PERFORMANCE MANAGEMENT

Fifth Edition

HERMAN AGUINIS

Performance Management

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DEDICATION

To my brother Gerardo, an indefatigable entrepreneur, trouble-shooter, admirable Jack of all trades, and inseparable companion in all of my adventures since I was three years old

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In today's globalized economy, it is relatively easy to gain access to the competition's technology and products. Thanks to the global penetration of the internet, technological and product differentiation is no longer a key competitive advantage in most industries. For example, most banks offer the same types of products (e.g., different types of savings accounts and investment opportunities). If a particular bank decides to offer a new product or service such as an improved mobile phone app to make investment decisions, it will not be long until the competitors offer precisely the same product. As noted by James Kelley, former performance management project leader at Idaho Power, "technology is a facilitator, but not a guarantor, of the effectiveness or efficiency of a company's workforce."[1]

So, what makes some businesses more successful than others? What is today's key competitive advantage? The answer is people. Organizations with engaged and talented employees offer outstanding service to customers to pull ahead of the competition, even if the products offered are similar to those offered by the competitors. This is a key organizational resource that many label "human capital" or "talent" and gives organizations an advantage over the competition.[2] Customers want to get the right answer at the right time, and they want to receive their products and services promptly and accurately. Having the right human capital can make these things happen. Only human capital can produce a sustainable competitive advantage. And performance management systems are the key tools that can be used to transform people's talent and motivation into a strategic business advantage—an advantage that is difficult to imitate unless the right systems and processes are in place. Also, organizations that measure and reward performance fairly and accurately have been able to deal with the COVID-19 pandemic more effectively.[3]

Unfortunately, performance management is not living up to its promise in terms of turning human capital into a source of competitive advantage. For example, consider Mercer's Global Performance Management Survey, which gathered data from more than 1,050 performance management leaders representing 53 countries. These organizations varied in size from about 1,000 to more than 10,000 and represented several types of industries (e.g., for-profit, non-profit, government). A very troubling result was that only 3% reported that their performance management system delivers exceptional value. Also, many aspects of organizations' performance management approach were evaluated as ineffective.[4] So there is a big disconnect between the *potential* that performance management has in terms of turning human capital into an organization's source of competitive advantage and the actual role of performance management in most organizations. As noted in Mercer's report, "establishing an effective employee performance management system is a major challenge for most organizations, making performance management a perennial hot topic ... companies around the world are regularly in search of best practices and new solutions for this core process." And, hence, the need for this book.

I am delighted to offer this fifth edition in partnership with Chicago Business Press. You will find this edition much updated and improved in terms of content, as well as easier to read because of its improved layout and design. This fifth edition includes the

following broad changes. More detailed information on each of these improvements is provided in the section titled "Major Features in This Fifth Edition."

- Each of the chapters includes updated content and material and new sources.
- This edition includes new "Company Spotlights" boxes in every other chapter, featuring leading companies such as Nike, Accenture, Goldman Sachs, Google, Facebook, Netflix, Microsoft, Salesforce, Nokia, and many others.
- This new edition also includes a new case study in every other chapter.
- Expanding upon improvements in the previous edition, this fifth edition describes the key "strategic partner" and "internal consultant" role played by the HR function in the design and implementation of the performance management system.
- There is an emphasis on the changing nature of work and organizations, including globalization, technology and Big Data, teamwork, AI, and demographics (e.g., generational differences), and how these changes affect the design and implementation of performance management systems.
- Similar to its predecessor, this fifth edition emphasizes that knowledge generated regarding performance management is essentially multidisciplinary.

Some Unique Features of This Book

Performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning their performance with the strategic goals of the organization. Performance management is critical to small and large, for-profit and not-for-profit, and domestic and global organizations, and to all industries. In fact, the performance management model and processes described in this book have been used to create systems to manage the performance of students in colleges and universities[5] and employees in small and medium enterprises (SMEs).[6] After all, the performance of an organization depends on the performance of its people, regardless of the organization's size, purpose, and other characteristics. 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." As an example in the not-for-profit sector, Youth Villages, a private child welfare provider operating in 12 states and the District of Columbia has gained national recognition for its evidence-based performance management system. By tracking performance data on children and families both during and after leaving care, Youth Villages is able to better understand its program outcomes and effectiveness in delivering social value to the community. The information collected from the performance management system is also used to manage employee performance, assess the achievement of strategic goals, and help upper management decision-making. The performance management system provides a detailed description of practices to help guide implementation, the metrics used to quantify performance, and how employees are scored on whether they adhere to those metrics.[7]

Unfortunately, however, if they have one, few organizations use their existing performance management systems in effective ways. Performance management is usually vilified as an "HR department requirement." In many organizations, performance management means that managers must comply with their HR department's request and fill out tedious and often useless evaluation forms. These evaluation forms are often completed only because it is required by the "HR cops." Unfortunately, the only tangible consequence of the evaluation process is that managers have to spend time away from their "real" job duties.

In the latest wave of criticisms of performance management, "performance ratings" are now the target. Also, there is quite a bit of popular media and business press hype about the "demise" of performance evaluation, performance measurement, and performance reviews. Currently, many companies, including GE, Microsoft, Google, Yahoo, Adobe, and Accenture, are going through a similar process of transitioning from a performance appraisal (i.e., a dreaded once-a-year evaluation and review) to a performance management system (i.e., ongoing evaluation and feedback). However, contrary to the way this trend is usually described in business publications and the media with such headlines as "Performance Evaluation Is Dead" and "The End of Performance Reviews," the evaluation of performance is not going away. In fact, performance assessment and review are becoming a normal, routine, built-in, and ever-present aspect of work in 21st-century organizations because performance management systems play a critical role and serve important purposes.

So it is not the case that companies are abandoning ratings and performance measurement and evaluation. They are actually implementing performance systems more clearly aligned with best practices, as described in this text, that involve a *constant and ongoing evaluation of performance*! The companies mentioned above and many others in all industries, including government agencies like the U.S. National Security Agency (NSA) have eliminated the labels "performance evaluation," "performance review," and even "performance management." Instead, they use labels such as "performance achievement," "growth processes," "talent evaluation and advancement," "check-ins," and "employee development." They still implement performance management but use new, more fashionable, and perhaps less threatening labels. It has been extremely gratifying to see the transition of so many companies from performance appraisal to performance management, as has been described since the first edition of this text almost 15 years ago. To sum this up, by paraphrasing Mark Twain, we can say with certainty that the death of performance management has been vastly exaggerated.[8]

This book is about the design and implementation of effective and successful performance management systems. In other words, it focuses on research-based findings and up-to-date applications that help increase an organization's talent pool. Performance management is ongoing and cyclical; however, for pedagogical reasons, the book needs to follow a linear structure. Because performance observation, evaluation, and improvement are ongoing processes, some concepts and practices may be introduced early in a cursory manner but receive more detailed treatment in later sections. In addition, many issues, such as training of raters and employee development, are discussed in multiple chapters. So you will see that several chapters may refer to similar issues. When this happens, content included in several chapters will be cross-referenced.

Finally, this book focuses on best practices and describes the necessary steps to create a top-notch performance management system. As a result of practical constraints and lack of knowledge about system design and implementation, many organizations cut corners and do not have systems that follow best practices. Environmental and political issues (e.g., goals of raters may not be aligned with goals of the organization) also play a role. Because the way in which systems are implemented in practice is often not close to the ideal system, the book includes numerous examples from actual organizations to illustrate how systems are implemented given actual situational constraints.

Major Features in This Fifth Edition

First, this edition includes important updates and additional information. In preparation for revising and updating this book, I gathered about 1,500 potentially relevant articles and books. About 100 of those sources are now included in this fifth edition. These sources have been published since the fourth edition of the book went into production and demonstrate an increased interest in performance management on the part of both academics and practitioners.

Second, there is an emphasis on the role of the context within which performance management takes place. Performance management does not operate in a vacuum. Rather, it takes place within a particular organizational context and organizations have a particular history, unwritten norms about what is valued and what is not (i.e., an organization's culture), and unwritten norms about communication, trust, interpersonal relations, and many other factors that influence daily activities. Thus, for example, implementing an upward feedback system may be effective in some organizations but not in others (Chapter 8). As a second illustration, some organizations may have a culture that emphasizes results more than behaviors which, in turn, would dictate that the performance management system also emphasize results; instead, other organizations may emphasize long-term goals, which would dictate that performance be measured by emphasizing employee behaviors rather than results (Chapter 4). Also, we need to understand the contextual reasons why sometimes performance ratings may not be accurate—particularly if there is no accountability for raters to provide valid assessments (Chapter 6). As yet another example, cultural factors affect what sources are used for performance information: In a country like Jordan, whose culture determines more hierarchical organizational structures, the almost exclusive source of performance information is supervisors, whereas employees and their peers almost have no input. This situation is different in countries with less hierarchical cultures in which not only performance information is collected from peers but also supervisors are rated by their direct reports (Chapter 6). To emphasize the role of national culture, this edition describes research conducted in organizations in the United States and Canada, but also in Jordan, Japan, China, Turkey, Eritrea, Germany, Spain, South Korea, Mexico, Australia, the United Kingdom, Brazil, India, and others.

Third, this edition describes two key roles played by the HR function: strategic partner and internal consultant. Regarding the first role, the HR function is unfortunately often vilified as being merely operational and not able to think or act strategically. Well, over the past two decades or so, an entire new field of research has emerged and it is

called *strategic human resource management*. Strategic human resource management is about planning and implementing HR policies and activities with the goal of enabling an organization to achieve its strategic goals.[9] Performance management is an ideal vehicle to demonstrate the strategic role of the HR function because it allows for explicit and clear linkages between an organization's mission, vision, and objectives and individual and team performance. By helping implement a successful performance management system, the HR function can get a "seat at the table" of the top management team. In fact, the few current or former CEOs with HR background, including Lisa M. Weber at MetLife, Nigel Travis at Dunkin' Brands Group, Samuel R. Allen at John Deere, James C. Smith at Thomson Reuters, Steven L. Newman at Transocean, and Mary Barra at General Motors, have been able to serve as strategic partners, which is in large part what propelled their trajectory from an HR role to the very top of their organizations. Second, the HR function serves as an internal consultant for all organizational members participating in the performance management system. For example, it offers advice on how to measure performance, resources in the form of training opportunities, and can also lead the strategic planning process. So, although the HR function is certainly not the "owner" of the performance management system, it adds value by playing a key role in its design and implementation.

Fourth, this edition highlights important changes in the nature of work and organizations and how these changes have a direct impact on the design and implementation of performance management systems. These changes involve globalization, technology, and demographics. Regarding 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. How do we design a successful performance management system that takes into account the fact that employees work together across time zones on a daily basis without having ever met in person—although they have regular interactions using Zoom? Regarding technology, companies are now able to gather employee data that was simply unimaginable just a few years ago—what is usually called "Big Data." For example, the use of GPS allows companies to track the location of its salesforce real-time 24/7. Also, Web and mobile access allow employees to provide and receive feedback on an ongoing basis from anywhere and at any time. The availability of data as well as AI offers almost unlimited opportunities to measure different facets of performance but also creates challenges and the need to understand the difference between "Big Data" and "Smart Data." Third, regarding team work, there is hardly any job that is done without working with others. These changes highlight the importance and pervasiveness of teams and the need for a performance management system to include a formal team management component—as well as consider different types of teams such as virtual teams. Fourth, regarding demographic changes, because baby boomers are retiring in large numbers, members of Generation X, Generation Y or Millennials, and Generation Z or Post-Millennials are now entering the workforce in large numbers. Gen X and Gen Y employees are "digital natives" and 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.

Fifth, this edition emphasizes that knowledge generated regarding performance management is essentially multidisciplinary. Accordingly, the sources used to support

best-practice recommendations offered in this book come from a very diverse set of fields of study ranging from micro-level fields focusing on the study of individuals and teams (e.g., organizational behavior, human resource management) to macro-level fields focusing on the study of organizations as a whole (e.g., strategic management, accounting, information systems, engineering). This is consistent with a general movement toward multidisciplinary and integrative research in the field of management.[10] For example, best-practice recommendations regarding performance management analytics originate primarily from industrial and organizational psychology (Chapter 5). On the other hand, best-practice recommendations regarding the relationship between performance management and strategic planning were derived primarily from theories and research from strategic management studies (Chapter 3). In addition, much of the best-practice recommendations regarding team performance management originated from the field of organizational behavior (Chapter 11).

Sixth, this edition emphasizes the important interplay between science and practice. Unfortunately, there is a great divide in management and related fields between scholars and practitioners. From the perspective of scholars, much of the work conducted by practitioners is seen as relevant but not rigorous. Conversely, from the perspective of practitioners, the work done by scholars is seen as rigorous but mostly not relevant. This "science-practice divide" has been documented by a content analysis of highly prestigious scholarly journals, which regularly publish research results that do not seem directly relevant to the needs of managers and organizations.[11] This edition attempts to bridge this divide by discussing best-practice recommendations based on sound theory and research and, at the same time, discussing the realities of organizations and how some of these practices have been implemented in actual organizations.[12]

Seventh, this edition, like its predecessor, describes the technical aspects of implementing a performance management system in detail. In addition, this edition emphasizes the key role that interpersonal dynamics play in the process.[13] Traditionally, much of the performance appraisal literature has focused almost exclusively on ratings and the measurement of performance—for example, whether it is better to use five-point versus seven-point scales. However, more recent research suggests that issues such as trust, politics, leadership, negotiation, mentorship, communication, and other topics related to interpersonal dynamics are just as important in determining the success of a performance management system. Accordingly, this edition discusses the need to establish a helping and trusting relationship between supervisors and employees (Chapter 9), the role of an organization's top management in determining the success of a system (Chapter 3), and the motivation of supervisors to provide accurate performance ratings (Chapter 6), among many other related issues throughout the book.

Eighth, this edition includes "company spotlight" boxes in every chapter. These application boxes are important because they serve the purpose of illustrating the concepts described in each chapter using contemporary examples. Also, these boxes will allow you to see how performance management is "done in real organizations" as well as allow you to think about some thorny and, in some cases, unresolved issues. Some of the organizations featured in this fifth edition include The Gap, Sears, Nike, Adobe, U.S. Department of Defense, Accenture, Goldman Sachs, Google, Airbnb, Facebook, Netflix, Microsoft, Salesforce, Dollar General, Intermex, BT Global Services, Accenture, Deloitte, GE, Nokia, and many others—including several less-known SMEs.

Ninth, this fifth edition includes new hands-on "Exercises" at the end of each chapter. These hands-on exercises will make learning the material more fun and also enhance the pedagogical experience of your course. In total, this edition includes 22 exercises (i.e., two per chapter).

Finally, this new edition includes two case studies in each chapter, also for a total of 22. One case in every other chapter has been updated. In addition, the instructor's manual includes several more cases per chapter, for a total of about 40 additional ones. Thus, depending on an instructor's preference, a course based on this new edition could be taught entirely following a case format, experiential format, lecture format, or a combination of the three.

In addition to the aforementioned changes that permeate the entire book, each chapter includes new sections. Consider the following examples:

- Chapter 4: New section on competency architectures. A competency architecture offers a set of rules to guide the selection of competencies and proficiency levels required for every job profile in a firm. This new section describes four types of competencies: (1) core, (2) job family, (3) technical or professional, and (4) leadership. The new material describes the benefits of designing and implementing a competency architecture such as alignment, fairness, and continuity.
- Chapter 5: New material on how AI is increasingly being used to measure performance and identify talent. While the use of AI is still nascent, this new material describes this increasing trend that is here to stay and how firms are already delegating several responsibilities to AI. This section describes that the performance management activities that can be enhanced by AI include identifying high and low performers, recognizing workers' strengths, hiring, measuring employee engagement, and retention.
- Chapter 9: New section on why and how to stay connected with ex-employees. This new material describes that whenever managers need to make the tough call, they should ensure they manage the exit of employees properly so the relationship is not broken and they can stay connected with ex-employees. Some of the long-lasting benefits of keeping these ties include (1) potential clients, (2) future business partners, (3) brand ambassadors, and (4) rehires.
- Chapter 9: New section on the need for leaders to also receive coaching. This new section explains that with an increase in managers' workloads, leaders tend to not find the time to develop their own skills. Leaders need training on hiring the right team members, motivating and developing them, evaluating both individual and team dynamics, resolving conflicts, and developing partnerships. They must also develop self-awareness and avoid becoming one of the four types of bad leaders: (1) micromanagers, (2) neglectful managers, (3) bully bosses, and (4) divisive bosses.
- Chapter 10: New section on what to do when employees reach the top of their salary bands. This new material discusses the need for leaders to control salary growth by ensuring that their salary structure is not so rigid that top performers are forced to leave the firm if they are offered better compensation elsewhere. To avoid the departure of critical employees, the new material describes the need for leaders to engage in proactive career discussions. To make sure these conversations are

effective, they should involve good planning, looking for potential solutions, being aware of unique circumstances, analyzing the frequency of cases, and crafting a policy for the future.

Plan for the Book

Part I, which includes Chapters 1 through 3, addresses general as well as strategic considerations regarding performance management. Chapter 1 discusses the advantages of implementing a successful performance management system, as well as the negative outcomes associated with deficient systems, including lowered employee motivation and perceptions of unfairness. This chapter also includes the features of an ideal system. Chapter 2 describes the performance management process starting with what should be done before a system is implemented and ending with the performance review stage. Chapter 3 links performance management systems with an organization's strategic plan. This chapter makes it clear that a good performance management system is a critical component of the successful implementation of an organization's strategy.

Part II, including Chapters 4 through 7, addresses the details of system implementation. This discussion is sufficiently general yet detailed enough so that all managers, not just HR managers, will benefit from this material. Chapters 4 and 5 describe some of the technical aspects associated with the assessment of performance and how to identify and measure both behaviors and results. Chapter 6 discusses performance analytics and the advantages and disadvantages of using various sources of performance information (e.g., supervisor, peers, and customers). Finally, Chapter 7 describes the steps involved in rolling out the new performance management system or changes in an existing system, including a communication plan and pilot testing of the system before it is implemented.

Part III, including Chapters 8 and 9, addresses employee and leadership development issues. Chapter 8 includes a description of employee developmental plans and the advantages of using multisource feedback systems for developmental purposes. Chapter 9 addresses the skills needed by supervisors to become true "performance management leaders."

Part IV, including Chapters 10 and 11, concerns the relationship among performance management, rewards, the law, and teams. Chapter 10 includes a discussion of different types of rewards (including relational or intangible rewards), traditional and contingent pay plans, and their links to performance management. In addition, this chapter provides a discussion of legal issues to consider when implementing a performance management system. Finally, Chapter 11 addresses the timely topic of how to design and implement performance management systems dealing specifically with team performance.

Faculty and Student Resources

Each of the chapters includes a list of actionable learning objectives at the beginning as well as summary points at the end, two hands-on exercises, and two case studies for discussion. I hope this material will allow students to have an enjoyable and productive

learning experience that will enhance their own individual human capital. Also, there are additional resources available for instructors, including PowerPoint slides, exam questions and answers (multiple choice and essay-type), and additional case studies that can be used for in-class discussions or also as examination materials or take-home homework or examinations. These materials will allow instructors to prepare for teaching this course quicker and make teaching this course a more enjoyable and interactive experience. To request access the instructor resources, visit www.chicagobusinesspress.com.

