and providing proper insight.

Employees benefit from being made aware of what will be expected of them within these new systems; they should also be actively encouraged to take the initiative to stay up to date on to the process. Easy access to online training and development resources is a must. Further, to decrease ambiguity, it is essential that companies keep their employees informed as system changes occur.

Frequency

Successful performance management systems emphasize frequency of contact among various participants. Employees benefit from repeated contact with their managers whether in the form of formal check-ins or informal conversations. The regularity of such contact will depend on the

nature of the work involved. This continual interaction helps the workforce to remain more agile, allows feedback to be more direct, timely, and salient, and encourages managers to play an active role in the development of their direct reports. In this way, work becomes more effective and employees are better able to align their actions with company objectives. While younger workers may be more accustomed to regularly interacting with supervisors and asking questions, employees at every level are able to benefit from the input of others and should be encouraged to utilize such resources (Tolbize, 2008). Adopting a staggered approach to employee goal setting with short-, mid-, and long-term goals also helps employees prioritize tasks and conceptualize their contributions to the organization within various timeframes.

Desirability

Performance management buy-in is more attainable for companies that make the process one that people want to take part in and call their own. Employees find the development experience to be more valuable when they play a key role in its success (Bae, 2006). The most overlooked part of the performance management process is also debatably the most important – the active development of employees. Managers often get so caught up in the evaluation aspect of the process that they lose sight of the ultimate goal: to retain and grow key talent to meet the changing needs of their business. For that reason, companies struggling with performance management should encourage employees to create development plans including specific goals not only for training in their current roles, but also for longer-term career progression.

To be truly desirable to key stakeholders, the system must also be an efficient and effective use of resources. This can be achieved many ways; outsourcing minutiae, creating standard processes for employees and managers to follow, and providing adequate training and communications to dissipate ambiguity are a few examples. However such efficiencies are attained, an important objective of successful systems should be to produce appreciable returns on investments for everyone involved.

The Integral Role of Leaders

Regardless of the technique adopted by a company, effectiveness and quality of any performance management system is driven by its leadership support (WorldatWork, 2007). Leaders who are the biggest champions of performance management are the organization's top HR executive followed by other corporate executives (WorldatWork, 2007). Support of leadership outside of the HR function is key to the perceived fairness and positive implications of any performance management system. However, it is also important that such support is genuine, meaning that leaders lead by example. If leaders verbally promote performance management but fail to provide developmental opportunities to their direct reports, the performance management system may be perceived less favorably (WorldatWork, 2010).

HR's Role

To earn buy-in of participants and support of leadership, the system must be owned by the participants themselves and audited by HR. In this way, HR's role becomes less about controlling the process and more about putting the tools in the hands of those who are directly affected by the

system. For far too long, HR has gathered and analyzed data to be tucked away as proof that the performance management process is simply taking place without regard to its implications and potential positive effects on employee development and business outcomes. At the same time, HR has become increasingly more responsible for the quality of the workforce (George, 2008). This responsibility is inextricably linked to an investment in performance management, and so it is the role of HR to act as guardians of the system. In this role, HR can leave the ultimate outcomes of performance management in the hands of those directly involved and focus on ensuring that processes are meeting the needs of the organization and its employees at a broader level.

Conclusion

Performance management is anything but simple. When considering its implications for the modern workforce, stakes are high. As businesses turn to HR for more workforce-centric sources of competitive advantage, proper evaluation, development, and deployment of human capital is key. In this environment, performance management systems that encourage employees to take responsibility for their development and provide them with the support needed to make this happen are optimal. Employee embeddedness and perceptions of fairness are critical. Both are fostered by processes that encourage (1) employee participation in and control over the design of their work processes and performance metrics, (2) active and ongoing dialogues among all relevant stakeholders, and (3) a steady flow of mutually desirable outcomes. There are many successful paths that organizations can take to achieve the ultimate goal of developing talent to meet the changing needs of the business. Regardless of the approach taken, inclusion of these attributes and the support of leadership underpin success. א

