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HUMAN PERFORMANCE

Why we hate performance management—And why we should love it

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Abstract Individual performance is a building block of organizational success. Not surprisingly, virtually all organizations have in place some type of performance management system. Yet, managers and employees are equally skeptical that performance management adds value; usually, it is seen as a waste of time and resources. We argue that the potential benefits of performance management are not realized because most systems focus exclusively on narrow and evaluative aspects such as performance appraisal. Herein, we offer a broader view of performance management, including discussion of how it differs from performance appraisal. We highlight specific and important benefits of performance management for employees, managers, and organizations. We also describe research-based conclusions regarding how performance management systems should be designed and implemented to realize these benefits. We hope our article will demonstrate that well-constructed performance management systems should not be hated, but rather embraced.

1. Introduction

As noted by former Siemens CEO Heinrich von Pierer, "whether a company measures its workforce in hundreds or hundreds of thousands, its success relies solely on individual performance" (Bisoux, 2004). This view is held by many; Heinrich von Pierer is certainly not alone in this train of thought. Results of a survey including senior executives from the *Sunday Times* list of best employers in the United Kingdom indicated that performance management is one of the top two most important human resource management functions in their organizations. Management scholars agree (Liu, Combs, Ketchen, & Ireland, 2007; Platts & Sobótka, 2010). Accordingly, virtually all organizations—ranging from universities to governmental and publicly traded firms—implement some type of system to assess the performance of individual workers. In fact, results of a survey of 278 organizations, about two-thirds of which are multinational corporations from 15 different countries, showed that more than 90% implement a formal performance management system (Cascio, 2006). Despite the popularity of performance management systems, dozens of studies indicate the consistent result that firms are not managing employee performance very well. Specifically, only 3 in 10 employees believe that their company's performance review system actually helped them improve their performance (Holland, 2006). There is obviously something very wrong with this picture.

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Our goal here is to offer research-based guidance on how to realize the important potential benefits of a well-designed and implemented performance management system. First, we describe key differences between performance management and performance appraisal. Second, we discuss the many benefits of performance management. Third, we describe the characteristics of an ideal performance management system: the type that all organizations should strive to create. Because we use evidence from academic research to discuss a topic of high salience and importance for organizations, our article helps bridge the much lamented science-practice divide in the field of management (Aguinis & Pierce, 2008; Cascio & Aguinis, 2008).

2. Let's set the record straight: Performance appraisal is NOT performance management

Performance management is "a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization" (Aguinis, 2009b, p. 2). On the other hand, *performance appraisal* is the depiction of the strengths and weaknesses of employees in a noncontinuous manner, typically just once a year. This process is often perceived as a bureaucratic waste of time created by the human resource department. When asked to describe the performance management system in our own organizations, many of us will recall personal stories similar to the following situation (Aguinis, 2009b):

> Sally is a sales manager at a large pharmaceutical company. She is overwhelmed with end-of-the-year tasks, including supervising a group of 10 salespeople. One day during this hectic time period, she gets a phone call from HR saying, "Sally, we have not received performance evaluation forms for your employees. They are due by the end of the fiscal year. Thanks in advance for your cooperation in maintaining our valued performance management system." Sally thinks, "Oh, those performance evaluation forms. . . . A waste of my time!" From Sally's perspective, there is no value in filling out those seemingly meaningless forms. She does not see her subordinates in action because they are usually in the field visiting customers. All that she knows about their performance is based on sales figures, which depend more heavily on the products and geographic territory than on the effort and motivation of each salesperson. Plus, ratings do not affect rewards, which are based more on seniority than merit. Having less than 3 days to turn in her forms, Sally simply gives everyone the maximum possible rating. That way, she believes the employees will be happy and less likely to complain. Sally fills out the forms in less than 20 minutes, to get back to her 'real job.'

Survey results suggest that Sally's story occurs all too frequently in organizations (Aguinis, 2009a). As managers engage in performance appraisals, they rarely reap any benefits from the process, and their time and efforts are simply wasted. Managers may even think that there is something inherently wrong with performance management. As a result, many view performance management and human resource management in general as a bureaucratic requirement to be overcome (Stewart & Woods, 1996). No wonder lots of managers simply "hate HR!" (Hammonds, 2005, p. 40).