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Dr. Herman Aguinis is the Avram Tucker Distinguished Scholar, Professor of Management, and Chairperson of the Department of Management at the George Washington University School of Business. He has been elected for the presidency track of the Academy of Management (AOM), served as program chair for the AOM 2020 Virtual Conference and as AOM president in 2021–2022. The Web of Science Highly Cited Researchers Reports has ranked him among the world's 100 most impactful researchers in economics and business every year since 2018. He has been a visiting scholar at universities in the People's Republic of China (Beijing and Hong Kong), Malaysia, Singapore, Argentina, France, Spain, Puerto Rico, Australia, and South Africa. His research, teaching, and consulting activities focus on the acquisition and deployment of talent in organizations. Dr. Aguinis has published ten books, including *Applied Psychology in Human Resource Management* (with Wayne F. Cascio, 8th ed., 2019, Sage), *Performance Management for Dummies* (2019, Wiley), and *Regression Analysis for Categorical Moderators* (2004, Guilford). In addition, he has written about 200 refereed journal articles. Dr. Aguinis is a Fellow of the Academy of Management, American Psychological Association, the Society for Industrial and Organizational Psychology, and the Association for Psychological Science. He has served as president of the Iberoamerican Academy of Management, division chair for the Research Methods Division of the Academy of Management, and editor-in-chief for the journal *Organizational Research Methods*. He has delivered about 300 presentations and keynote addresses at professional conferences, delivered more than 160 invited presentations in all seven continents except for Antarctica, raised about $5 million for his research and teaching endeavors from private foundations and federal sources (e.g., National Science Foundation), and consulted with numerous organizations in the United States, Europe, and Latin America. He has received several career contributions awards, including the Losey Award by the Society for Human Resource Management Foundation for lifetime achievement in human resource research, Academy of Management Research Methods Division Distinguished Career Award for lifetime contributions, Society for Industrial and Organizational Psychology Scientific Contributions Award for lifetime contributions, Academy of Management Practice Theme Committee Scholar Practice Impact Award recognizing outstanding impact on policy making and managerial and organizational practices, Academy of Management Entrepreneurship Division IDEA Thought Leader Award, and International Council for Small Business Global Leadership Excellence Award in Support of MSMEs. His research has been featured by *The Economist*, *Forbes*, *BusinessWeek*, *National Public Radio*, *USA Today*, *Univision*, and other media. For more information, please visit http://hermanaguinis.com/

Part One

Strategic and General Considerations

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.

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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

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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

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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

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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.

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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

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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)

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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]

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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.

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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]

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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.

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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

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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.

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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

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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

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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

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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

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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

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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

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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?

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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

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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

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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

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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

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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)

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- 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.

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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.	

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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*)

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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."

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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

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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.

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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

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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.

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chapter 2

Performance Management Process

One bad day from one member of my staff doesn't mean they are not really good at their jobs the rest of the time. I play a long game in terms of management.

–Helen McCabe

Learning Objectives

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

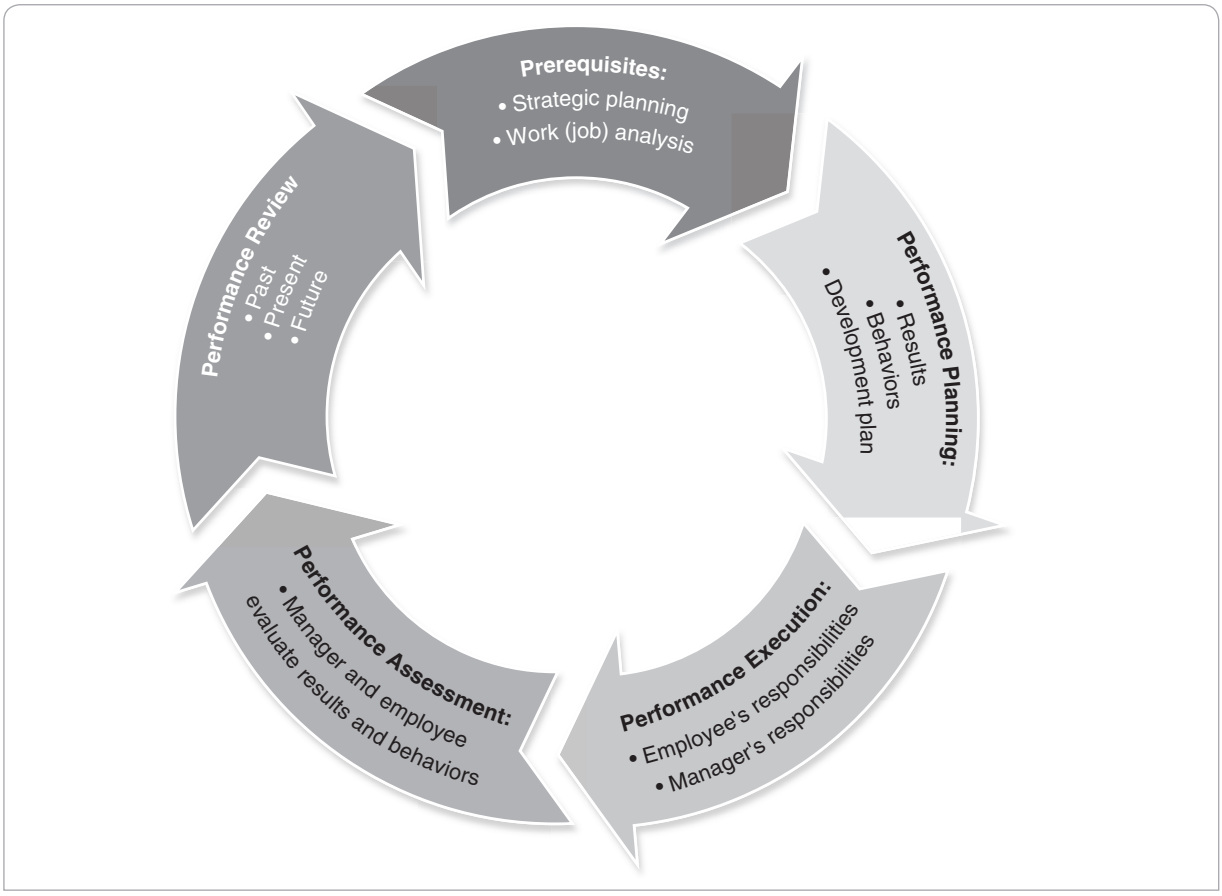
- Articulate that performance management is an ongoing and circular process that includes the interrelated components of prerequisites, performance planning, performance execution, performance assessment, and performance review.
- Argue that the poor implementation of any of the performance management process components has a negative impact on the system as a whole and that a dysfunctional or disrupted link between any two of the components also has a negative impact on the entire system.
- Assemble important prerequisites needed before a performance management system is implemented, including knowledge of the organization's mission and strategic goals through strategic planning and knowledge of the job in question through work analysis.
- Conduct a work analysis to determine the knowledge, skills, and abilities (KSAs), tasks, technology, work activities, work context and working conditions of a particular job; and produce a job description that incorporates the KSAs of the job and information on the organization and unit mission and strategic goals.
- Distinguish results from behaviors and understand the need to consider both as well as development plans in the performance planning stage of performance management.
- Critique the employee's role in performance execution, and distinguish areas over which the employee has primary responsibility from areas over which the manager has primary responsibility.
- Recommend the employee's and the manager's responsibility in the performance assessment phase.
- Be prepared to participate in appraisal meetings that involve the past, the present, and the future.

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As described in Chapter 1, performance management is an ongoing process. It certainly does not take place just once a year. Also, performance management is a continuous process, and it includes several components.[1] Moreover, performance management is not "owned" by the human resources (HR) function. Clearly, the HR function plays a critical role in terms of offering support and resources, such as in-person and online training opportunities and online tools that can be used to measure performance and share feedback. To show understanding and support for performance management, both the CEO and the top management team must understand the benefits of an efficient system. When designing and implementing a performance management system, the role of the CEO and top management team is key because they should lead by example and encourage the rest of the managers in the organization to do the same[2]. In other words, performance management must be owned and managed by each unit and supervisors play a critical role. After all, the principal responsibility of managers is to manage, right?

The components of a performance management system are closely related to each other, and the poor implementation of any of them has a negative impact on the performance management system as a whole. The components in the performance management process are shown in Figure 2.1. But here's an important clarification about this

FIGURE 2.1 • Overview of Performance Management Process and its Components



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chapter: It is a sort of preview, because it provides an overview and brief description of each of these components. So, when appropriate, the various sections in this chapter refer to subsequent chapters that include more detailed information on various topics. Let's start with the prerequisites.

Prerequisites

There are two important prerequisites that are required before a performance management system is implemented. First, knowledge of the organization's mission and strategic goals. Second, knowledge of the job in question.[3]

Strategic Planning

Chapter 3 will address the strategic planning process in detail. For now, please consider that knowledge of the organization's mission and strategic goals is a result of strategic planning. Also, as will be discussed in detail in Chapter 3, the strategic planning process may take place *after* the mission and vision statements are created. In other words, there is a constant back and forth between mission and vision and strategic planning.

Strategic planning allows an organization to clearly define its purpose and reason for existing, where it wants to be in the future, the goals it wants to achieve, and the strategies it will use to attain these goals. Once the goals for the entire organization have been established, similar goals cascade downward, with units setting objectives to support the organization's overall mission and objectives. The cascading continues downward until each employee has a set of goals compatible with those of the entire organization. The same process applies to large, small, and medium-sized organizations.

Unfortunately, it is often the case that many organizational units are not in tune with the organization's strategic direction. However, there seems to be a trend in the positive direction. For example, a study including public sector organizations in Queensland, Australia, showed a fairly high level of strategic integration of the HR function. Specifically, approximately 80% of the organizations that participated in the study were categorized as having achieved the highest level of strategic integration. This level is characterized by a dynamic and multifaceted linkage based on an "integrative relationship between people management and strategic management process."[4] Recall that an important objective of any performance management system is to enhance each employee's contribution to the goals of the organization. If there is a lack of clarity regarding where the organization wants to go, or if the relationship between the organization's mission and strategies and the unit's mission and strategies is not clear, there will be a lack of clarity regarding what each employee needs to do and achieve to help the organization get there.

Work (Job) Analysis

The second important prerequisite before a performance management system is implemented is to understand the job in question. Although traditionally the literature has used the term *job,* the use of *work* is more appropriate today because job seems to convey the notion that there is a static, constant, and even rigid set of tasks and responsibilities.[5] In fact, given changes in the nature of work and organizations (as discussed in Chapter 1),

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jobs are anything but static. Because people are asked to work on new projects, participate on different teams, and use new apps and technologies on an ongoing basis, jobs also change on an ongoing basis. So, because new tasks and responsibilities are created all the time, new "jobs" are also created all the time and old ones are redesigned on an ongoing basis.[6] From this point forward, we will still use the term *job* but make sure you keep in mind this dynamic point of view.

Understanding employees' tasks and responsibilities is done through work analysis. Work analysis is a process of determining the key components of a particular job, including activities, tasks, products, services, and processes. A work analysis is a fundamental prerequisite of any performance management system because, without a work analysis, it is difficult to understand what constitutes the required duties for a particular position. If we don't know what an employee is supposed to do on the job, we won't know what needs to be evaluated and how to do so.

As a result of a work analysis, we obtain information regarding the tasks carried out and the knowledge, skills, and abilities (KSAs) required of a particular job. Knowledge includes having the information needed to perform the work but not necessarily having done it. Skills refer to required attributes that are usually acquired by having done the work in the past. Ability refers to having the physical, emotional, intellectual, and psychological aptitude to perform the work, but neither having done the job nor having been trained to do the work is required.[7]

The tasks and KSAs needed for the various jobs are typically presented in the form of a job description, which summarizes the job duties, needed KSAs, and working conditions for a particular position. As an illustration, see Figure 2-2 titled "Job Description for Trailer Truck Driver: Civilian Personnel Management Service, U.S. Department of Defense." This job description includes information about what tasks are performed (e.g., operation of a specific type of truck). It also includes information about the needed knowledge (e.g., manifests, bills of lading), skills (e.g., keeping truck and trailer under control, particularly in difficult weather conditions), and abilities (e.g., physical and spatial abilities needed to turn narrow corners).

Work analysis can be conducted using observation, off-the-shelf questionnaires, or interviews.[8] Data are collected from job incumbents (i.e., those doing the job at present) and their supervisors. Alternatively, if the job is yet to be created, data can be gathered from the individual(s) responsible for creating the new position and those who will supervise individuals in the new position. Observation methods include job analysts watching incumbents do the job, or even trying to do the work themselves, and then producing a

FIGURE 2.2 • Job Description for Trailer Truck Driver: Civilian Personnel Management Service, U.S. Department of Defense

Operates gasoline- or diesel-powered truck or truck tractor equipped with two or more driving wheels and with four or more forward speed transmissions, which may include two or more gear ranges. These vehicles are coupled to a trailer or semitrailer by use of a turntable (fifth wheel) or pintle (pivot) hook. Drives over public roads to transport materials, merchandise, or equipment. Performs difficult driving tasks such as backing truck to loading platform, turning narrow corners, negotiating narrow passageways, and keeping truck and trailer under control, particularly on wet or icy highways. May assist in loading and unloading truck. May also handle manifest, bills of lading, expense accounts, and other papers pertinent to the shipment.

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description of what they have observed. This method can be subject to biases because job analysts may not be able to distinguish important from unimportant tasks. Such analysis may not be suitable for many jobs. For example, a job analyst could not do the work of a police officer for safety reasons, or the work of a software programmer for lack of knowledge and skills to do the work. Off-the-shelf methods involve distributing questionnaires, including a common list of tasks or KSAs, and asking individuals to fill them out, indicating the extent to which each task or KSA is required for a particular job in question. These generic off-the-shelf tools can be practical, but they might not capture the nuances and idiosyncrasies of jobs out of the mainstream or jobs that involve novel technologies.

Interviews are a very popular work analysis method. During a work analysis interview, the job analyst asks the interviewee to describe what he or she does (or what individuals in the position do) during a typical day at the job from start to finish (i.e., in chronological order). Alternatively, the job analyst can ask the interviewee to describe the major duties involved in the job and then ask him or her to break down these duties into specific tasks. Once a list of tasks has been compiled, all incumbents should have an opportunity to review the information and rate each task in terms of frequency and criticality. The frequency and criticality scales may be the following:[9]

Frequency	Criticality
0: not performed	0: not critical
1: every few months to yearly	1: low level of criticality
2: every few weeks to monthly	2: below average level of criticality
3: every few days to weekly	3: average level of criticality
4: every few hours to daily	4: above average level of criticality
5: hourly to many times each hour	5: extremely critical

Rating both frequency and criticality is necessary because some tasks may be performed regularly (e.g., making coffee several times a day) but may not be very critical. The job analyst can then multiply the frequency scores by the criticality scores to obtain an overall score for each task. So, if making coffee receives a frequency score of 4 (i.e., "every few hours to daily") and a criticality score of 0 (i.e., "not critical"), the overall score would be $4 \times 0 = 0$. Considering frequency scores alone would have given us the wrong impression that making coffee is a task that deserved a prominent role in the job description. Overall scores for all tasks can be ranked from highest to lowest to obtain a final list of tasks.

Numerous work analysis questionnaires are available online. These questionnaires, which can be administered online, with a paper survey, or in interview format, can be used for a variety of positions. For example, the state of Delaware uses a work analysis questionnaire available at http://www.delawarepersonnel.com/class/forms/jaq/jaq.shtml. This questionnaire includes 18 multiple-choice job content questions. Job content information is assessed through three factors: (1) knowledge and skills, (2) problem solving, and (3) accountability and end results. For example, consider the following question about problem-solving

> *Which one statement most accurately describes your freedom to consider alternatives when addressing issues or problems? Select only one choice below.*

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- I follow detailed task lists or instructions from my supervisor or lead worker to get my work done. I refer problems immediately to my supervisor or others.
- I follow detailed standard procedures or instructions from my supervisor to get my work done. Occasionally, I change the work procedures or the order of the tasks (for example, filing records, sorting mail, cleaning floors).
- I follow standard work routines and well-understood tasks. Problems are alike from day-to-day. When problems arise, I can often respond by changing the order in which tasks are done (for example, typing, record keeping, supply delivery, telephone console operation, technical assistance on a survey crew).
- Due to changing work situations, I solve problems by considering different options with the guidance of my supervisor or within well-defined principles and procedures. I often consider the most appropriate procedure or example to follow (for example, deciding the layout of bridge designs, counseling clients on social services options, or investigating and interpreting state and federal laws in response to a complaint and recommending an appropriate course of action).
- I solve problems by considering many different principles, procedures, and standards. Because of changing priorities and work situations, I may consider which among several procedures to follow, and in what order to achieve the proper results (for example, administering state support services, considering family counseling or foster care options for a family in crisis, or how to organize health screening clinics).
- I solve problems by considering courses of action within the framework of existing policies, principles, and standards. I know what needs to be accomplished but must decide how to accomplish it. I may consider whether new methods need to be developed to achieve the proper results (for example, reengineering the way work is done and organized to improve the delivery of state services).
- I solve problems by considering courses of action within broad state or department policies and immediate objectives. I may determine that new department policies are needed. Although general goals are in place, I must set the plan and determine the priorities and processes to achieve state or department objectives (for example, considering the efficient organization of the largest divisions in the state or developing new principles and practices affecting services to citizens).

Conducting a Google search for the phrase "job analysis questionnaire template" leads to several other instruments offered free of charge by the following organizations, among many others:

- Society for Human Resource Management
- University of Houston
- University of Toledo
- WorldatWork

Be aware that some of these instruments may have been created for specific types of positions and industries (e.g., service jobs, nonsupervisory jobs). Make sure you check the suitability of the instrument before using it in a different organizational and industry context. Combining items and formats from various instruments already available may be the most effective way to proceed.

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An important component of a good work analysis is rater training. In other words, there are several biases that can affect the accuracy of the information provided by individuals regarding KSAs needed for a job.[10] Consider the following biasing factors:

1. *Self-serving bias:* This bias leads people to report that their own behaviors and personality traits are more needed for successful job performance compared to behaviors and personality traits of others. This is because people tend to attribute success to themselves and failure to external causes (i.e., factors outside of their control).
2. *Social projection and false consensus bias:* Social projection bias leads people to believe that others behave similarly to themselves and, hence, lead people to think about themselves when reporting KSAs for their job instead of people in general. False consensus bias is similar in that it leads people to believe that others share the same beliefs and attitudes as themselves.
3. *Carelessness bias:* Participants in job analysis differ in how carefully they attend to the job analysis rating task.[11] For example, they differ regarding how closely they read items, how appropriately they answer a specific question, and the extent to which they make needed distinctions between items. This bias is related to how people process information. Specifically, people rely on automatic (i.e., fast, effortless) and controlled (i.e., slow, effortful) information-processing modes. So they represent a potential trade-off between accuracy and quality (controlled processing) versus speed and efficiency (automatic processing). Careless bias results from the use of automatic versus controlled processes.

Taken together, self-serving, social projection, false consensus, and carelessness biases affect work analysis ratings because they lead people to believe that their own KSAs are those driving success on their jobs. So, these lead to an exaggerated view regarding the KSAs needed—and this exaggeration is based on precisely the KSAs that job incumbents have.