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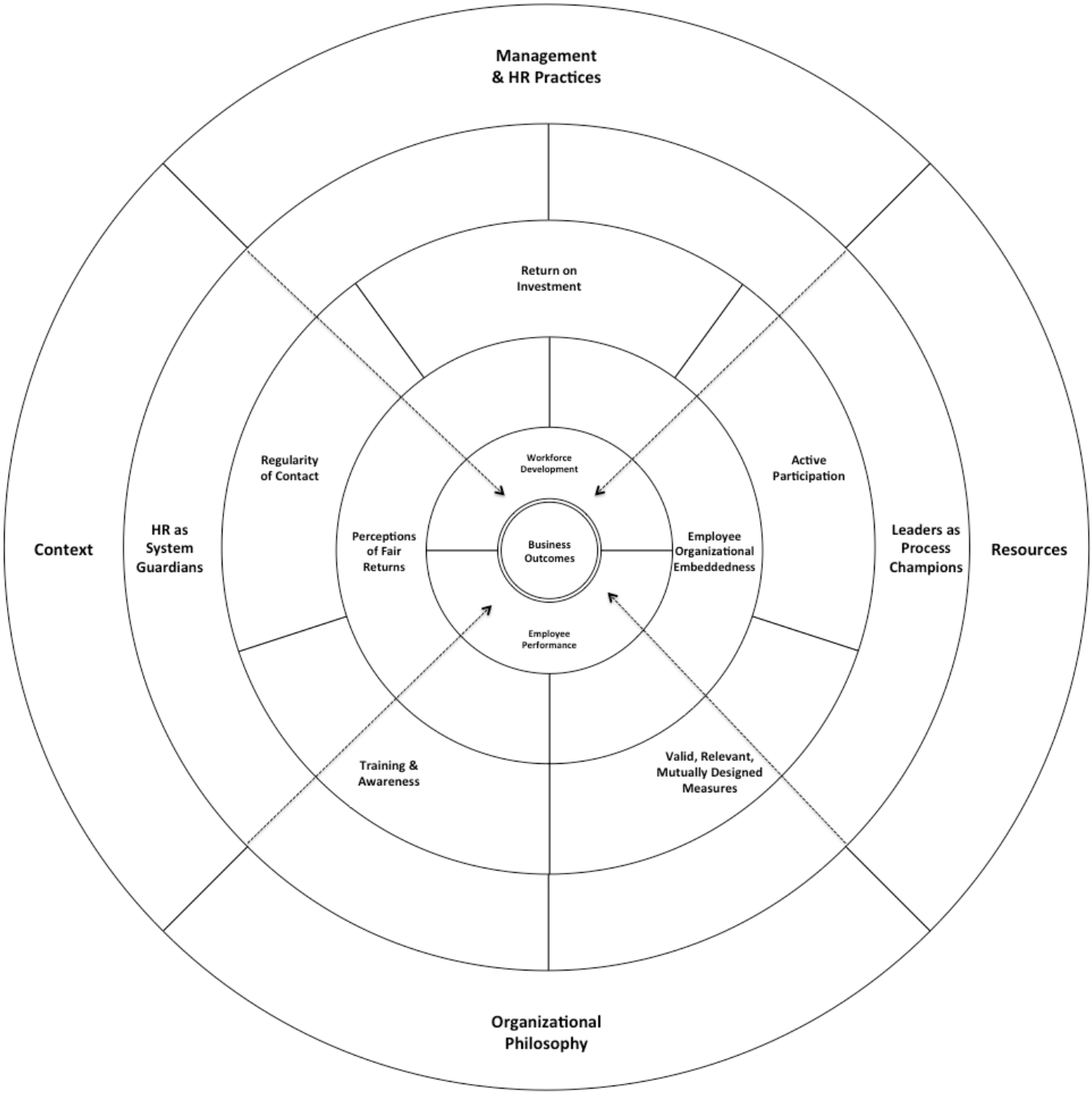
Figure 1. Modern performance management: Interconnected principles and factors as they underpin individual and organizational success



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