But let's set the record straight. Sally's story takes place in an organization which assesses performance once a year; the process is required by the HR function, it is focused entirely on past performance, and there are no clear benefits for the supervisor, employees, or the organization as a whole. In contrast, consider how Merrill Lynch—one of the world's leading financial management and advisory companies—has transitioned from a performance *appraisal* system to a performance *management* system. The new system emphasizes conversation between managers and employees whereby feedback is exchanged and coaching is provided, if needed. Employees and managers jointly set employee objectives each January. Mid-year reviews assess what progress has been made toward the goals and how personal development plans are faring. The end-of-the-year review incorporates feedback from several sources, evaluates progress toward objectives, and identifies areas that need improvement. Managers also receive extensive training on how to set objectives and conduct reviews. Further, there is a website that managers can access, with information regarding all aspects of the performance management system. 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" (Fandray, 2001).

As illustrated by the system implemented at Merrill Lynch, performance management entails and represents much more than performance appraisal. First, measuring performance—the exclusive focus of performance appraisal—is only one

Table 1. Some benefits resulting from a well designed and executed performance management system

For Employees

- Employees experience increased self-esteem.
- Employees better understand the behaviors and results required of their positions.
- Employees better identify ways to maximize their strengths and minimize weaknesses.

For Managers

- Managers develop a workforce with heightened motivation to perform.
- Managers gain greater insight into their subordinates.
- Managers make their employees become more competent.
- Managers enjoy better and timelier differentiation between good and poor performers.
- Managers enjoy clearer communication to employees about employees' performance.

For Organizations

- Organizations make administrative actions that are more appropriate.
- Organizations make organizational goals clearer to managers and employees.
- Organizations enjoy reduced employee misconduct.
- Organizations enjoy better protection from lawsuits.
- Organizations facilitate organizational change.
- Organizations develop increased commitment on the part of employees.
- Organizations enjoy enhanced employee engagement.

component of performance management. Under a performance management system, the supervisor and the employee agree on set goals for the employee to achieve. These goals include both results and behaviors; *results* are the outcomes that an employee produces, while *behaviors* refer to how the outcomes are achieved. Second, performance management takes into account both past and future performance. Personal developmental plans specify courses of action to be taken to improve performance. Achieving the goals stated in the developmental plan allows employees to keep abreast of changes in their field or profession. Such plans highlight an employee's strengths and the areas in which he or she needs development; moreover, they provide a course of action to improve weaknesses and further develop strengths. Third, performance management requires managers to ensure that employees' activities and outputs are congruent with the organization's goals, toward the end of gaining competitive advantage. In other words, performance management frames employee performance within broader unit- and organization-level performance. Fourth, in contrast to performance appraisal, performance management is ongoing. It involves a never-ending process of setting goals and objectives, observing performance, and giving and receiving ongoing coaching and feedback (DeNisi & Kluger, 2000). Fifth, and also in sharp contrast to performance appraisal, performance management is 'owned' by those who participate in the system: raters and ratees. Performance management benefits most those who take part in the system, and is not an HR function exclusively but rather a business unit function.

3. Yes: DO ask what performance management can do for you!

The aforementioned differences between performance appraisal and performance management make the latter much more than just a conduit to distribute rewards. For example, performance management helps top executives achieve strategic business objectives because the system links the organization's goals with individual goals. Also related to this point is that performance management serves as an important communication tool regarding the types of behaviors and results that are valued and rewarded; this, in turn, leads to an understanding of the organization's culture and its values. Further, a performance management system allows organizations to improve workforce and succession planning activities, as it is the primary means through which accurate talent inventories can be assembled.

Table 1 lists 15 benefits of performance management systems for employees, managers, and organizations (Aguinis, 2009b; Plump, 2010; Thomas & Bretz, 1994). We focus on three of these. First, because a performance management system offers feedback and coaching to employees, workers gain a better understanding of their strengths and weaknesses, and are able to identify developmental activities targeted toward both. Second, a performance management system helps managers develop employees who are more competent. This benefit is a result of the ongoing goal-setting and developmental activities (i.e., feedback and coaching). Third, performance management systems help organizations bring about desired organizational change. For example, in the 1980s, IBM sought to create a new