How do we address these biases? An experimental study involving two independent samples of 96 administrative support assistants and 95 supervisors working for a large city government implemented a successful Web-based training program that was able to mitigate some of these biases.[12] Specifically, across the five job characteristics rated in that study, individuals who did not participate in the Web-based training program were 62% (administrative support assistants) and 68% (supervisors) more likely to provide a higher rating than if the same individual provided the work analysis ratings after participating in the training program. The Web-based training program, which takes about 15 minutes to administer, provides a common frame of reference for all raters and includes the following five steps:

1. provide raters with a definition of each rating dimension
2. define the scale anchors
3. describe what behaviors were indicative of each dimension
4. allow raters to practice their rating skills, and
5. provide feedback on the practice

The information obtained from a work analysis is used for writing a job description. Writing a job description may seem like a daunting task; however, it does not have to be difficult. Generic job descriptions can be obtained online from the Occupational

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Informational Network (O*NET) (https://www.onetonline.org). O*NET is a comprehensive database of worker attributes and job characteristics that provides a common language for defining and describing occupations. The information available via O*NET can serve as a foundation for a job description. For each job, O*NET provides information on tasks, knowledge, technology skills, knowledge, skills, abilities, work activities, detailed work activities, work context, job zone, education, interests, work styles, work values, and credentials. Specifically:

- Personal requirements: the skills and knowledge required to perform the work
- Personal characteristics: the abilities, interests and values needed to perform the work
- Experience requirements: the training and level of licensing and experience needed for the work
- Job requirements: the work activities and context, including the physical, social, and organizational factors involved in the work
- Labor market: the occupational outlook and the pay scale for the work

O*NET descriptions can be easily adapted and changed to accommodate specific local characteristics of a given organization. For example, see O*NET's description for truck drivers in Figure 2.3 titled "Summary Report for Heavy and Tractor-Trailer Truck Drivers" (from O*NET)." This figure includes only some of the categories and only the top five topics (you can see the full information online). First, the summary description can be checked for accuracy and relevance by supervisors. Then, the list of KSAs provided by O*NET can be readily rated by incumbents (and additional KSAs may be added if needed). Clearly, this is a more detailed and useful job description compared to the generic description of truck driver in Figure 2.2.

O*NET is a particularly useful resource for small businesses because, for most of them, conducting a work analysis may not be feasible simply because there are not sufficient numbers of people in any particular position from whom to collect data. In addition, O*NET can be used when organizations expand and new positions are created. One thing needs to be clear, however: jobs change. Thus, job descriptions must be checked for accuracy and updated on an ongoing basis.

Job descriptions are a key prerequisite for any performance management system because they provide the criteria (i.e., yardsticks) that will be used in measuring performance. Such criteria may concern behaviors (i.e., how to perform) or results (i.e., what outcomes should result from performance). In our truck driver example, a behavioral criterion could involve the skill "equipment maintenance." For example, a supervisor may rate the extent to which the employee "performs routine maintenance on equipment and determines when and what kind of maintenance is needed." Regarding results, these criteria usually fall into one of the following categories: (1) quality, (2) quantity, (3) cost-effectiveness, and (4) timeliness.[13] In the truck driver example, results-oriented criteria can include the number of accidents (i.e., quality) and the amount of load transported over a specific period of time (i.e., quantity).

Some organizations are becoming aware of the importance of considering prerequisites before implementing a performance management system. Take the case of AllianceHealth Deaconess Hospital in Oklahoma City, Oklahoma, which includes a workforce of more than 500 healthcare professionals who maintain a 291-bed facility offering cancer

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FIGURE 2.3 • Summary Report for Heavy and Tractor-trailer Truck Drivers (from O*NET)[a]

DESCRIPTION

Drive a tractor-trailer combination or a truck with a capacity of at least 26,000 pounds Gross Vehicle Weight (GVW). May be required to unload truck. Requires commercial drivers' license.

TASKS

- Check vehicles to ensure that mechanical, safety, and emergency equipment is in good working order.
- Follow appropriate safety procedures for transporting dangerous goods.
- Inspect loads to ensure that cargo is secure.
- Maintain logs of working hours or of vehicle service or repair status, following applicable state and federal regulations.
- Secure cargo for transport, using ropes, blocks, chain, binders, or covers.

TECHNOLOGY SKILLS

- Data base user interface and query software—ddlsoftware.com drivers daily log program DDL; Easy Trucking Software; Fog Line Software Truckn2004; TruckersHelper
- Office suite software—Microsoft Office
- Operating system software—Microsoft Windows
- Route navigation software—ALK Technologies PC*Miler; MarcoSoft Quo Vadis
- Spreadsheet software—Microsoft Excel Hot technology.

KNOWLEDGE

- Transportation—Knowledge of principles and methods for moving people or goods by air, rail, sea, or road, including the relative costs and benefits.
- Public Safety and Security—Knowledge of relevant equipment, policies, procedures, and strategies to promote effective local, state, or national security operations for the protection of people, data, property, and institutions.
- Customer and Personal Service—Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.
- English Language—Knowledge of the structure and content of the English language including the meaning and spelling of words, rules of composition, and grammar.
- Mechanical—Knowledge of machines and tools, including their designs, uses, repair, and maintenance.

SKILLS

- Operation and Control—Controlling operations of equipment or systems.
- Operation Monitoring—Watching gauges, dials, or other indicators to make sure a machine is working properly.
- Time Management—Managing one's own time and the time of others.
- Critical Thinking—Using logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions, or approaches to problems.
- Monitoring Monitoring/Assessing performance of yourself, other individuals, or organizations to make improvements or take corrective action.

ABILITIES

- Control Precision—The ability to quickly and repeatedly adjust the controls of a machine or a vehicle to exact positions.
- Far Vision—The ability to see details at a distance.
- Multilimb Coordination—The ability to coordinate two or more limbs (for example, two arms, two legs, or one leg and one arm) while sitting, standing, or lying down. It does not involve performing the activities while the whole body is in motion.
- Near Vision—The ability to see details at close range (within a few feet of the observer).
- Reaction Time—The ability to quickly respond (with the hand, finger, or foot) to a signal (sound, light, picture) when it appears.

(*Continued*)

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FIGURE 2.3 • (Continued)

WORK ACTIVITIES

- Operating Vehicles, Mechanized Devices, or Equipment—Running, maneuvering, navigating, or driving vehicles or mechanized equipment, such as forklifts, passenger vehicles, aircraft, or watercraft.
- Inspecting Equipment, Structures, or Material—Inspecting equipment, structures, or materials to identify the cause of errors or other problems or defects.
- Getting Information—Observing, receiving, and otherwise obtaining information from all relevant sources.
- Identifying Objects, Actions, and Events—Identifying information by categorizing, estimating, recognizing differences or similarities, and detecting changes in circumstances or events.
- Controlling Machines and Processes—Using either control mechanisms or direct physical activity to operate machines or processes (not including computers or vehicles).

DETAILED WORK ACTIVITIES

- Inspect motor vehicles.
- Follow safety procedures for vehicle operation.
- Inspect cargo to ensure it is properly loaded or secured.
- Record operational or production data.
- Record service or repair activities.

WORK CONTEXT

- In an Enclosed Vehicle or Equipment—88% responded "Every day."
- Duration of Typical Work Week—84% responded "More than 40 hours."
- Outdoors, Exposed to Weather—76% responded "Every day."
- Time Pressure—69% responded "Every day."
- Very Hot or Cold Temperatures—60% responded "Every day."

EDUCATION

- High school diploma or equivalent (56% of respondents)
- Less than high school diploma (19% of respondents)
- Post-secondary certificate (15% of respondents)</

WORK STYLES

- Dependability—Job requires being reliable, responsible, and dependable and fulfilling obligations.
- Self-Control—Job requires maintaining composure, keeping emotions in check, controlling anger, and avoiding aggressive behavior, even in very difficult situations.
- Attention to Detail—Job requires being careful about detail and thorough in completing work tasks.
- Integrity—Job requires being honest and ethical.
- Stress Tolerance—Job requires accepting criticism and dealing calmly and effectively with high stress situations.

WORK VALUES

- Support—Occupations that satisfy this work value offer supportive management that stands behind employees. Corresponding needs are Company Policies, Supervision: Human Relations, and Supervision: Technical.
- Independence—Occupations that satisfy this work value allow employees to work on their own and make decisions. Corresponding needs are Creativity, Responsibility, and Autonomy.
- Working Conditions—Occupations that satisfy this work value offer job security and good working conditions. Corresponding needs are Activity, Compensation, Independence, Security, Variety, and Working Conditions.

*This description includes the top five in each category only.

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care, cardiac care, orthopedic care, and wound care and rehabilitation. AllianceHealth Deaconess Hospital has been able to effectively integrate employees' job descriptions within their performance management system. The need for this integration was reinforced by results from an employee survey revealing that employees did not know what they were being evaluated on. Therefore, with the input of employees, the hospital updated each of the 260 job descriptions. At present, each employee's job description is part of the performance review form. The new forms incorporate task performance standards as well as behaviors specific to individual jobs. For example, a nurse may be evaluated on "how well he or she safely, timely, and respectfully administers patient medication and on his or her planning and organization skills." In addition, Deaconess Hospital has been able to link each employee's performance to the strategic goals of the organization. Specifically, all employees are rated on the following core behaviors considered to be of top strategic importance for: (1) adaptability, (2) building customer loyalty, (3) building trust, and (4) contributing to team success.[14]

In summary, there are two important prerequisites that must exist before the implementation of a successful performance management system. First, there is a need to have good knowledge of the organization's mission and strategic goals. This knowledge, combined with knowledge regarding the mission and strategic goals of their unit, allows employees to make contributions that will have a positive impact on both the unit and the organization. Second, there is a need to have good knowledge of the position in question: what tasks need to be done, how they should be done, and what KSAs are needed. Such knowledge is obtained through a work analysis. If we have good information regarding a job, then it is easier to establish criteria for job success.

Performance Planning

Armed with the knowledge of the organization's strategic goals and information about the position, the supervisor and the employee formally meet to discuss and agree upon what needs to be done and how it should be done. This performance planning discussion includes a consideration of both results and behaviors (described in greater detail in Chapter 4), as well as a developmental plan (described in greater detail in Chapter 8).

Results

Results refer to what needs to be done or the outcomes an employee must produce. A consideration of results needs to include the *key accountabilities*, or broad areas of a job for which the employee is responsible for producing results. This information is typically obtained from the job description. A discussion of results also includes specific objectives that the employee will achieve as part of each accountability. Objectives are statements of important and measurable outcomes. Finally, discussing results also means discussing performance standards. A performance standard is a yardstick used to evaluate how well employees have achieved each objective. Performance standards provide information about acceptable and unacceptable performance (e.g., quality, quantity, cost, and time).

Consider the job of a university professor. Two key accountabilities are (1) teaching (preparation and delivery of instructional materials to students) and (2) research

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(creation and dissemination of new knowledge). An objective for teaching could be "to obtain a student evaluation of teaching performance of 3 on a 4-point scale." An objective for research could be "to publish two articles in scholarly refereed journals per year." Performance standards could be "to obtain a student evaluation of teaching performance of at least 2 on a 4-point scale" and "to publish at least one article in scholarly referred journals per year." Thus, the objective is the desired level of performance, whereas the standard is usually a minimum acceptable level of performance.

Behaviors

Although it is important to measure results, an exclusive emphasis on results can give a skewed or incomplete picture of employee performance. For example, for some jobs it may be difficult to establish precise objectives and standards. For other jobs, employees may have control over how they do their jobs but not over the results of their behaviors. For example, the sales figures of a salesperson could be affected more by the assigned sales territory than by the salesperson's ability and performance. Behaviors, or how a job is done, thus constitute an important component of the planning phase. This is probably why results from a survey indicated that, in addition to sales figures, salespeople would like to be appraised on such behavioral criteria as communications skills and product knowledge.[15]

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

Development Plan

An important step before the review cycle begins is for the supervisor and employee to agree on a development plan. At a minimum, this plan should include identifying areas that need improvement and setting goals to be achieved in each area. Development plans usually include both results and behaviors.

In summary, performance planning includes the consideration of results and behaviors and the developmental plan. A discussion of results needs to include key accountabilities (i.e., broad areas for which an employee is responsible), specific objectives for each key accountability (i.e., goals to be reached), and performance standards (i.e., what constitutes acceptable and unacceptable levels of performance). A discussion of behaviors needs to include competencies (i.e., clusters of KSAs). Finally, the developmental plan includes a description of areas that need improving and goals to be achieved in each area. Company Spotlight 2.1 includes a description of how performance planning is implemented at Discover.

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

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Company Spotlight 2.1

PERFORMANCE PLANNING AT ACCENTURE

Accenture is a global professional services firm specialized in IT and consulting services with more than 330,000 employees worldwide. The company changed its performance management process to implement a more fluid one. Employees receive feedback from their managers on an ongoing basis after each project and not just once a year. Accenture is taking several steps to ensure that performance planning and employee development support the organization's business objectives. Accenture's new model is designed to better map ongoing performance discussions between employees and their managers. The company is shifting its focus to immediate performance development rather than a forced annual ranking based on last year's metrics. To do this, it uses an internal application to help members of the organization transmit their comments. Accenture's strategy includes meeting with employees to agree on metrics in the performance planning stage, developing an action plan, and providing feedback at the end of each assignment so there are ongoing evaluations and ratings to determine how successful the learning experience is. Accenture uses the various stages of the performance management process to ensure that employee development is an approach that matches the mission of providing a workplace that supports high performance. This new strategy ensures that this is done on an ongoing basis and not just once a year.[16, 17]

Performance Execution

Once the review cycle begins, the employee strives to produce the results and display the behaviors agreed upon earlier as well as to work on developmental needs. The employee has primary responsibility and ownership of this process. Employee participation does not begin at the performance execution stage, however. As noted earlier, employees need to have active input in the development of job descriptions, performance standards, and the creation of the rating form. In addition, at later stages, employees are active participants in the evaluation process in that they provide a self-assessment, and the performance review interview is a two-way communication process. At the performance execution stage, the following factors must be present:[18]

1. *Commitment to goal achievement.* The employee must be committed to the goals that were set. One way to enhance commitment is to allow the employee to be an active participant in the process of setting the goals.
2. *Check-ins and performance touchpoints.* The employee has performance "touchpoints" with many people inside and outside of the organization on an ongoing basis. So he should not wait until the review cycle is over to solicit performance feedback in the form of "check-ins." Also, the employee should not wait until a serious problem develops to ask for coaching. The employee needs to take a proactive role in soliciting performance feedback and coaching from her supervisor.[19] Supervisors

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and others with whom the employee has performance touchpoints can provide performance feedback (e.g., team members) but are busy with multiple obligations. The burden is on the employee to communicate openly and regularly via ongoing check-ins with her performance touchpoints.

3. *Collecting and sharing performance data.* The employee should provide the supervisor with regular updates on progress toward goal achievement, in terms of both behaviors and results.
4. *Preparing for performance reviews.* The employee should not wait until the end of the review cycle approaches to prepare for the review. On the contrary, the employee should engage in an ongoing and realistic self-appraisal, so immediate corrective action can be taken if necessary. The usefulness of the self-appraisal process can be enhanced by gathering informal performance information from peers and customers (both internal and external).

Although the employee has primary responsibilities for performance execution, the supervisor also needs to do his share of the work. Supervisors have primary responsibility over the following issues:[20]

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

The summary list included in Table 2.1 makes it clear that both the employee and the manager are responsible for performance execution. As an example of this shared responsibility in an actual organization, consider the case of International Business Machines (IBM). IBM is one of the world's largest multinational technology companies with more than 400,000 employees in 170 countries. IBM recently transitioned from the previous once-a-year "stack ranking" review that compared employees to a more frequent and personalized review focusing on employee's own goals. Before deciding on a new performance management system, IBM's HR department asked for employees' input through its internal social media site. Employees reported they wanted more frequent feedback and the ability to change their goals as the year progressed. IBM recognized

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TABLE 2.1 • Performance Execution Stage: Areas for Which Employees and Managers Have Primary Responsibility

Employees	Managers
Commitment to goal achievement	Observation and documentation
Check-ins and performance touchpoints	Updates
Collecting and sharing performance data	Feedback
Preparing for performance reviews	Resources
	Reinforcement

that the fast-paced business environment meant that new things come along, leading to employees experimenting and iterating. This meant that employees are often not working on what they originally proposed at the beginning of the year. Accordingly, a new system was designed that allows employees to set annual goals and short-term milestones. Based on continuous feedback from managers, employees are able to update their goals and milestones throughout the year. By allowing employees to change and develop their own goals throughout the year, IBM can now avoid irrelevant year-end discussions and have richer dialogue through frequent check-ins with employees.[21]

Performance Assessment

In the assessment phase, both the employee and the manager are responsible for evaluating the extent to which the desired behaviors have been displayed, and whether the desired results have been achieved. Although many sources can be used to collect performance information (e.g., supervisors, other team members), in most cases the direct supervisor provides the information. This also includes an evaluation of the extent to which the goals stated in the development plan have been achieved.

It is important that both the employee and the manager take ownership of the assessment process. The employee evaluates his own performance, and so does the manager. The fact that both parties are involved in the assessment provides good information to be used in the review phase. When both the employee and the supervisor are active participants in the evaluation process, there is a greater likelihood that the information will be used productively in the future. Specifically, the inclusion of self-ratings helps emphasize possible discrepancies between self-views and the views that other important participants (i.e., supervisors, other team members, customers) have of what we are doing, how we are doing it, and what results we are producing. It is the discrepancy between these views that is most likely to trigger development efforts, particularly when feedback from the supervisor and others is more negative than are employee self-evaluations.[22]

The inclusion of self-appraisals is also beneficial regarding important additional factors. Self-appraisals can reduce an employee's defensiveness during an appraisal meeting and increase the employee's satisfaction with the performance management system, as well as enhance perceptions of accuracy and fairness and, therefore acceptance of the system.[23] Company Spotlight 2.2 describes how this process is implemented at Google.

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Company Spotlight 2.2

PERFORMANCE ASSESSMENT AT GOOGLE

Google is consistently ranked at the top of Fortune's 100 best companies to work for. Google uses a 360-degree review process, conducted semiannually. Managers take two things into account when evaluating employees: results (what the employee accomplished) and behaviors (how the employee attained these results). The self-assessment, peer reviews, and manager reviews are based on a five-point scale (1 = needs improvement; 5 = superb) and use the following six criteria: 1) "Googleyness"—adherence to Google values; 2) Problem solving—analytical skills applied to work; 3) Execution—delivering great work with great autonomy; 4) Thought leadership—how much an employee is seen as a reference for a specific area of expertise; 5) Leadership—displaying leadership skills such as being proactive and taking the lead on projects; and 6) Presence—the ability to make yourself known in a large organization. To reduce bias, managers meet and review all employees' ratings together. In summary, Google utilizes its performance assessment process to provide a clear link between each individual and team activity and the strategic objectives of the organization.[24]

In sum, both the employee and the supervisor must evaluate employee performance. As will be described in detail in Chapter 6, employee involvement in the process increases employee ownership and commitment to the system. In addition, it provides important information to be discussed during the performance review, which is discussed next.

Performance Review

The performance review stage involves the formal meeting between the employee and the manager to review their assessments. This meeting is usually called the *appraisal meeting or discussion.* Although good performance management systems include ongoing check-ins, the formal appraisal meeting is important because it provides a formal setting in which the employee receives feedback on his performance.

In spite of its importance in performance management, the appraisal meeting is often regarded as the "Achilles' heel of the entire process."[25] This is because many managers are uncomfortable providing performance feedback, particularly when performance is deficient.[26] This high level of discomfort, which often translates into anxiety and the avoidance of the appraisal interview, can be mitigated through training those responsible for providing feedback. As will be discussed in detail in Chapters 6 and 9, providing feedback in an effective manner is extremely important because it leads not only to performance improvement but also to employee satisfaction with the system. For example, a study involving more than 200 teachers in Malaysia, including individuals with distinct Chinese, Malay, and Indian cultural backgrounds, found that when they received effective feedback, they reported greater satisfaction with the system even when

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they received low performance ratings.[27] At this point, however, let's emphasize that people are apprehensive about both receiving *and* giving performance information, and this apprehension reinforces the importance of a formal performance review as part of any performance management system.[28]

Remember Jack Welch, the late, famed former chairman and CEO of General Electric (GE)? Although this leadership style was unique, colorful, and often controversial, during his 20-year tenure at GE, the company's value rose about 4,000%. He addressed the issue of giving honest feedback in many of his public appearances after he retired.[29] At an appearance in front of an audience of about 2,000 managers, he asked them if their organizations had integrity. As was expected, a vast majority of managers, about 95%, raised their hands. Then he asked the same audience if their organization's leaders provide direct reports with honest and straightforward performance feedback. Only about 5% of the people raised their hands. Avoiding giving negative feedback is very dangerous because it conveys the message that mediocrity is acceptable and damages the morale of the top performers, who are about four times as productive as the poor performers.

In most cases, the appraisal meeting is regarded as a review of the past, that is, what was done (i.e., results) and how it was done (i.e., behaviors). For example, a survey including more than 150 organizations in Scotland showed that performance management systems in more than 80% of organizations emphasize the past.[30] But the appraisal meeting should also include a discussion of the employee's developmental progress as well as future plans. The conversation should include a discussion of goals and development plans that the employee will be expected to achieve over the period before the next formal review session. In addition, a good appraisal meeting includes information on what new compensation and rewards, if any, the employee may be receiving as a result of her performance. In short, the appraisal discussion focuses on the past (what has been done and how), the present (what compensation is received or denied as a result), and the future (goals to be attained before the upcoming review session).

As noted earlier, the discussion about past performance can be challenging, particularly when performance levels have not reached acceptable levels. Following is a script reflecting what the first few seconds of the appraisal meeting can be like.[31]

> Good afternoon, Lucy, please have a seat. As you know, we take performance very seriously and we scheduled our meeting today to talk about the work you have done over the past year. Because we believe in the importance of talking about performance issues, I blocked an hour of my time during which I won't take any phone calls, and I also won't be texting or emailing with anyone. I want to be able to focus 100% on our conversation because talking about performance will be helpful to both of us. There should be no surprises, given that we have been communicating about your performance on an ongoing basis. You have also received feedback not only from me but also from your peers. Let's go through this process step by step. First, I would like you to tell me about your own views about your performance during the past year. Specifically, please share with me what are the things you believe you did particularly well and areas in which you think you may have been able to do better. As a second step, I will tell you about the performance evaluation I prepared. As a third step, we will talk about the issues on which you and I agree. As a fourth step, we can talk about issues for which we may have different perspectives. I will explain the

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reasoning behind my views, and I want to hear the reasoning behind yours. In terms of my evaluation of your work, I want to first make sure we agree on what are the specific goals and objectives of your job. Then, we will talk about the results you achieved this year and the section on the evaluation form about job skills and competencies. After we talk about that, I will tell you what my overall rating is and why I believe this is an appropriate score. OK, let's go ahead and start. Please tell me about how things went this past year.

We will discuss performance reviews in more detail in chapter 9. For now, however, consider the following six recommended steps for conducting productive performance reviews:[32]

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

In closing, the performance management process includes a cycle that starts with prerequisites and ends with the formal performance review. However, the cycle is not over after the formal review. In fact, the process starts all over again: there needs to be a discussion of prerequisites, including the updated organization's mission and strategic goals and the updated job's KSAs. Because markets change, customers' preferences and needs change, and products change, there is a need to continuously monitor the prerequisites so that performance planning, and all the subsequent stages, are consistent with the organization's strategic objectives. Recall that, in the end, one of the main goals of any performance management system is to promote the achievement of organization-wide goals. Obviously, if managers and employees are not aware of what these strategic goals are, it is unlikely that the performance management system will be instrumental in accomplishing the strategic goals.

SUMMARY POINTS

- The role of the CEO and top management team is key in its design and implementation. They should lead by example and encourage the rest of the managers in the organization to do the same. HR function plays a critical role in terms of offering support and resources.
- Performance management is an ongoing and circular process. It never ends. Once established in

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an organization, it becomes part of an organization's culture. The performance management process includes five closely related components: (1) prerequisites, (2) performance planning, (3) performance execution, (4) performance assessment, and (5) performance review.

- Each of the five components of the performance management process plays an important role. If any of these components is implemented poorly, then the entire performance management system suffers. For example, lack of knowledge of the organization's mission and strategic goals and the job in question (i.e., prerequisites) will not allow performance planning (i.e., performance road map) to be aligned with organizational goals, which in turn will lead to poor performance execution. In short, a performance management system is only as good as its weakest component.
- The links between the various components must be clearly established. For example, performance planning needs to be closely related to performance execution. Performance planning is a futile exercise if execution does not follow from it. The same applies to all the arrows linking the various components, as shown in Figure 2.1.
- The first component of the performance management process involves two prerequisites. First, there is a need to have good knowledge of the organization's mission and strategic goals. This knowledge, combined with knowledge regarding the mission and strategic goals of one's unit, allows employees to make contributions that will have a positive impact on their units and on the organization. Second, there is a need to have good knowledge of the job in question. A work analysis allows for the determination of the key components of a particular job: what tasks need to be done, how they should be done, and what KSAs are needed. If we have good information regarding a job, then it is easier to establish criteria for job success.
- Work analysis is a technique used to understand employees' tasks and responsibilities and can be conducted using interviews, observation, or off-the-shelf questionnaires. It is important to train individuals to fill out work analysis instruments to minimize biases (i.e., self-serving bias, social projection, false consensus, carelessness responding) in the resulting ratings. Once a list of tasks has been compiled, all incumbents should have an opportunity to review the information and rate each task in terms of its frequency and criticality.
- The second component of the performance management process involves performance planning. Performance planning includes the consideration of results and behaviors, as well as a developmental plan. A discussion of results needs to include key accountabilities (i.e., broad areas for which an employee is responsible), specific objectives for each key accountability (i.e., goals to be reached), and performance standards (i.e., what are acceptable and unacceptable levels of performance). A discussion of behaviors needs to include competencies (i.e., clusters of KSAs). Finally, the developmental plan includes a description of areas that need improvement and goals to be achieved in each area.
- The third component involves performance execution. Both the employee and the manager are responsible for performance execution. For example, the employee needs to be committed to goal achievement and should take a proactive role in seeking feedback from his or her supervisor and other performance touchpoints (e.g., other team members, customers). The burden is on the employee to communicate openly and regularly with the supervisor. Also, the employee has a responsibility to be prepared for the performance review by conducting regular and realistic self-appraisals. On the other hand, the supervisor also has important responsibilities. These include observing and documenting performance, updating the employee on any changes in the goals of the organization, and providing resources and reinforcement so the employee can succeed and continue to be motivated.
- The fourth component involves performance assessment. Both the employee and the supervisor must evaluate employee performance. Involving the employee in the process increases his or her ownership and commitment to the system. In addition, it provides important information to be discussed during the performance review. In the absence of self-appraisals, it is often not clear to supervisors if employees have a real understanding of what is expected of them.
- The fifth component involves performance review when the employee and manager meet to discuss employee performance. This formal meeting is

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usually called the appraisal meeting. This meeting typically emphasizes the past: what the employee has done and how it was done. But a more effective appraisal meeting also focuses on the present and the future. The present involves the changes in compensation that may result from the results obtained. The future involves a discussion of goals and development plans that the employee will be expected to achieve during the period before the next review session.

EXERCISE 2-1

Work (Job) Analysis

Please conduct a work analysis for the position "wait staff" at a local restaurant. This work analysis may benefit from interviewing incumbents (i.e., wait staff) as well as supervisors (i.e., restaurant's general manager). In addition, of course, you can rely on your own knowledge of this job. By the end of your work analysis, follow the O*NET format and create a summary description for the position as well as a list of tasks, technology skills, knowledge, skills, abilities, work activities, detailed work activities, work context, education, work styles, and work values needed for successful performance. Use Figure 2.3 "Summary Report for Tractor-Trailer Truck Drivers (from O*NET)" as a template.

As a minimum, your job description should include four lists—one for tasks, one for knowledge, one for skills, and one for abilities. For each of the four lists, rate the corresponding elements in terms of frequency and criticality. Use the scales provided below to rate each element. Then, multiply the frequency and criticality scores for each of the elements in each list to obtain its overall score. Then, arrange the list of elements in order of importance from high to low.

Frequency and Criticality Scales

Frequency	Criticality
0: not performed	0: not critical
1: every few months to yearly	1: low level of criticality
2: every few weeks to monthly	2: below average level of criticality
3: every few days to weekly	3: average level of criticality
4: every few hours to daily	4: above average level of criticality
5: hourly to many times each hour	5: extremely critical

Have one or more people do the same rating task with the same job description. Then, answer the following questions.

1. Are there any disagreements between or among the resulting orderings? If so, why do you think that is the case?
2. What can be done to mitigate any observed disagreement between or among the resulting orderings? After discussing some possible techniques for reducing disagreement, if there were indeed any disagreements, apply some of those techniques until 100% agreement is reached.

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3. Recall that tasks listed in a job description can largely be divided into behaviors (i.e., how to perform) and results (i.e., what outcomes should result from performance). In the job description you created, which of the tasks are behaviors and which tasks are outcomes? Are there more behaviors or more outcomes? Or is there a strong balance between the two types of tasks? Whether there is such an imbalance or balance, do you think the observed balance or imbalance is justified? Explain.

EXERCISE 2-2

Performance Review Meeting

As part of this exercise, you will be asked to conduct a performance review meeting in front of the classroom. Specifically, you will prepare a performance assessment of student participation in the classroom for a particular student and then meet with that student to deliver the performance review face-to-face and real-time in front of the class. You will either play the role of the supervising manager giving the performance review, or the direct report receiving the performance review.

Steps:

1. Conduct a self-appraisal of your own class participation performance
   a. Rate your participation from 0 (lowest level contribution) to 15 (highest possible contribution) on each of the items listed below and note the reasons for the score you assign yourself.
   b. In rating participation, use the following specific eight items:
      i. Being an active participant, but not a dominating participant.
      ii. Being a good listener and demonstrating respect for others' opinions.
      iii. Making thoughtful, insightful comments, and not speaking just to be heard.
      iv. Building on others' comments.
      v. Asking questions, not just giving answers.
      vi. Identifying key assumptions underlying discussion points and arguments.
      vii. Judiciously playing the role of the "devil's advocate."
      viii. Being constructive and positive in one's comments.
2. Choose any five students from the class and prepare an assessment of their participation performance for all students in your class.
   a. Rate their participation from 0 (lowest level contribution) to 15 (highest possible contribution) using the same eight items listed above.
3. Prepare to provide a performance review to each of these five classmates, including ratings and the reasons for the scores you assigned them. (Hint: Consider the steps of the performance management cycle in Figure 2-1 when writing your assessment.)

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a. The performance review meeting should not be longer than 10 minutes. (Hint: *The performance review subsection of the chapter lists the issues typically discussed in a performance review and provides an example of how to begin a review.)*

b. Make sure to include both positive and negative feedback that allows your classmates to improve their performance.

4. The other students in the classroom will then evaluate the performance review meeting and provide feedback on how performance review meetings can be improved in the future.

CASE STUDY 2-1

Front Range Medical Associates (FRMA)

Front Range Medical Associates (FRMA) is a small medical practice owned by four doctors who are general practitioners. The mission of FRMA is to provide the best health care and medical assistance for the families of Granite, a mid-size city at the base of the Rocky Mountains. FRMA employs three clerical employees, four nurses, two physicians' assistants, two laboratory technicians, and a custodian. One clerical employee spends most of his time identifying what insurance coverage is available to the various patients and negotiating costs with the various insurance companies. Although the company has hired some of the employees since 1974, it has relied on generic job descriptions and the institutional memory of Lenore, the head clerk, and Roseanne, the head nurse. However, Roseanne retired last summer, and Lenore is planning to retire in a year. The nurses now report directly to the doctors, who also oversee the physicians' assistants. The doctors have noticed that the previously well-run underpinnings of their practice have developed some glitches. They have hired you to help them get things running smoothly again. Please answer the following questions.

1. Dr. Beasley, the senior member of the practice, tells you that he has heard that a performance management system might be a good idea. He asks you to explain the key features of such a system to him. Please provide him with detailed and convincing information.

2. One of the problems at FRMA is that job duties are unclear. Discuss the information you would need to help FRMA address this problem and explain how you would get this information.

3. The following is part of a generic job description for registered nurses obtained from O*NET.

29-1111.00—Registered Nurses: Assess patient health problems and needs, develop and implement nursing care plans, and maintain medical records. Administer nursing care to ill, injured, convalescent, or disabled patients. May advise patients on health maintenance and disease prevention or provide case management. Licensing or registration required.

Expand this generic job description in the context of FRMA's mission.

4. You are advising Dr. Beasley about developing a performance plan for the employees in the practice. What factors should he consider in developing this plan?

5. Explain the responsibilities of the supervisor and the employees during the performance execution and review phases.

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CASE STUDY 2-2

Performance Management at KS Cleaners

KS Cleaners (KSC) is a small company that provides several services to its customers: dry cleaning of clothes, laundry, ironing, and some clothing repair work. KSC specializes in low-cost volume, promising that dry cleaning will be returned to its customers the day after it is turned in. The charge is $2.25 for each item dry-cleaned; there is an extra charge for ironing, although ironing is usually not necessary because the items are placed on clothes hangers immediately after they are removed from the dryers. Laundry is $1.50 per item, with an extra charge for ironing if desired. Clothing repair, such as hemming, replacement of buttons and zippers, and so on, is charged by the hour.

In addition to Kevin, the owner and manager, there are eight employees: two dry cleaners, a seamstress, and five general duty employees, who rotate where they are needed among front counter customer service and sorting clothes, loading the machines, removing clothes from machines, folding or hanging up the items, and preparing them for pickup. Kevin has found that he can hire teenagers for the general duty positions because these duties don't require much training. The company needs employees who are focused on customer satisfaction and quick turnaround; when there are slow times, however, these high school students often work on homework, socialize, or spend time on their smart phones, which is acceptable behavior as long as the work gets done and the customers are happy.

Pay ranges from minimum wage for the general duty employees to $20 per hour for the dry cleaners. The seamstress is paid on a negotiated piecework basis, depending on the complexity of the task.

This shop has been doing so well that Kevin is thinking about opening another one. He has done some research and realizes that he will need to formalize procedures that, heretofore, he has run almost by instinct. A new manager will need to operate the new shop in a fashion that is identical to the successful way he has run his current shop. Although he dreads the process, he recognizes that it is time to document procedures and formalize job descriptions. He has hired you to help him develop a performance management process.

1. In the context of KSC, critically evaluate the availability of any prerequisites to implementing a performance management process.
2. Discuss your plans for developing formal job descriptions for the employees at the second shop.
3. Explain key features of developing performance plans for the employees. Provide examples of factors you would consider in developing such plans for the dry cleaner.
4. In the context of KSC, create two results-oriented performance standards for the general duty employees.

The following information was obtained from O*NET.

41-2021.00—Counter and Rental Clerks:

Knowledge: Customer and Personal Service—Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.

Technology Skills: Data base user interface and query software—Database software

Abilities: Oral Expression—The ability to communicate information and ideas in speaking so others will understand.

Work Activities: Performing for or Working Directly with the Public—Performing for people or dealing directly with the public. This includes serving customers in restaurants and stores and receiving clients or guests.

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5. Discuss the factors that should be considered in establishing behavior-oriented performance standards for the general duty employees. Give an example of such a standard.
6. Provide a detailed discussion of both the responsibilities of the manager and the responsibilities of the general duty employees during the performance execution phase.
7. Explain the process that Kevin should use to get information when he is developing the performance assessments for the general duty employees.

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chapter 3

Performance Management and Strategic Planning

Strategy is a style of thinking, a conscious and deliberate process, an intensive implementation system, the science of insuring future success.

—Pete Johnson

Learning Objectives

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

- Critique the definition and purposes of strategic planning.
- Create alignment between performance management and an organization's strategic priorities and direction.
- Assess the critical role of the HR function in the strategic planning process.
- Devise an environmental (i.e., SWOT) analysis that includes a consideration of both internal (strengths and weaknesses) and external (opportunities and threats) trends.
- Prepare a gap analysis resulting from a consideration of external and internal trends that point to leverage, constraints, vulnerabilities, and problems that dictate an organization's mission.
- Produce state-of-the-science mission and vision statements, objectives, and strategies for the organization and its units.
- Devise job descriptions that take into account a unit's and the organization's vision, mission, objectives, and strategies.
- Build up support for the performance management system by using it as a tool to help achieve the organization's strategic priorities.

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In Chapters 1 and 2, we discussed the fact that good performance management systems encourage employees to make tangible and important contributions toward the organization's strategic objectives. When these contributions to the top organizational and unit priorities are made clear, performance management systems are likely to receive crucial top management support. Without this support, it is unlikely that a performance management system will even get off the ground. How, then, are these strategic organizational objectives identified? How does an organization know what the "target" should be, what it is trying to accomplish, and how to do it?

The HR function plays a key role as a strategic partner in helping answer these questions. Unfortunately, the HR function is often vilified as being merely operational and not able to think or act strategically. Well, over the past two decades or so, an entire new field of research and practice has emerged that is called *strategic human resource management (SHRM)*. SHRM is about planning and implementing HR policies and activities with the goal of enabling an organization to achieve its objectives.[1] Performance management is an ideal vehicle to demonstrate the strategic role and contributions of the HR function because it allows for explicit and clear linkages between what HR is doing and the organization's mission, vision, and objectives. By being involved and hopefully leading the rollout of the strategic planning process and linking a firm's objectives with the performance management system, the HR function can serve as an expert internal consultant and get a "seat at the table" of the top management team. In fact, the few current and former CEOs with HR background, including Samuel R. Allen at John Deere, James C. Smith at Thomson Reuters, Steven L. Newman at Transocean, and Mary Barra at General Motors, have been able to serve as strategic partners while heading their respective HR units, which is in large part what propelled their trajectory into the very top of their organizations. First, let's define strategic planning and describe its purposes.

Definition and Purposes of Strategic Planning

Strategic planning is a process that involves describing the organization's destination, assessing barriers that stand in the way of that destination, and selecting approaches for moving forward.[2] Among other useful outcomes, strategic planning allows for the allocation of resources in a way that provides organizations with a competitive advantage because they are assigned in a more effective and more targeted manner.[3] Overall, a strategic plan serves as a blueprint that defines how the organization will allocate its resources in pursuit of its most critical and important objectives.

Strategic planning serves the following seven specific purposes: First and foremost, strategic planning allows organizations to define their identity. In other words, it provides organizations with a clearer sense of who they are and what their purpose is. Second, strategic planning helps organizations prepare for the future because it clarifies the desired destination. Knowing where the organization wants to go is a key first step in planning how to get there and then doing so. Third, strategic planning allows organizations to analyze their external and internal environment, and doing so enhances their ability to adapt to environmental changes and even anticipate future changes. Although knowledge of the environment does not guarantee that an organization will be more likely to change and adapt, its knowledge is the first and critical step toward possible

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TABLE 3.1 • Strategic Plan: Purposes

Helps define the organization's identity
Helps organizations prepare for the future
Enhances ability to adapt to environmental changes
Provides focus and allows for better allocation of resources
Produces an organizational culture of cooperation
Allows for the consideration of new options and opportunities
Provides employees with information to direct daily activities

adaptation. Fourth, strategic planning provides organizations with focus and allows them to allocate resources to what matters most. In turn, the improved allocation of resources is likely to stimulate growth and improve organizational performance and profitability. Fifth, strategic planning helps produce a common perspective and culture of cooperation within the organization, given that a common set of objectives is created. Such a common agenda and culture of cooperation can gain organizations a key competitive advantage. Sixth, strategic planning can be a good corporate eye-opener because it generates new options and opportunities to be considered. For example, new opportunities can include expanding to new markets or offering new products. Finally, strategic planning can be a powerful tool to guide employees' daily activities because it identifies the behaviors and results that are directly linked to the organization's objective and really matter. Thus, a strategic plan provides critical information to be used in the performance management system. To summarize, Table 3.1 lists the key purposes of a strategic plan.