Table 2. Characteristics of an ideal performance management system

- *Strategically congruent*. Individual goals are aligned with unit and organizational goals.
- *Contextually congruent*. The system is congruent with the organization's culture, as well as the broader cultural context of the region or country.
- *Thorough*. All employees are evaluated (including managers), all major job responsibilities are evaluated, the evaluation includes performance spanning the entire review period, and feedback emphasizes both positive and negative performance.
- *Practically feasible*. Benefits resulting from the system outweigh the costs.
- *Meaningful*. The standards and evaluations conducted for each job function are important and relevant, performance assessment emphasizes only those functions that are under the control of the employee, evaluations take place at regular intervals, the system provides for the continuing skill development of evaluators, and results are used for important administrative decisions.
- *Specific*. There is detailed and concrete guidance about what is expected of raters and ratees, and how they can meet these expectations.
- *Identifies effective and ineffective performance*. The system provides information that allows for distinguishing between effective and ineffective behaviors and results, thereby also allowing for the identification of employees displaying various levels of performance effectiveness.
- *Reliable*. Performance scores are consistent and free of error.
- *Valid*. Performance measures include all relevant performance facets and do not include irrelevant ones.
- *Acceptable and fair*. The system is acceptable, and the processes and outcomes are perceived as fair by all participants.
- *Inclusive*. All participants are given a voice in the process of designing and implementing the system.
- *Open*. A good system has no secrets. Performance is evaluated frequently and performance feedback is provided on an ongoing basis, the appraisal meeting consists of a two-way communication process during which information is exchanged, not delivered from the supervisor to the employee without his or her input, and performance standards are clear and communicated on an ongoing basis.
- *Correctable*. No system is 100% error-free. Thus, establishing an appeals process, through which employees can challenge what may be unjust decisions, is an important aspect of a good performance management system.

organizational culture that emphasized customer service. To facilitate this, the company used performance management to realign individual performance to the new, customer service-oriented goals and objectives of the organization; performance evaluation of staff members took into consideration customer satisfaction ratings (Peters, 1987). Hicks Waldron, former CEO of cosmetics giant Avon, said: "It took me a long while to learn that people do what you pay them to do, not what you ask them to do" (Cascio & Cappelli, 2009). In the case of IBM, performance management was used as an instrument to improve the culture of the organization and help achieve crucial business objectives.

4. Okay - I'm convinced of the benefits of performance management. How should I do this?

As is the case with many other management practices, execution is key (Bossidy & Charan, 2002). So, what can organizations do to maximize the net benefits derivable from performance management systems? To begin, they should strive to create a framework that is as close as possible to the ideal. Next, we describe a few characteristics of an ideal performance management system; a more complete list of these features is included in Table 2, and a more detailed discussion of these and other characteristics is provided by Aguinis (2009a, 2009b).

First, the system should be congruent with the culture of the organization, as well as the culture of the region or country. Regarding congruency with organizational culture, imagine an organization that has a culture where communication is not fluid and hierarchies are rigid. In such an organization, a 360-degree feedback system—whereby individuals receive comments on their performance from subordinates, peers, and superiors—is likely to be resisted, and thus ineffective. Regarding congruency with regional or national culture, for example, note that Japan tends to emphasize the measurement of both behaviors (i.e., how people do the work) and results (i.e., the outcome of people's work), whereas the United States tends to more heavily emphasize results over behaviors. Accordingly, a results-only system in Japan is not likely to be effective. Ultimately, the ideal performance management system must have contextual congruence.

Second, the system should be thorough regarding four dimensions. Specifically, all employees should be evaluated, including managers; all major job responsibilities should be evaluated, including behaviors and results; the evaluation should include performance spanning the entire review period, not just a few weeks or even months before the review; and feedback should be given on positive performance aspects, as well as areas in need of improvement.

Third, the system should be reliable. It must use measures of performance in a way that minimizes error and maximizes consistency. For example, if two supervisors provide ratings of the same employee and performance dimensions, ratings should be similar. To ensure such consistency, the ongoing training of performance raters—usually managers—is a must.

Fourth, another important characteristic of an ideal performance management system is that it should be practically feasible. For example, it is not optimal to ask managers to evaluate employees so often that little additional information is gained, while managers spend significant amounts of time, effort, and energy in producing these evaluations.

5. Conclusion

Measuring and developing individual performance is a key determinant of organizational success and competitive advantage (Ployhart, Weekley, & Baughman, 2006). Despite its importance, performance management is not living up to its promise in most organizations. A major reason for this is that most performance management systems focus almost exclusively on performance appraisal. Herein, we have summarized science-based conclusions regarding the benefits of performance management, as well as the features of a system that will lead to realizing these benefits. We hope our article will prompt implementation of more effective performance management systems and further research on the conditions under which such systems are most effective (Aguinis & Pierce, 2008).

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