Process of Linking Performance Management to the Strategic Plan

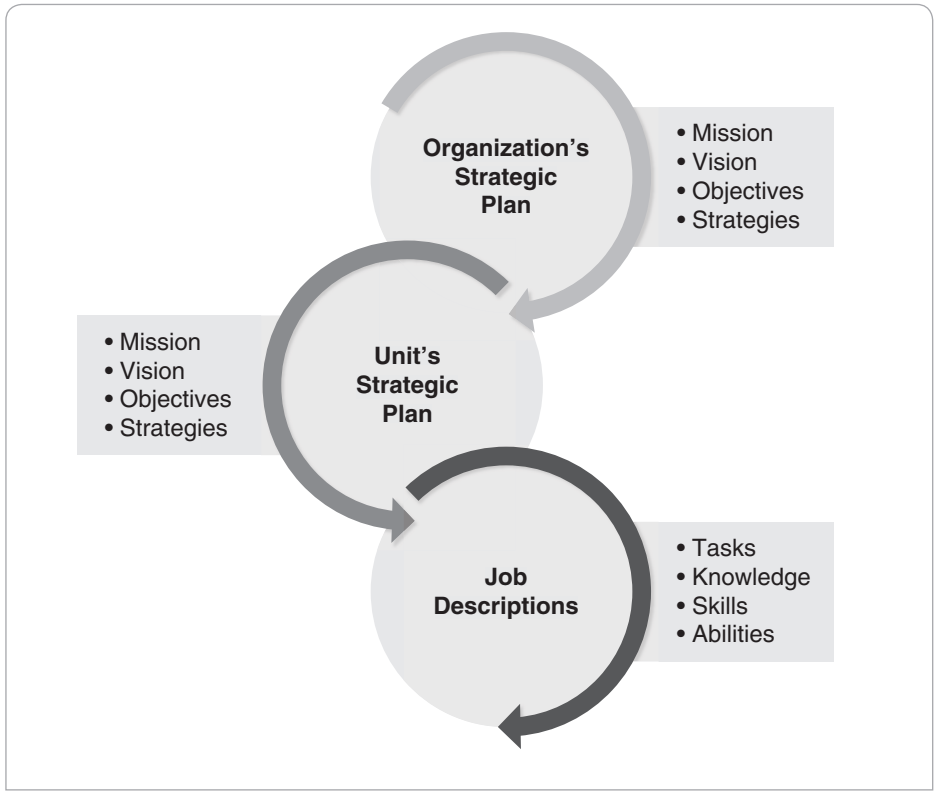
The mere presence of a strategic plan does not guarantee that this information will be used effectively as part of the performance management system. In fact, countless organizations spend thousands of hours creating strategic plans that are mostly talk and lead to no tangible actions. In fact, many organizations spend too much time and effort crafting their mission and vision statements without undertaking any concrete follow-up actions. The process then ends up being a huge waste of time and a source of frustration and long-lasting cynicism, particularly in situations when there is frequent leadership turnover and a strategic planning process is put into motion over and over again, usually leading to nothing more than reports and updated website content. In those situations, it is typical to hear people say: "Oh no, again! Another CEO and another strategic plan!" For example, a worldwide survey of senior executives from 197 companies with combined sales exceeding $500 million showed that less than 15% spent any time evaluating how the previous year's strategic plan affected current performance. The study also found that corporate strategies routinely only deliver between 50% and 63% of their potential financial performance.[4] Thus, to ensure that strategy cascades down the organization and leads to concrete actions, a conscious effort must be made to link the strategic plan with what everyone does in the organization daily.

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Figure 3.1 provides a useful framework for understanding the relationship among an organization's strategic plan, a unit's strategic plan, and job descriptions (which are the drivers of individual and team tasks and knowledge, skills, and abilities (KSAs)—as described in Chapter 2). The organization's strategic plan includes a mission statement and a vision statement, as well as objectives and strategies that will allow for the fulfillment of the mission and vision. The strategies are created with the participation of managers at all levels. The higher the level of involvement, the more likely it is that managers will see the resulting strategies favorably.[5] As soon as the organizational strategies have been defined, senior management proceeds to meet with department or unit managers, who in turn solicit input from all people within their units to create unit-level mission and vision statements, objectives, and strategies. A critical issue is to ensure that each unit's or department's mission and vision statements, objectives, and strategies are consistent with those at the organizational level. Job descriptions are then revised and updated to make sure they are consistent with unit and organizational priorities. So, again, because they are driven by the job descriptions, the performance management system includes results, behaviors, and developmental plans for individuals that are consistent with the organizational- and department-level priorities.

Does the process of aligning organizational, unit, and individual priorities actually work in practice? Is this doable? The answer to these questions is "yes," and the benefits

FIGURE 3.1 • Link among Organization and Unit Strategic Plans and Job Descriptions



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of doing so are widely documented. Specifically, performance management systems have a critical role in translating strategy into action.[6] In fact, a study including 338 organizations in 42 countries found that performance management is the third most important factor affecting the success of a strategic plan. This is particularly true for organizations that operate in rapidly changing environments, regardless of their size, industry, and age.[7] For example, consider the case of automobile companies, which traditionally embrace the total quality management movement. Car manufacturers like Toyota instill quality into every activity. But, as documented in a recent study conducted in the U.K., leaders in many of the car manufacturing companies use a past-oriented, individual-based management system that is not aligned with a total quality culture. If leaders truly wish to integrate total quality as a key strategic direction, performance management should be coherent with a total quality management culture. For example, performance management should focus on process and system-level issues to identify any potential problems before they happen. Also, such an aligned performance management system would encourage employees to speak up about any potential problems and would measure not just results but also processes. In other words, this performance management system would have to be an ongoing activity focused on the development of the individual employee and the assessment of both task performance and the quality improvement behaviors shown by employees.[8]

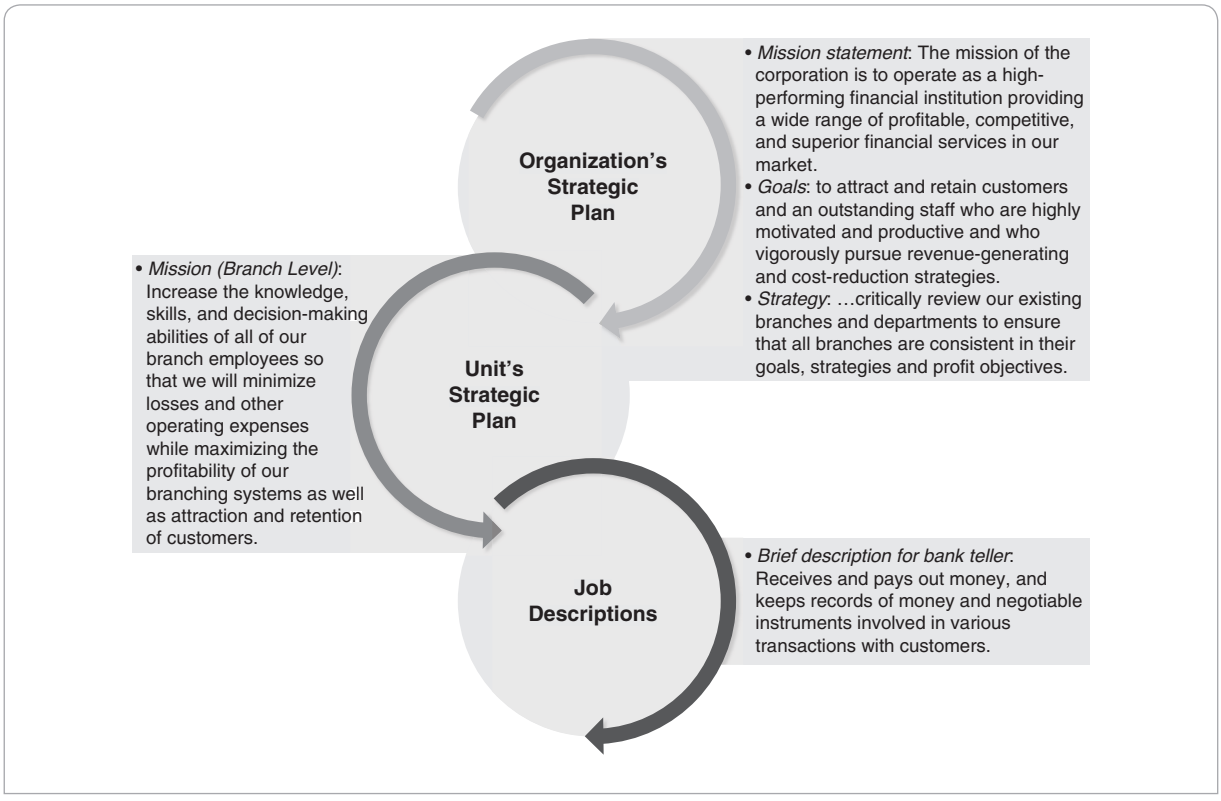
One way to formalize the link between strategic planning and performance management is through the implementation of a *balanced scorecard.* Although this approach has been revised since it was originally proposed by Kaplan and Norton in 1992[9], the basic components are largely unchanged. In a nutshell, a balanced scorecard involves creating indicators of individual performance along four separate "perspectives" of an organization's success. For the case of a bank, consider the following: (a) financial (i.e., cost control, sales growth rate, profit growth rate), (b) customer (e.g., service product quality, customer satisfaction, service timing), (c) internal process (e.g., information delivery, interaction between employees and clients, standard operation process), and (d) learning and growth (e.g., corporate image, competitiveness, employee satisfaction).

In addition to including individual performance measures that go beyond pure financial goals, an important feature is that each of the indicators should be directly related to a firm's mission and vision. This is usually shown graphically with a *strategy map*, which is a flow-chart type diagram with circles and arrows that links objectives developed for each of the four perspectives in a causal chain that eventually leads to a direct impact on the firm's objectives. For example, regarding the illustrative financial indicators mentioned above, a strategy map could show the following sequence: employee satisfaction (learning and growth) → interaction between employees and clients (internal processes) → customer satisfaction (customer) → sales growth rate (financial), which leads to achieving the bank's objective of increase the number of corporate accounts and the total value of commercial loans by the end of the quarter. As a more general example of linking strategy and performance management that does not include the specific balanced scorecard approach, consider the case of KeyBank, a financial services company with assets of $172 billion (as of 2020), which provides investment management, retail and commercial banking, consumer finance, and investment banking products and services. KeyBank has about 1,200 branches, 1,600 ATMs, and 18,000 employees. As of 2020, KeyBank was ranked 412th on the Fortune 500 list. In Utah, KeyBank successfully

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developed a performance management system that is aligned with the strategic plan of the organization.[10] To do this, the bank first involved managers at all hierarchical levels to develop an organization mission statement. Next, they developed objectives and strategies that would help achieve KeyBank's mission. The mission statement, objectives, and strategies at the organizational level served as the foundation for developing the strategies for individual branches. To develop these, senior managers met with branch managers to discuss the organization's objectives and strategies and to explain the importance of adopting similar ones in each branch. Subsequently, each of the branch managers met with their employees to develop branch mission statements and objectives. One important premise in this exercise was that each branch's mission statement and objectives had to be aligned with the corporate mission statement, objectives, and strategies. After organizational and branch objectives and strategies were aligned, managers and employees reviewed individual job descriptions. That is, each job description was tailored so that individual tasks, duties, and responsibilities were clear and contributed to meeting the department's and the organization's objectives. Involving employees in this process helped them to gain a clear understanding of how their performance affected the branch and, in turn, the organization. A revised version of the process implemented at KeyBank of Utah is shown in Figure 3.2.

FIGURE 3.2 • Summary of Alignment of Performance Management and Strategic Plan at KeyBank of Utah



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Consider KeyBank's overall and branch mission statements in Figure 3.2 and the brief job description for bank teller. Now, reread the more detailed job description from O*NET for truck driver in Figure 2.3. What are critical technology skills and abilities that could be included in the bank teller job description to make it more specific and useful and congruent with organization-level and branch-level objectives? What are some key results and behaviors that should be included in the performance management system to make sure there is good alignment between the objectives of the organization and the branch, and individual key accountabilities, performance objectives, and performance standards? (Hint: feel free to look up the job description for bank teller on O*NET.)

What happened after KeyBank of Utah implemented this system? In general terms, KeyBank was able to enjoy several positive consequences of aligning corporate, branch, and individual objectives. After the implementation of its new performance management system, KeyBank found several meaningful benefits, including the following:

- Managers knew that employees were focused on meeting important objectives.
- Employees had more decision-making power.
- Lower-level managers had a better understanding of higher-level managers' decisions.
- Communication increased and improved among managers and between managers and employees.

In sum, to be most useful and impactful, an organization's performance management system must rely on its strategic plan. The job descriptions, which serve as roadmaps for what individuals are supposed to do, how, and what results will be produced, must be aligned with the vision, mission, objectives, and strategies of the organization and unit. Organizations can expect greater returns from implementing a performance management system when such alignment is in place. Also, to the extent that the HR function is involved in the design and implementation of the performance management system, it will gain credibility and will be seen as a strategic and valued contributor to the entire organization.

Strategic Planning Process

Chapter 2 included a brief overview of the strategic planning process. But the development of an organization's strategic plan requires a careful analysis of the organization's competitive situation, the organization's current position and destination, the development of the organization's strategic objectives, the design of a plan of action and implementation, and the allocation of resources (human, organizational, physical) that will increase the likelihood of achieving the stated objectives.[11] And the HR function can and should play an important role in this process.

Critical Role of the HR Function

As mentioned in the opening section of this chapter, the HR function can play a critical role in creating and implementing the strategies that will allow the organization to realize its mission and vision. Specifically, the HR function can make the following contributions:

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- *Communicate knowledge of strategic plan.* The HR function can be a good conduit to communicate the various components of the strategic plan (e.g., mission, vision, and objectives) to all the employees.
- *Outline knowledge, skills, and abilities (KSAs) needed for strategy implementation.* The HR function, through job analyses and the resulting job descriptions, serves as a repository of knowledge regarding what KSAs are needed for a successful implementation of the strategic plan. Thus, the HR function is in a unique situation to provide information about whether the current workforce has the KSAs needed to support the strategic plan and, if not, to offer suggestions about what types of employees should be hired and what types of plans (e.g., training and development initiatives) should be put in place to develop the needed KSAs internally.
- *Propose compensation systems.* The HR function can provide useful information on what type of compensation system should be implemented to motivate employees to support the strategic plan.

In addition to serving as a necessary guide for individual and team performance, knowledge of organization- and unit-level mission and vision provides the HR function with information about how to design the performance management system. Specifically, there are many choices in how the system is designed. For example, the system might place more emphasis on behaviors (i.e., processes) than on results (i.e., outcomes), or the system might emphasize more short-term criteria (i.e., quarterly objectives) than long-term criteria (triennial). Some of these choices are presented in Table 3.2.

As a result of the strategic planning process, knowledge of the organization and unit vision and mission allows the HR function to serve as an internal consultant and to make informed decisions about performance management design choices. More detailed information on each of the factors guiding each of these design choices is provided in subsequent chapters. For now, as one illustration, assume an organization is producing a mature product in a fairly stable industry. In this situation, an emphasis on behaviors rather than results may be preferred because the relationship between processes and outcomes is well known, and the top priority is that employees display reliable and consistent behaviors in making the product. Regardless of the type of criteria used, be it behaviors or results, these must be observable (i.e., the person rating the criteria needs to have the ability to observe what is rated) and verifiable (i.e., there needs to be evidence to confirm the criteria rated).

TABLE 3.2 • Some Choices in Performance Management System Design to be Guided by an Organization's Strategic Plan

Criteria: Behavioral criteria vs. results criteria
Participation: Low employee participation vs. high employee participation
Temporal dimension: Short-term criteria vs. long-term criteria
Level of criteria: Individual criteria vs. team/group criteria
System orientation: Developmental orientation vs. administrative orientation
Compensation: Pay for performance (i.e., merit-based) vs. pay for tenure/position

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As a second example, consider the actual case of Dell computers. Dell is one of the top players in the personal computer industry through its mode of online direct selling. Dell's main strategic business strategy is to be a low-cost leader in an industry that deals with a product that has now become a commodity. However, in addition to a low-cost strategy, Dell has a customer relationship business strategy of maintaining customer service at a high level, while reducing costs. Dell's performance management system provides a strong link between individual objectives and organizational performance by including a results component (i.e., cost) and a behavioral component (i.e., customer service).[12] At Dell, both low cost and high levels of customer service (for both internal and external customers) are important dimensions of the performance management system. Also, the system is strongly linked not only to the strategic objectives (i.e., low cost and high levels of customer service) but also to the organization's "winning culture" (i.e., achievement of personal and business objectives through its focus on interaction between managers and team members).

Next, let's discuss the several steps involved in the creation of a strategic plan. These include (1) the conduct of an environmental or SWOT analysis (i.e., the identification of the external and internal strengths, weaknesses, opportunities, and threats of the external and internal environment in which the organization operates); (2) the creation of an organizational mission (i.e., statement of what the organization is all about); (3) the creation of an organizational vision (i.e., statement of where the organization intends to be in the long term, say, about 5 to 10 years); (4) setting objectives (i.e., what the organization intends to do in the short term, say, one to three years); and (5) the creation of strategies that will allow the organization to fulfill its mission and vision and achieve its objectives (i.e., descriptions of game plans or how-to procedures to reach the stated objectives).

Although we will describe these steps sequentially, the strategic planning process is not linear. For example, there may first be a rough draft of the organization's mission and vision and *then* an environmental or SWOT analysis may follow to help define the mission and vision more clearly. In other words, the mission and vision may be drafted first, and the environmental analysis may be completed second. The important point is that there is a constant back and forth among these issues: the vision and mission affect the type of environmental analysis to be conducted, and the results of an environmental analysis are used to revise the mission and vision. By necessity, we need to discuss them one by one; however, keep in mind that they affect and inform each other on an ongoing basis. Let's begin with a discussion of environmental or SWOT analysis.

External and Internal Environmental (i.e., SWOT) Analysis

The first step in conducting a strategic plan is to step back to take in the "big picture." This is accomplished through what is called an environmental or SWOT analysis.[13] An environmental analysis identifies external and internal parameters with the purpose of understanding broad issues related to the context and industry where the organization operates so that decisions can be made against the backdrop of this broader context.[14]

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External Environment An examination of the *external environment* includes consideration of opportunities and threats. Opportunities are characteristics of the environment that can help the organization succeed. Examples of such opportunities might be markets not currently being served, untapped talent pools, and new technological advances. On the other hand, threats are characteristics of the external environment that can prevent the organization from being successful. Examples of such threats range from economic recession to the launching of innovative products and services on the part of competitors. A common framework for understanding industry-based threats is the now-classic work by Michael E. Porter called five-force analysis.[15] These include three forces from horizontal competition (i.e., the threat of substitute products or services, the threat of established rivals, and the threat of new entrants), and two forces from vertical competition (i.e., the bargaining power of suppliers and the bargaining power of customers).

For example, consider the case of Frontier Airlines, which is an affordable-fare airline headquartered at Denver International Airport serving more than 55 cities in the United States, Mexico, the Dominican Republic, and Cuba on approximately 275 daily flights.[16] Frontier commenced operations in July 1994 given two key opportunities in the external environment. First, two major competing airlines (Continental and United, which since then have merged) engaged in a dramatic downsizing of its Denver operations, leading to service gaps in various major markets that Frontier filled. Second, the city of Denver replaced the heavily congested Stapleton Airport with the much larger Denver International Airport. In February 2004, United Airlines, the largest carrier operating out of Denver International Airport, made changes in the environment that resulted in a direct horizontal threat to Frontier: United Airlines launched its own low-fare affiliate. The new affiliate, Ted, was going toe-to-toe with Frontier. Peter McDonald, then vice president for operations for United Airlines, reported that Ted's cost per available seat mile was in the ballpark of Frontier's 8.3 cents.[17] So what had been an opportunity for Frontier no longer remained one, given the launching of Ted. To make things even worse for Frontier, Southwest Airlines, another low-cost competitor, also entered the Denver market a few years later—and now Frontier is only the third-largest carrier in Denver after United and Southwest. To complement the more general five-force analysis proposed by Michael Porter, the following is a nonexhaustive list of external factors that should be considered in any environmental analysis:

- *Economic.* For example, is there an economic recession on the horizon? Or is the current economic recession likely to end in the near future? How would these economic trends affect our business?
- *Political/legal.* For example, how will political changes domestically or in the international markets we are planning on entering affect our entry strategy?
- *Social.* For example, what is the impact of the entry of Millennials in the workforce (and the massive retirement of Baby Boomers)?
- *Technological.* For example, what technological changes are anticipated in our industry and how will these changes affect how we do business?
- *Competitors.* For example, how do the strategies and products of our competitors affect our own strategies and products? Can we anticipate our competitors' next move?

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- *Customers.* For example, what do our customers want now, and what will they want in the next five years or so? Can we anticipate such needs?
- *Suppliers.* For example, what is the relationship with our suppliers now, and is it likely to change, and in what way, in the near future?

An examination of external trends is critical for businesses of all sizes. But it is particularly challenging for multinational organizations because they are concerned with both domestic and international trends. In fact, monitoring the external environment is so important in the strategic planning of multinational organizations that a survey of U.S. multinational corporations showed that 89% of departments responsible for the assessment of the external environment report directly to a member of the board of directors.[18]

Internal Environment An examination of the *internal environment* includes consideration of strengths and weaknesses. Strengths are internal characteristics that the organization can use to its advantage. For example, what are the organization's assets and the staff's key skills? At Frontier, several key executives from other airlines were recruited, an important strength that was needed given the emergence of horizontal threats. These executives created a senior management team with long-term experience in the Denver market.

Weaknesses are internal characteristics that are likely to hinder the success of the organization. These could include an obsolete organizational structure that does not allow for effective organization across units; the misalignment of organizational-, unit-, individual-level objectives; a talent pool with skills that have become obsolete given changes in the industry and in technology.

The following is a nonexhaustive list of internal issues that should be considered in any environmental analysis:

- *Organizational structure.* For example, is the current structure conducive to fast and effective communication?
- *Organizational culture.* Organizational culture includes the unwritten norms and values espoused by the members of the organization. For example, is the current organizational culture likely to encourage or hinder innovation and entrepreneurial behaviors on the part of middle-level managers? Is there a culture in which new ideas and suggestions are quickly suppressed with the argument that "this has never been done before"?
- *Politics.* For example, are the various units competing for resources in such a way that any type of cross-unit collaboration is virtually impossible? Or are units likely to be open and collaborative in cross-unit projects?
- *Processes.* For example, are the supply chains working properly? Are all touchpoints with customers working properly? Can customers reach us when they need to and receive a satisfying response when they do?
- *Size.* For example, is the organization too small or too large? Are we growing too fast? Will we be able to manage growth (or downsizing) effectively?

Table 3.3 includes a summary list of external and internal trends to be considered in conducting an environmental analysis. Think about your current employer (or last

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TABLE 3.3 • Trends to Consider in Conducting an External and Internal Environmental (i.e., SWOT) Analysis

External	Internal
Economic	Organizational structure
Political/legal	Organizational culture
Social	Politics
Technological	Processes
Competitors	Size
Customers	
Suppliers	

employer, if you are not currently employed). Look at Table 3.3. Where does your organization stand regarding each of these important external and internal issues? Regarding the external issues, what are some of the opportunities and threats? Regarding the internal issues, what are some of the strengths and weaknesses?

Gap Analysis After external and internal issues have been considered, information is collected regarding opportunities, threats, strengths, and weaknesses. This information is used to conduct a *gap analysis*, which analyzes the external environment in relation to the internal environment. The pairing of external opportunities and threats with internal strengths and weaknesses leads to the following situations (ranked from most to least competitive):

1. *Opportunity + Strength = Leverage.* The best combination of external and internal factors occurs when there is an opportunity in the environment and a matching strength within the organization to take advantage of that opportunity. These are obvious directions that the organization should pursue. Consider the case of IBM, the world's largest information technology company, as well as the world's largest business and technology services provider with a 2020 net income of $5.53 billion and total assets of $155.97 billion. IBM has concluded that the personal computer–driven client-server computing models no longer apply and that network-based computing is taking over. As noted by former IBM CEO Virginia (Ginni) Rometty, "Digital is the wires, but digital intelligence, or artificial intelligence as some people call it, is about much more than that. This next decade is about how you combine those and become a cognitive business. It's the dawn of a new era." This realization shifted the focus to servers, databases, and software for transaction and data management. Furthermore, IBM recognized the upsurge of network-connected devices, including smartphones and tablets. To take advantage of this external opportunity, IBM now focuses its resources on supporting network systems, developing software for the network-connected devices, and manufacturing specialized components. Consider the categories of products that IBM offers today: (a) Cloud, (b) Cognitive, (c) Data and Analytics, (d) Internet of Things, (e) IT Infrastructure, (f) Mobile, and (g) Security.[19] This is a long way from IBM's first products involving clocks and

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cash registers! IBM built up its software capabilities through internal development and outside acquisitions. In short, IBM developed a leverage factor by identifying internal strengths that matched external opportunities, which in turn led to a successful business model.

2. *Opportunity + Weakness = Constraint.* In a constraint situation, the external opportunity is present; however, the internal situation is not conducive to taking advantage of the external opportunity. At IBM, this situation could have taken place if IBM did not have the internal capabilities to develop software and other products for the network-connected devices and specialized components. The external opportunity would still be there but, absent the internal capabilities, it would not turn into an advantageous business scenario.
3. *Threat + Strength = Vulnerability.* In this situation, there is an external threat, but this threat can be contained because of the presence of internal strengths. If this had been the case at IBM, the company would not have been able to take advantage of a new situation; nevertheless, existing strengths would have allowed IBM to continue to operate in other areas.
4. *Threat + Weakness = Problem.* In the worst scenario, there is an external threat and an accompanying internal weakness. For example, in the 1980s, IBM refused to adapt to the demands of the emerging microcomputer market (i.e., today's personal systems including desktops, laptops, and notebooks). IBM did not have the internal capability to address customers' needs for personal systems and instead continued to focus on its internal strength: the mainframe computer. IBM's poor performance in the early 1990s was a direct consequence of this problem situation: the external threat (increasing demand for personal systems and dwindling demand for mainframe computers) was met with an internal weakness (lack of ability to shift internal focus from the mainframe to the personal systems and devices).

Consider the organization you are currently working for, or the organization for which you have worked most recently. Try to identify one leverage and one problem based on an analysis of opportunities, threats, strengths, and weaknesses. What was the situation like? What were the outcomes?

In sum, the process of creating a strategic plan begins with an environmental, also called SWOT, analysis, which considers internal as well as external trends. Internal trends can be classified as either strengths or weaknesses, and external trends can be classified as either opportunities or threats. A gap analysis consists of pairing strengths and weaknesses with opportunities and threats and determining whether the situation is advantageous (i.e., leverage), disadvantageous (i.e., problem), or somewhere in between (i.e., constraint and vulnerability). A SWOT analysis offers critical information for all organizations—as illustrated with the case of Airbnb in Company Spotlight 3.1.

Mission

After the environmental analysis has been completed and the gap analysis reveals an organization's leverage, constraints, vulnerabilities, and problems, the members of the organization must determine who they are and what they do. This information will then be incorporated into the organization's mission statement. The mission statement summarizes the organization's most important reason for its existence. Mission statements

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Company Spotlight 3.1

SWOT AND GAP ANALYSIS AT AIRBNB[20]

Airbnb is an online hospitality service broker that allows customers to rent short-term lodging from local residents. Launched in 2008, it has more than 7 million listings in 100,000 cities and 220 countries. The company is now valued at over $130 billion.[21]

Strengths	Weaknesses
• First to market • Host incentive (hosts can make money) • Ease of use (search by price, location, dates) • Website design • Profiles (browse hosts and review them) • No daily updates required for listings	• Lack of brand awareness in new markets • Company quality dependent on hosts and customers • Ease of competitor entry • Legal costs to deal with zoning laws (e.g., prohibiting people from running a business) • Insurance costs to protect hosts and customers
Opportunities	**Threats**
• Lower prices than hotels • More connected to city and its culture • Easy to become a host and connect with local residents • Large market for temporary housing • Growing use of online booking	• Established lodging providers (e.g., hotels) • Online rooms (e.g., Craigslist, couchsurfing.com) • Competitors copying business model • Bad press surrounding poor room, poor customers, or poor hosts

Gap Analysis (Leverage):

- Provide alternative to hotels by providing temporary housing that allows hosts to make money and users to save money and experience local culture.
- Provide easy-to-use web platform that allows hosts to easily post temporary housing by posting their listing once, and users to easily search and filter.

provide information on the purpose of the organization and its scope. State-of-the-science mission statements provide answers to the following questions:

- Why does the organization exist?
- What is the scope of the organization's activities?
- Who are the customers served?
- What are the products or services offered?

As an example, consider the mission statement for the Coca-Cola Company:

- To refresh the world mind, body, and spirit.
- To inspire moments of optimism and happiness through our brands and actions.
- To create value and make a difference.[22]

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Presumably, this mission statement was preceded by an environmental analysis examining external and internal trends. We do not have information on this. But what we do know is that this mission statement provides some information regarding the four questions noted earlier. Based on this mission statement, we have information about why the company exists (i.e., "to refresh the world") and the scope of the organization's activities (i.e., "to inspire moments of optimism and happiness, create value, and make a difference"). The mission statement does not, however, include information about who the customers are. Also, there is no information about specific products (e.g., Fanta, Sprite, Minute Maid, Powerade, Dasani, Fresca).

More specific and detailed information would be needed if Coca-Cola's mission statement is to be used by its various units to create their own mission statements. More detailed information is also needed if both the organization and unit mission statements will be used as input for individual job descriptions, which will in turn be used for managing individual and team performance. State-of-the-science mission statements include the following components:

- Basic product or service to be offered (does what?)
- Primary markets or customer groups to be served (to whom?)
- Unique benefits and advantages of products or services (with what benefits?)
- Technology to be used in production or delivery
- Fundamental concern for survival through growth and profitability

Mission statements can also include information about the organization's values and beliefs, but these are sometimes listed separately, including:

- Managerial philosophy of the organization
- Public image sought by the organization
- Self-concept of business adopted by employees, shareholders, and other stakeholders

In sum, a mission statement defines why the organization exists, the scope of its activities, the customers served, and the products and services offered. Mission statements also include specific information, such as the technology used in production or delivery, and the unique benefits or advantages of the organization's products and services. Finally, a mission statement can include a statement of values and beliefs, such as the organization's managerial philosophy, or these can be presented separately.

Vision

An organization's vision is a statement of future aspirations. In other words, the vision statement includes a description of what the organization would like to become in the future—about 5 to 10 years out. Vision statements are typically written after the mission statement is completed because the organization needs to know who they are and what their purpose is before they can figure out who they want to be in the future. Note, however, that mission and vision statements are often combined and, therefore, in many cases it is difficult to differentiate one from the other. In such cases, the vision statement usually includes two components: a *core ideology,* which is referred to as the mission, and an *envisioned future*, which is what is referred to as the vision per se. The core ideology contains the core purpose and core values of an organization, and the envisioned future specifies long-term objectives and a picture of what the organization aspires to.

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Spectrum Brands provides an example of combining mission and vision into one statement. Spectrum Brands is a global consumer products company and a leading supplier of batteries, kitchen appliances, shaving and grooming products, personal care products, pet supplies, and home and garden products. Originally founded in 1906 as the French Battery Company in Madison, Wisconsin, and renamed Rayovac Company during the 1930s, the company changed its name to Spectrum Brands to reflect its diverse portfolio and position as a publicly held company. Some of its more recognizable brands include Rayovac, VARTA, Remington, George Foreman, Black+Decker, Nature's Miracle, Littermaid, and Liquid Fence. Based in Middleton, Wisconsin, Spectrum Brands' products are sold by the world's top 25 retailers and are available in more than one million stores in approximately 160 countries. Spectrum Brands' combined mission and vision statement is the following:

> Spectrum Brands is a rapidly growing, global, diversified, market-driven consumer products company.
>
> We will continue to grow our company through a combination of strategic acquisitions and organic growth.
>
> We will strengthen our brands and generate growth through emphasis on brand strategy/marketing and innovative product technology, design and packaging.
>
> We will leverage IT infrastructure, distribution channels, purchasing power and operational structure globally to continue to drive efficiencies and reduce costs.
>
> We will profitably expand distribution in all served markets.[23]

This statement includes components of a mission statement (i.e., "a rapidly growing, global, diversified, market-driven consumer products company") as well as components of a vision statement (e.g., "will strengthen our brands and generate growth through emphasis on brand strategy/marketing and innovative product technology, design and packaging"). Thus, this statement combines the present (i.e., who the company is, what it does) with the future (i.e., aspirations).

Other organizations make a more explicit differentiation between the mission and vision statements. Consider the vision statement for Greif, a global company headquartered in Delaware, Ohio, with approximately 13,000 employees and more than 200 operating locations in more than 50 countries. Greif offers rigid industrial packaging and services (e.g., steel, rigid intermediate bulk containers; blending, filling, and other packaging services), flexible products and services (e.g., flexible intermediate bulk containers, shipping sacks; reconditioning flexible intermediate bulk containers), paper packaging (e.g., containerboard, corrugated sheets and other corrugated products; packaging services), and land management (e.g., timber, timberland, and special use properties). Greif's vision statement is the following:[24]

Vision

In industrial packaging, be the best performing customer service company in the world.

> *Our Core Values. Our people are our past, present and future.* We will honor The Greif Way, building upon our rich history as a special place to work. We will operate within a culture of integrity, character and respect. We will maintain a safe working environment. We will attract and cultivate a responsible,

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competent, efficient and empowered workforce. We will provide opportunities to excel. We will communicate. We will listen.

Our customers are our reason for being. We will keep our promises to our customers. We will be synonymous with quality and service. We will solve their packaging challenges. We will prove the value of our relationship by being the best at what we do.

Our products are our livelihood. We will be a low-cost manufacturer and the high-value supplier in our business segments. We will innovate, using our ingenuity and creativity to provide better solutions. We will maintain our focus on where we can be the best and apply our expertise to do it better.

Our shareholders are our support. We will conduct our business ethically and with transparency. We will establish rigorous financial goals that will drive our business decisions and measure our progress. We will strive to attain a superior rate of return and maintain trust with our investors.

Our stage is the world. Our communities and the environment are our backdrop. We will be a conscientious global citizen, a responsive community neighbor and a responsible steward of the earth's natural resources.

Greif's vision statement is clearly future-oriented. It provides direction and focus. In addition, it includes several features that are required of useful vision statements. First, it focuses attention on what is most important and thus eliminates unproductive activities. Second, it provides a context from which to evaluate new external opportunities and threats. For example, the vision statement indicates that new opportunities for profitable growth in the industrial packaging and services business should be pursued. In addition, state-of-the-science vision statements have the following characteristics, not all of which are present in Greif's vision statement:

- *Brief.* A vision statement should be brief so that employees can remember it.
- *Verifiable.* A good vision statement should be able to stand the reality test. For example, how can we verify if Greif indeed becomes "one of the most desirable companies to work for in our industries, focusing on establishing a work atmosphere in which our employees can excel"?
- *Bound by a timeline.* A good vision statement specifies a timeline for the fulfillment of various aspirations.
- *Current.* Outdated vision statements are not useful. Vision statements should be updated on an ongoing basis, ideally as soon as the old vision is fulfilled.
- *Focused.* A good vision statement is not a laundry list of aspirations but rather focuses on just a few (perhaps not more than three or four) aspects of an organization's performance that are important to future success.
- *Understandable.* Vision statements need to be written in a clear and straightforward manner so that they are understood by all employees.
- *Inspiring.* Good vision statements make employees feel good about their organization's direction and motivate them to help achieve the vision.
- *A stretch.* Consider Microsoft's vision statement in the 1980s of "putting a computer on every desk and in every home," which was the vision when CEO Bill Gates started

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TABLE 3.4 • Characteristics of Good Vision Statements

Brief
Verifiable
Bound by a timeline
Current
Focused
Understandable
Inspiring
A stretch

the MS-DOS operating system. This vision statement was such a stretch that it was considered ludicrous at a time when the mainframe computer still reigned supreme and the first personal computers were being made and sold. But that vision became a reality. Two decades later, Microsoft revised their vision as follows: "putting a computer in every car and every pocket." Once again, this vision has now become a reality—in the form of car dashboards and smartphones.

In sum, a vision statement includes a description of future aspirations. Whereas the mission statement emphasizes the present, the vision statement emphasizes the future. Table 3.4 includes a summary list of the features that should be present in a good vision statement. Think about your current employer (or last employer, if you are not currently employed). Look at Table 3.4. How many of these features are reflected in your organization's vision statement? What should be added to the vision statements to make it more congruent with an ideal one?

Objectives

After an organization has analyzed its external opportunities and threats as well as internal strengths and weaknesses and has defined its mission and vision, it can realistically establish objectives that will further its mission. The purpose of setting such objectives is to formalize statements about what the organization hopes to achieve in the medium- to long-range period (i.e., within the next three to five years). Objectives provide more specific information regarding how the mission will be implemented. Objectives also provide a good basis for making decisions by keeping desired outcomes in mind. Objectives provide the basis for performance measurement because they allow for a comparison of what needs to be achieved versus what each unit, group, and individual is achieving. Moreover, objectives can also be a source of motivation and provide employees with a more tangible target for which to strive.

Consider the case of Harley-Davidson, Inc., the motorcycle manufacturer. Matthew S. Levatich, president and CEO from May 2015 to February 2020, said that a major objective is to "deliver those customer-growth objectives, not chassis-growth objectives. It sounds kind of trite: We're not really in the business of manufacturing motorcycles. We're in the business of building customers. When I joined [in 1994], we had made 86,000 motorcycles the prior year. Compare that to the peak in 2006 at about 350,000. It's less today, but we're working hard to get that volume back up. But the emphasis has shifted from making motorcycles to what I would say is identifying and finding customers—with product, with distribution, with everything we do at the company."[25] Operationally speaking, this means that Harley Davidson is trying to achieve the following:[26]

- Lead in every market: Harley-Davidson plans to achieve the leadership position in the 601cc motorcycle segment. As the company's CEO Matt Levatich put it, "This is not just about competing, but winning."
- Grow sales at a faster rate: Harley-Davidson plans to grow its retail sales in the United States as well as internationally at a faster pace. In the next five years, the company plans to add 150 to 200 dealers globally to achieve this objective.

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- Grow earnings faster than revenues: Harley-Davidson has stated an objective of growing its revenues over the next five years. It's also aiming at growing its earnings faster than its revenues through 2020 and beyond.

These objectives provide a clear direction for Harley-Davidson. In fact, they provide useful information to guide unit-level objectives as well as individual and team performance. The entire organization has a clear sense of focus because all members know that there are clear objectives in terms of market presence, growth, sales, earnings, and financial performance.

Strategies

At this point, we know what the organization is all about (mission), what it wants to be in the future (vision), and what it needs to do to get there (objectives). What remains is a discussion of *how to* fulfill the mission and vision and how to achieve the stated objectives. This is done by creating strategies, which are descriptions of game plans or how-to procedures to reach the stated objectives. The strategies could address issues of growth, survival, turnaround, stability, innovation, talent acquisition, and leadership, among others.

There is an entire field of study called "strategic management studies" devoted to the development and implementation of strategies. In fact, Deloitte, Boston Consulting Group, Bain & Company, KPMG, and Accenture offer consulting services in the domain of business strategy. Also, there are hundreds of books written on this topic. But to give you a brief overview of some possibilities, consider the following strategies, out of many, that could be implemented:[27]

- *Operations:* Addressing issues about the global economic environment in terms of market, capital, interest rates, labor costs, taxes, regulations, and available infrastructure.
- *Competitiveness:* Operating at optimum levels of productivity and efficiency: Continuous benchmarking, use of statistical tools for process optimization, total quality model, gathering data on customer expectations and experiences.
- *Optimal use of resources:* Optimization of global collaboration with suppliers, parts standardization and reduction, and flexible manufacturing and services.
- *Global corporate culture.* Respecting cultural values of different regions, constant training at all levels, policies of respect and recognition to individuals, and selecting of highly qualified employees.
- *Research and development:* Ongoing initiatives aimed at innovation and creativity.

Developing Strategic Plans at the Unit Level

As shown in Figure 3.1, the organization's strategic plan has a direct impact on the units' strategic plans. The case of KeyBank of Utah described earlier illustrates how the branches had a mission statement that was aligned with the overall organizational mission statement. Similarly, the vision statement, objectives, and strategies of the various units need to be congruent with the overall organizational vision, objectives, and strategies. Consider the case of Microsoft Corporation's mission statement:[28]

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Our Mission Our mission is to empower every person and every organization on the planet to achieve more.

What We Value

- *Innovation*: Learn about innovations from our computer science research organization. With more than 1,000 researchers in our labs, it's one of the largest in the world.
- *Diversity and Inclusion:* Explore how we maximize every person's contribution—from our employees to our customers—so that the way we innovate naturally includes diverse thought.
- *Corporate Social Responsibility*: See how we work to be a responsible partner to those who place their trust in us, conducting business in a way that is inclusive, transparent, and respectful of human rights.
- *Philanthropies*: Find out how we empower people by investing technology, money, employee talent, and the company's voice in programs that promote digital inclusion.
- *Environment*: Discover how we lead the way in sustainability and use our technologies to minimize the impact of our operations and products.
- *Trustworthy Computing*: Check out how we deliver secure, private, and reliable computing experiences based on sound business practices.

Now, consider the mission statement of one of Microsoft's units, Training and Education:

> With the charter to enable Microsoft engineering workgroups to realize their full potential for innovation and performance through world-class learning strategies, Microsoft Training and Education (MSTE) provides performance support strategies to support the overall corporation's software engineering efforts. Our efforts include the design, development, and delivery of learning programs, online information, and resources for Microsoft employees. MSTE's integrated suite of technical offerings supports our objective of having a significant impact on Microsoft's business. We promote best practices, cross-group communication, Microsoft expertise and Industry expertise.

As you can see, the mission of the training and education unit regarding the realization of people's full potential for innovation and performance is consistent with the overall mission to empower every person plays a central role. Of course, MSTE's mission is more focused on issues specifically relevant to the training and education function. Nevertheless, the link between the two mission statements is readily apparent.

The congruence between the mission of the organization and its various units is important regardless of the type of industry and the size of the organization. High-performing organizations have a clear alignment in the mission and vision of the overall and unit-level mission and vision statements. Consider the case of Norfolk State University (NSU), located in Norfolk, Virginia. NSU, the seventh-largest historically African American university in the United States, serves many students who are the first in their families to attend college. It offers about fifty academic programs, including sixteen master's and two doctoral degree programs. NSU has seven main schools offering courses to their approximately 6,200 and 800 undergraduate and graduate students, respectively: School of Business, School of Education, School of Liberal Arts, College of Engineering,

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Science & Technology, School of Social Work, and School of Extended Learning. The university's mission statement is the following:

> Through exemplary teaching, scholarship, and outreach, Norfolk State University transforms lives and communities by empowering individuals to maximize their potential, creating life-long learners equipped to be engaged leaders and productive global citizens.[29]

The mission statement of the School of Business indicates that its objective is to:

> ...be your path to an amazing future. At Norfolk State's School of Business, high character combines with high expectations, excellence in instruction and a global perspective to prepare students to succeed personally and professionally. Our graduates will be known for mastery of their academic specialties and the ability to apply their knowledge in the workplace and in service to others. It is precisely this type of preparation that has allowed our graduates to assume leadership roles in great organizations worldwide."[30]

Note that both mission statements are aligned and refer to similar issues. Specifically, they include the delivery of a high-quality education and academic achievement and educating productive citizens who will contribute to a global society.

In sum, the organization's strategic plan, including the mission, vision, objectives, and strategies, cascades down to all organizational levels. Thus, each division, branch, department, or unit also creates its own strategic plan, which should be consistent with the organization's overall plan.

Job Descriptions

Continuing with the sequence of components shown in Figure 3.1, job descriptions also need to be congruent with the organization and unit mission, vision, objectives, and strategies. We discussed the job analysis process leading to the creation of job descriptions in Chapter 2. Recall that job descriptions are important because they serve as a roadmap for what individuals are supposed to do, how, and what results will be produced. Moreover, job descriptions are important for new employees because they set clear expectations from day one. So, if job descriptions are consistent with the organization and unit mission, vision, objectives, and strategies, it is more likely that results produced by individuals and teams will contribute to the success of their units and organization as a whole. Please be patient for now. Chapter 4 will address how to define behaviors and results, and Chapter 5 and 6 will address how to measure them in great detail. For now, let's continue to address the links between strategic business priorities and job descriptions.

After the strategic plan is completed, some rewriting of the existing job descriptions may be in order. Recall the job description for Trailer Truck Driver as used by the Civilian Personnel Management Service (U.S. Department of Defense) (see Figure 3.3).

This description provides information about the various tasks performed together with a description of some of the KSAs required for the position. But what is the link with the organization and unit strategic plans? How do the specific tasks contribute to the strategic priorities of the transportation division and the organization as a whole? This description includes only cursory and indirect information regarding these issues. For example, one can assume that the proficient handling of bills of lading, expense

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FIGURE 3.3 • Job Description for Trailer Truck Driver: Civilian Personnel Management Service, U.S. Department of Defense

Operates gasoline- or diesel-powered truck or truck tractor equipped with two or more driving wheels and with four or more forward speed transmissions, which may include two or more gear ranges. These vehicles are coupled to a trailer or semi-trailer by use of a turntable (fifth wheel) or pintle (pivot) hook. Drives over public roads to transport materials, merchandise, or equipment. Performs difficult driving tasks such as backing truck to loading platform, turning narrow corners, negotiating narrow passageways, and keeping truck and trailer under control, particularly on wet or icy highways. May assist in loading and unloading truck. May also handle manifest, bills of lading, expense accounts, and other papers pertinent to the shipment.

FIGURE 3.4 • Job Description for Performance Solutions Group Manager at Microsoft

As the Performance Solutions Group Manager, you will be accountable for developing and delivering on a portal strategy that touches over 20,000 employees worldwide and involves a complex data delivery system. Additionally, the person is responsible for defining the cutting-edge tool suite used by the team to develop and maintain the portal, the content housed by the group, and all e-learning solutions. Key initiatives include redesigning the Engineering Excellence Guide within the next six months and evolving it over the next eighteen months to three years to become the industry-leading performance support site. Key challenges include maintaining and managing the cutting-edge tool suite used by the team and driving a clear vision for an industry-leading portal and content delivery plan.

Qualifications for this position are a minimum of five years of senior management experience, preferably in knowledge management, e-learning, or Web-based product development roles; ability to think strategically and exercise sound business judgment on behalf of Microsoft; excellent leadership, communication, interpersonal, and organizational skills; firsthand experience delivering/shipping Web-based learning and content management solutions; proven record of successful team management; and ability to work well independently and under pressure, while being flexible and adaptable to rapid change. Knowledge of performance support and training procedures, standards, and processes is preferred.

With the charter to enable Microsoft engineering workgroups to realize their full potential for innovation and performance through world-class learning strategies, Microsoft Training and Education (MSTE) provides performance support strategies to support the overall corporation's software engineering efforts. Our efforts include the design, development, and delivery of learning programs, online information, and resources for Microsoft employees. MSTE's integrated suite of technical offerings supports our objective of having a significant impact on Microsoft's business. We promote best practices, cross-group communication, Microsoft expertise and industry expertise.

accounts, and other papers pertinent to the shipment contributes toward a smooth shipping operation and, therefore, contributes to the transportation division. However, this link is not sufficiently clear.

On the other hand, consider a job announcement describing the position of Performance Solutions Group Manager in Microsoft's training and education unit (see Figure 3.4). This job description makes the link between the individual position and MSTE quite clear. First, the description includes MSTE's mission statement so that individuals become aware of how their specific role fits within the overall mission of the department. Second, the job description includes language to the effect that the work must lead to an "industry leading" product, which is consistent not only with MSTE's mission but also with Microsoft's overall mission. Third, in the needed qualifications section, there is a clear overlap between those needed for this specific position and those mentioned in MSTE's as well as in Microsoft's overall mission. In short, the person working as Performance Solutions Group Manager has a clear sense not only of her position but also of how behaviors and expected results are consistent with expectations about MSTE and Microsoft in general.

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In sum, the tasks and KSAs included in individual job descriptions must be congruent with the organization's and unit's strategic plans. In other words, job descriptions should include activities that, if executed well, will help execute the mission and vision. Job descriptions that are detached from strategic priorities will lead to performance evaluations focused on behaviors and results that are not central to an organization's success, and the performance management system will be seen as irrelevant and a big waste of time by managers and employee alike.

Building Support

Given the many competing projects and the usual scarcity of slack resources, some organizations may be reluctant to implement a performance management system. Primarily, the reasons include a lack of any perceived value-added, an initiative that requires many resources (particularly time from supervisors), and something that, simply put, seems to produce few tangible payoffs and even cause more harm than good. The need to align organization and unit priorities with the performance management system is one of the key factors contributing to obtaining the much-needed top management support for the system.

A good question that top management is likely to and, frankly, should ask is: "Why is performance management important and even necessary?" One answer to this question is that performance management is the primary tool that will allow top management to carry out its vision. The performance management system, when aligned with organization and unit priorities, is a critical tool to (1) allow all employees to understand where the organization stands and where it wants to go and (2) provide tools to employees (e.g., motivation, developmental resources) so that their behaviors and results will help the organization get there. Fundamentally, the implementation of any performance management system requires that the "What's in it for me?" question be answered convincingly. In the case of top management, the answer to the "What's in it for me?" question is that performance management can serve as a primary tool to realize its vision and achieve strategic objectives.

Building support for the system does not stop with top management, however. A critical aspect to keep in mind when developing a performance management system is whether managers are cynical about it. Leaders who are more cynical about the performance management system tend to be less effective and are also more likely to consider leaving their firms. To address this problem, HR leaders must ensure that managers see the performance management system as useful and track managers' cynicism through climate surveys[31]. In other words, all participants in the system need to understand the role they play and also receive a clear answer to the "What's in it for me?" question. Accordingly, communication about the system is key. This includes a clear description of the system's mechanics (e.g., when the performance planning meetings will take place, how to handle disagreements between supervisor and employees) and the system's consequences (e.g., relationship between performance evaluation and compensation). As discussed in Chapter 1, not involving people in the process of system design and implementation can create resistance, and the performance management system may result in more harm than good.

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Consider the role that good communication played in the launching of a revamped performance management system at Bankers Life and Casualty, an insurance company specializing in insurance for seniors and headquartered in Chicago. When Edward M. Berube was appointed as its president and CEO, he understood that Bankers Life and Casualty was facing important challenges, including new customer demands, the impact of the Internet, outsourcing, and increased competition. So, Bankers Life and Casualty engaged in a very aggressive marketing campaign, which included retaining actor Dick Van Dyke as its company spokesperson. In spite of these efforts, however, internal focus groups revealed that while employees understood the organization's strategic plan, they did not understand what role each person was supposed to play in helping the organization execute its strategy. In other words, employees did not have a clear understanding of how each person could help achieve the organization's strategic objectives, including focusing on the following three key areas: (1) distribution scope, scale, and productivity; (2) home office productivity and unit costs; and (3) product revenue and profitability.

Bankers Life and Casualty realized that a better link between strategy and job descriptions could be established by improving its performance management process. The HR function, therefore, proceeded to overhaul the performance management system so that the three areas of strategic importance just outlined would be part of everyone's job descriptions. The design and implementation of the new system was a *joint venture* between the HR and the communications departments. First, the HR and communications teams spoke candidly with the CEO about his expectations. The CEO responded with overwhelming support, stating that the performance management system would be implemented for every employee on preestablished dates and that he would hold his team accountable for making this happen. Then, to implement the performance management system, each unit met with its VP. During these meetings, each VP discussed how his or her unit's objectives were linked to the corporate objectives. Next, HR and communications led discussions surrounding objective setting, giving feedback, and writing developmental plans. Managers were then given the opportunity to share any feedback, concerns, or questions that they had about the program. During this forum, managers exchanged success stories and offered advice to one another. These success stories were then shared with the CEO. The CEO then shared these stories with those who reported directly to him to strengthen the visibility of his support for the program.

In short, the performance management system at Bankers Life and Casualty helped all employees understand their contributions to the organization's strategic plan. This was a key issue that motivated the CEO to give unqualified support to the system. This support gave a clear message to the rest of the organization that the performance management system was an important initiative that added value to the entire organization. The support of the CEO and other top executives, combined with a high degree of participation from all employees and their ability to voice concerns and provide feedback regarding the system, was a critical factor in the success of the performance management system at Bankers Life and Casualty.

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SUMMARY POINTS

- Strategic planning involves defining the organization's present and future identity. Overall, the strategic plan serves as a blueprint that allows organizations to allocate resources in a way that provides the organization with a competitive advantage.
- The HR function can play a critical role as a strategic partner and expert internal consultant in creating the strategic plan. Also, performance management is an ideal vehicle to demonstrate the strategic role of the HR function because it allows for explicit and clear linkages with organization's mission, vision, and objectives. By helping implement the strategic planning process and linking a firm's objectives with the performance management system, the HR function can get a "seat at the table" of the top management team.
- Strategic planning serves several specific purposes, including defining an organization's identity, preparing for the future, analyzing the environment, providing focus, creating a culture of cooperation, generating new options, and serving as a guide for the daily activities of all organizational members.
- Performance management systems must rely on the strategic plan to add value and be useful. The job descriptions of all employees must be aligned with the vision, mission, objectives, and strategies of the organization and unit. It is critical to align organizational, unit, and individual priorities. One formal approach to do this is the balanced scorecard approach.
- The process of creating a strategic plan begins with an environmental (SWOT) analysis, which considers internal (e.g., organizational structure, processes) as well as external (e.g., economic, technological) trends. Internal trends can be classified as either strengths or weaknesses, and external trends can be classified as either opportunities or threats. A gap analysis consists of pairing strengths and weaknesses with opportunities and threats and determining whether the situation is advantageous (i.e., leverage), disadvantageous (i.e., problem), or somewhere in between (i.e., constraint and vulnerability).
- The second step in creating a strategic plan is to write a mission statement based on the results of the gap analysis. A state-of-the-science mission statement defines why the organization exists, the scope of its activities, the customers served, and the products and services offered. Mission statements also include information about what technology is used in production or delivery, and the unique benefits or advantages of the organization's products and services. Finally, a mission statement can include a statement of values and beliefs, such as the organization's managerial philosophy, although some organizations choose to create separate value statements.
- The third component of a strategic plan is the vision statement, which includes a description of future aspirations. Whereas the mission statement emphasizes the present, the vision statement emphasizes the future. In many cases, however, the mission and vision statements are combined into one statement. State-of-the-science vision statements are brief, verifiable, bound by a timeline, current, focused, understandable, inspiring, and a stretch.
- After the mission and vision statements are created, the fourth step in the strategic planning process is to generate objectives that will help fulfill the mission and vision. Objectives provide more specific information regarding how the mission and vision will be implemented. Typically, objectives span a three- to five-year period.
- The fifth and final step in the strategic planning process is to identify strategies that will help achieve the stated objectives. These strategies are game plans and usually address issues surrounding growth, survival, turnaround, stability, innovation, and leadership.
- The organization's strategic plan, including the mission, vision, objectives, and strategies, cascades down to all organizational levels. Thus, each division, department, or unit also creates its own strategic plan, which should be consistent with the organization's overall plan. The most effective sequence for doing so is for the units to first agree on common strategies and then specify unit-level objectives.
- The tasks and KSAs included in individual job descriptions must be congruent with the organization's and unit's strategic plans. In other words,

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job descriptions should include activities that, if executed well, will in turn help execute the mission and vision. Job descriptions that are detached from strategic priorities will lead to performance evaluations focused on behaviors and results that are not central to an organization's success.

- To build support for the performance management system, top management must be aware that it is a primary tool and ideal conduit to execute an organization's strategic plan. This awareness will lead to top management's support for the system. In addition, all organizational members need to be able to answer the "What's in it for me?" question regarding the system. Implementing the performance management system will require considerable effort on the part of all those involved. Those doing the evaluation and those being evaluated should know how the system will benefit them directly.

EXERCISE 3-1

Linking Individual with Unit and Organizational Priorities

Obtain a copy of the job description for your current or most recent job. If this is not feasible, obtain a copy of a job description of someone you know. Then, obtain a copy of the mission statements for the organization and unit in question.

Revise the job description so that it is aligned with the unit and organizational strategic priorities. Revisions may include adding tasks and KSAs important in the mission statement that are not already included in the job description.

EXERCISE 3-2

Building Support for a Performance Management System at the Gap, Inc.*

You have just been appointed the Chief Human Resource Office (CHRO) for The Gap, Inc., a large retail clothing company with more than $1 billion in sales, 3,000 retail stores in the United States, and over 130,000 employees. The mission of the company is "to create emotional connections with customers through our brands, unique designs, and enjoyable store experiences."

The current performance management system is not delivering results in terms of business performance, with the company posting a 10% decline in sales during last month, the 12th monthly decrease in a row. The chief executive officer (CEO) believes that this is because of a lack of strategic alignment between the company's overall mission and its retail stores.

Imagine the class instructor is the CEO of the company, and the other students are members of the top management team. Your task is to devise a new strategic plan that achieves the CEO's goal of greater alignment between organizational- and store-level strategies. Based on the mission statement of the company and other information provided:

1. Develop a mission and vision statement that translates the organization's mission statement for the retail stores using the guidelines below *(Hint: Sections 3.3.3 and 3.3.4 provide detailed guidance and examples of mission and vision statements).*

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- Mission statements should include: The product offered (clothing); the target customer group (young adults and casual wear for professionals); benefits of the product (cost, quality, style); technology used (if applicable); and a focus on sales growth and profitability (increasing revenue).
- Vision statements should be: succinct, verifiable, time-bound, focused, clear, inspirational, and challenging.

2. Develop 2-3 retail store objectives and the strategies to achieve those objectives. These should be closely linked to the new mission and vision statement. *(Hint: Sections 3.3.5, 3.3.6, and 3.3.7 provide detailed guidance and examples of setting objectives and strategies)*
   - Objectives should address the next three to five years and provide a clear performance target to aim for. They might address issues such as sales revenue, payroll, or advertising.
   - Strategies should address *how* the objectives will be achieved. They might address issues such as operations, customer surveys and benchmarking, or inventory management.
3. Prepare a brief (5–10 minute) presentation that:
   - Presents the new strategic plan (mission, vision, objectives, and strategies) to the CEO and the top management team
   - Convinces the CEO and the top management team to support the new plan
     - Your presentation should clearly answer the question "What's in it for me?" for both the CEO and the rest of the top management team
     - Articulate how the new plan aligns with the organization's overall mission and how it will lead to greater sales
     - Consider how you can make the CEO and the rest of the top management team feel a sense of involvement and ownership (e.g., allow top management team members to provide suggestions about the verbiage of the mission or vision; allow them to take responsibility for some part of the process)

* This exercise is loosely based on Gap Inc. *Encouraging Employees to Grow, Perform and Succeed–without Ratings*. https://www.e-reward.co.uk/uploads/editor/files/GapInc_Case_Study.pdf

CASE STUDY 3-1

Evaluating Vision and Mission Statements at PepsiCo

Consider the mission and vision statements for PepsiCo and then answer the questions included below:

PepsiCo's Mission Statement*

Our mission: *Create more smiles with every sip and every bite.*

- For our consumers: By creating joyful moments through our delicious and nourishing products and unique brand experiences.
- For our customers: By being the best possible partner, driving game-changing innovation, and delivering a level of growth unmatched in our industry.
- Four our associates and our communities: By creating meaningful opportunities to work, gain new skills and build successful careers, and a diverse and inclusive workplace.
- For our planet: By conserving nature's precious resources and fostering a more sustainable planet for our children and grandchildren.

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- Four our shareholders: By delivering sustainable top-tier TSR and embracing best-in-class corporate governance.

PepsiCo's Vision Statement

Be the global leader in convenient foods and beverages by winning with purpose. This reflects our ambition to win sustainably in the marketplace and accelerate our top-line growth, whilst keeping our commitment to do good for the planet and our communities. It builds on decades of progress we've made since PepsiCo was founded in 1965, while setting a firm foundation for a new era of growth and prosperity. To help us achieve this vision, we've defined a new set of aspirations: to become Faster, Stronger, and Better.

1. The table below summarizes the key characteristics of ideal mission and vision statements as discussed in Chapter 3. Use the Y/N columns in the table to indicate whether each of the features is present, or not, in the mission and vision statements of PepsiCo.
2. How do the mission and vision statements relate to the eight characteristics of an ideal mission statement and the eight characteristics of an ideal vision statement? What are the gaps?
3. How useful are the mission and vision statements of PepsiCo in terms of linking organizational priorities with individual and team performance? In creating such a linkage, which ideal mission/vision statement characteristics (shown in the table above) seem to be more important than others? What other places might the HR department at PepsiCo look for information regarding how to more effectively cascade firm-level strategy to each individual's objectives?

	Characteristics	**Y/N**
	Basic product/service to be offered (does what)	
	Primary markets or customer groups to be served (to whom)	
Mission statement—who we are and what we do	Unique benefits, features, and advantages of products/services (with what benefits)	
	Technology to be used in production or delivery	
	Fundamental concern for survival through growth and profitability	
	Managerial philosophy of the organization	
	Public image sought by organization	
	Self-concept of business adopted by employees, shareholders, and other stakeholders	
	Brief—so that employees can remember it	
	Verifiable—able to stand the reality test	
	Bound by a timeline—specifies a timeline for fulfillment of the various aspirations	
	Current—updated on an ongoing basis	
Vision—Statement of future aspirations	Focused—lists a few (3–4) aspects of organization's performance that are important to future success	
	Understandable—written in a clear and straightforward manner so that they are understood by all employees	
	Inspiring—makes employees feel good about their organization's direction and motivates them to help achieve the vision	
	Stretch—objective not easily attained	

* PepsiCo (2021). Mission & vision. https://www.pepsico.com/about/mission-and-vision, PepsiCo, Inc. Used with permission.

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CASE STUDY 3-2

Linking Performance Management to Strategy at Boeing

Consider the following description about Boeing[32]:

The Boeing Company is an American multinational firm that designs, manufactures, and sells airplanes, rotorcraft, rockets, satellites, telecommunications equipment, and missiles worldwide. Boeing is the world's largest aerospace company and the second-largest defense contractor in the world based on 2018 revenue. It is also the largest exporter in the United States by dollar value.

In March 2019, the Boeing 737 MAX passenger airliner was grounded worldwide after 346 people died in two crashes, Lion Air Flight 610 on October 29, 2018, and Ethiopian Airlines Flight 302 on March 10, 2019. Ethiopian Airlines immediately grounded the entire MAX fleet. The next day, the Civil Aviation Administration of China ordered the first nationwide grounding, and many other aviation authorities followed suit. The U.S. Federal Aviation Administration (FAA) also ended up grounding all 737 MAX planes on March 13 after an investigation determined evidence of accident similarities. These groundings became the longest ever of a U.S. airliner and included a total of 387 aircraft, which had served 8,600 flights per week for 59 airlines. However, this was not the first scandal for Boeing. Before the 737 MAX crashes, Boeing was having difficulties creating an aircraft that would meet the demand for a midsized aircraft in between its single-aisle 737 and larger twin-aisle 787 planes. With the MAX crisis, the plans to launch an entirely new jetliner for this midsize market (the fastest growing market in the industry) have been abandoned.

Those familiar with the company highlighted that the severe problems that Boeing was facing were a consequence of a culture that consistently prioritized short-term rewards to shareholders over engineering-driven decisions and long-term strategy, including investments in R&D. Even Wall Street analysts were complaining that the board of directors was unable to provide the leadership the company needed.

Imagine you are an HR executive at Boeing. The board of directors just met and decided to prioritize the safety of the planes and promote R&D to ensure long-term sustainability. They are asking you to develop a new performance management system and ensure that these strategic goals are properly implemented in the next six months. Given the company's new strategic orientation, what would you do to help align a new performance management system with this strategic direction? How would you explain anticipated benefits? What would you say and do to garner company-wide support for your proposed performance management system?

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Part Two

System Implementation

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chapter 4

Defining Performance and Choosing a Measurement Approach

You have to measure to understand

—Ginni Rometty

Learning Objectives

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

- Argue that performance involves both behaviors and results and that performance is evaluative and multidimensional in nature.
- Prepare a list of the factors that determine performance, including abilities and other traits, knowledge and skills (including declarative knowledge and procedural knowledge), and context.
- Propose a list of contextual factors (e.g., HR policies, organizational and national culture) that have a direct impact on performance.
- Plan interventions involving deliberate practice and extreme ownership with the goal of improving performance.
- Propose how to address and anticipate performance problems.
- Identify the competency architecture for a given job.
- Create a performance management system that could include key performance indicators (KPIs) of each of the four types or dimensions of performance: (a) task, (b) contextual, (c) counterproductive, and (d) adaptive.
- Set up a behavior approach to measuring performance (e.g., competency modeling), which basically focuses on how the job is done as opposed to the results produced.
- Set up a results approach to measuring performance, which basically focuses on the outcomes of work as opposed to the manner in which the work is done.

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DEDICATION

To my brother Gerardo, an indefatigable entrepreneur, trouble-shooter, admirable Jack of all trades, and inseparable companion in all of my adventures since I was three years old

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In today's globalized economy, it is relatively easy to gain access to the competition's technology and products. Thanks to the global penetration of the internet, technological and product differentiation is no longer a key competitive advantage in most industries. For example, most banks offer the same types of products (e.g., different types of savings accounts and investment opportunities). If a particular bank decides to offer a new product or service such as an improved mobile phone app to make investment decisions, it will not be long until the competitors offer precisely the same product. As noted by James Kelley, former performance management project leader at Idaho Power, "technology is a facilitator, but not a guarantor, of the effectiveness or efficiency of a company's workforce."[1]

So, what makes some businesses more successful than others? What is today's key competitive advantage? The answer is people. Organizations with engaged and talented employees offer outstanding service to customers to pull ahead of the competition, even if the products offered are similar to those offered by the competitors. This is a key organizational resource that many label "human capital" or "talent" and gives organizations an advantage over the competition.[2] Customers want to get the right answer at the right time, and they want to receive their products and services promptly and accurately. Having the right human capital can make these things happen. Only human capital can produce a sustainable competitive advantage. And performance management systems are the key tools that can be used to transform people's talent and motivation into a strategic business advantage—an advantage that is difficult to imitate unless the right systems and processes are in place. Also, organizations that measure and reward performance fairly and accurately have been able to deal with the COVID-19 pandemic more effectively.[3]

Unfortunately, performance management is not living up to its promise in terms of turning human capital into a source of competitive advantage. For example, consider Mercer's Global Performance Management Survey, which gathered data from more than 1,050 performance management leaders representing 53 countries. These organizations varied in size from about 1,000 to more than 10,000 and represented several types of industries (e.g., for-profit, non-profit, government). A very troubling result was that only 3% reported that their performance management system delivers exceptional value. Also, many aspects of organizations' performance management approach were evaluated as ineffective.[4] So there is a big disconnect between the *potential* that performance management has in terms of turning human capital into an organization's source of competitive advantage and the actual role of performance management in most organizations. As noted in Mercer's report, "establishing an effective employee performance management system is a major challenge for most organizations, making performance management a perennial hot topic ... companies around the world are regularly in search of best practices and new solutions for this core process." And, hence, the need for this book.

I am delighted to offer this fifth edition in partnership with Chicago Business Press. You will find this edition much updated and improved in terms of content, as well as easier to read because of its improved layout and design. This fifth edition includes the

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following broad changes. More detailed information on each of these improvements is provided in the section titled "Major Features in This Fifth Edition."

- Each of the chapters includes updated content and material and new sources.
- This edition includes new "Company Spotlights" boxes in every other chapter, featuring leading companies such as Nike, Accenture, Goldman Sachs, Google, Facebook, Netflix, Microsoft, Salesforce, Nokia, and many others.
- This new edition also includes a new case study in every other chapter.
- Expanding upon improvements in the previous edition, this fifth edition describes the key "strategic partner" and "internal consultant" role played by the HR function in the design and implementation of the performance management system.
- There is an emphasis on the changing nature of work and organizations, including globalization, technology and Big Data, teamwork, AI, and demographics (e.g., generational differences), and how these changes affect the design and implementation of performance management systems.
- Similar to its predecessor, this fifth edition emphasizes that knowledge generated regarding performance management is essentially multidisciplinary.

Some Unique Features of This Book

Performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning their performance with the strategic goals of the organization. Performance management is critical to small and large, for-profit and not-for-profit, and domestic and global organizations, and to all industries. In fact, the performance management model and processes described in this book have been used to create systems to manage the performance of students in colleges and universities[5] and employees in small and medium enterprises (SMEs).[6] After all, the performance of an organization depends on the performance of its people, regardless of the organization's size, purpose, and other characteristics. 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." As an example in the not-for-profit sector, Youth Villages, a private child welfare provider operating in 12 states and the District of Columbia has gained national recognition for its evidence-based performance management system. By tracking performance data on children and families both during and after leaving care, Youth Villages is able to better understand its program outcomes and effectiveness in delivering social value to the community. The information collected from the performance management system is also used to manage employee performance, assess the achievement of strategic goals, and help upper management decision-making. The performance management system provides a detailed description of practices to help guide implementation, the metrics used to quantify performance, and how employees are scored on whether they adhere to those metrics.[7]

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Unfortunately, however, if they have one, few organizations use their existing performance management systems in effective ways. Performance management is usually vilified as an "HR department requirement." In many organizations, performance management means that managers must comply with their HR department's request and fill out tedious and often useless evaluation forms. These evaluation forms are often completed only because it is required by the "HR cops." Unfortunately, the only tangible consequence of the evaluation process is that managers have to spend time away from their "real" job duties.

In the latest wave of criticisms of performance management, "performance ratings" are now the target. Also, there is quite a bit of popular media and business press hype about the "demise" of performance evaluation, performance measurement, and performance reviews. Currently, many companies, including GE, Microsoft, Google, Yahoo, Adobe, and Accenture, are going through a similar process of transitioning from a performance appraisal (i.e., a dreaded once-a-year evaluation and review) to a performance management system (i.e., ongoing evaluation and feedback). However, contrary to the way this trend is usually described in business publications and the media with such headlines as "Performance Evaluation Is Dead" and "The End of Performance Reviews," the evaluation of performance is not going away. In fact, performance assessment and review are becoming a normal, routine, built-in, and ever-present aspect of work in 21st-century organizations because performance management systems play a critical role and serve important purposes.

So it is not the case that companies are abandoning ratings and performance measurement and evaluation. They are actually implementing performance systems more clearly aligned with best practices, as described in this text, that involve a *constant and ongoing evaluation of performance*! The companies mentioned above and many others in all industries, including government agencies like the U.S. National Security Agency (NSA) have eliminated the labels "performance evaluation," "performance review," and even "performance management." Instead, they use labels such as "performance achievement," "growth processes," "talent evaluation and advancement," "check-ins," and "employee development." They still implement performance management but use new, more fashionable, and perhaps less threatening labels. It has been extremely gratifying to see the transition of so many companies from performance appraisal to performance management, as has been described since the first edition of this text almost 15 years ago. To sum this up, by paraphrasing Mark Twain, we can say with certainty that the death of performance management has been vastly exaggerated.[8]

This book is about the design and implementation of effective and successful performance management systems. In other words, it focuses on research-based findings and up-to-date applications that help increase an organization's talent pool. Performance management is ongoing and cyclical; however, for pedagogical reasons, the book needs to follow a linear structure. Because performance observation, evaluation, and improvement are ongoing processes, some concepts and practices may be introduced early in a cursory manner but receive more detailed treatment in later sections. In addition, many issues, such as training of raters and employee development, are discussed in multiple chapters. So you will see that several chapters may refer to similar issues. When this happens, content included in several chapters will be cross-referenced.

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Finally, this book focuses on best practices and describes the necessary steps to create a top-notch performance management system. As a result of practical constraints and lack of knowledge about system design and implementation, many organizations cut corners and do not have systems that follow best practices. Environmental and political issues (e.g., goals of raters may not be aligned with goals of the organization) also play a role. Because the way in which systems are implemented in practice is often not close to the ideal system, the book includes numerous examples from actual organizations to illustrate how systems are implemented given actual situational constraints.

Major Features in This Fifth Edition

First, this edition includes important updates and additional information. In preparation for revising and updating this book, I gathered about 1,500 potentially relevant articles and books. About 100 of those sources are now included in this fifth edition. These sources have been published since the fourth edition of the book went into production and demonstrate an increased interest in performance management on the part of both academics and practitioners.

Second, there is an emphasis on the role of the context within which performance management takes place. Performance management does not operate in a vacuum. Rather, it takes place within a particular organizational context and organizations have a particular history, unwritten norms about what is valued and what is not (i.e., an organization's culture), and unwritten norms about communication, trust, interpersonal relations, and many other factors that influence daily activities. Thus, for example, implementing an upward feedback system may be effective in some organizations but not in others (Chapter 8). As a second illustration, some organizations may have a culture that emphasizes results more than behaviors which, in turn, would dictate that the performance management system also emphasize results; instead, other organizations may emphasize long-term goals, which would dictate that performance be measured by emphasizing employee behaviors rather than results (Chapter 4). Also, we need to understand the contextual reasons why sometimes performance ratings may not be accurate—particularly if there is no accountability for raters to provide valid assessments (Chapter 6). As yet another example, cultural factors affect what sources are used for performance information: In a country like Jordan, whose culture determines more hierarchical organizational structures, the almost exclusive source of performance information is supervisors, whereas employees and their peers almost have no input. This situation is different in countries with less hierarchical cultures in which not only performance information is collected from peers but also supervisors are rated by their direct reports (Chapter 6). To emphasize the role of national culture, this edition describes research conducted in organizations in the United States and Canada, but also in Jordan, Japan, China, Turkey, Eritrea, Germany, Spain, South Korea, Mexico, Australia, the United Kingdom, Brazil, India, and others.

Third, this edition describes two key roles played by the HR function: strategic partner and internal consultant. Regarding the first role, the HR function is unfortunately often vilified as being merely operational and not able to think or act strategically. Well, over the past two decades or so, an entire new field of research has emerged and it is

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called *strategic human resource management*. Strategic human resource management is about planning and implementing HR policies and activities with the goal of enabling an organization to achieve its strategic goals.[9] Performance management is an ideal vehicle to demonstrate the strategic role of the HR function because it allows for explicit and clear linkages between an organization's mission, vision, and objectives and individual and team performance. By helping implement a successful performance management system, the HR function can get a "seat at the table" of the top management team. In fact, the few current or former CEOs with HR background, including Lisa M. Weber at MetLife, Nigel Travis at Dunkin' Brands Group, Samuel R. Allen at John Deere, James C. Smith at Thomson Reuters, Steven L. Newman at Transocean, and Mary Barra at General Motors, have been able to serve as strategic partners, which is in large part what propelled their trajectory from an HR role to the very top of their organizations. Second, the HR function serves as an internal consultant for all organizational members participating in the performance management system. For example, it offers advice on how to measure performance, resources in the form of training opportunities, and can also lead the strategic planning process. So, although the HR function is certainly not the "owner" of the performance management system, it adds value by playing a key role in its design and implementation.

Fourth, this edition highlights important changes in the nature of work and organizations and how these changes have a direct impact on the design and implementation of performance management systems. These changes involve globalization, technology, and demographics. Regarding 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. How do we design a successful performance management system that takes into account the fact that employees work together across time zones on a daily basis without having ever met in person—although they have regular interactions using Zoom? Regarding technology, companies are now able to gather employee data that was simply unimaginable just a few years ago—what is usually called "Big Data." For example, the use of GPS allows companies to track the location of its salesforce real-time 24/7. Also, Web and mobile access allow employees to provide and receive feedback on an ongoing basis from anywhere and at any time. The availability of data as well as AI offers almost unlimited opportunities to measure different facets of performance but also creates challenges and the need to understand the difference between "Big Data" and "Smart Data." Third, regarding team work, there is hardly any job that is done without working with others. These changes highlight the importance and pervasiveness of teams and the need for a performance management system to include a formal team management component—as well as consider different types of teams such as virtual teams. Fourth, regarding demographic changes, because baby boomers are retiring in large numbers, members of Generation X, Generation Y or Millennials, and Generation Z or Post-Millennials are now entering the workforce in large numbers. Gen X and Gen Y employees are "digital natives" and 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.

Fifth, this edition emphasizes that knowledge generated regarding performance management is essentially multidisciplinary. Accordingly, the sources used to support

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best-practice recommendations offered in this book come from a very diverse set of fields of study ranging from micro-level fields focusing on the study of individuals and teams (e.g., organizational behavior, human resource management) to macro-level fields focusing on the study of organizations as a whole (e.g., strategic management, accounting, information systems, engineering). This is consistent with a general movement toward multidisciplinary and integrative research in the field of management.[10] For example, best-practice recommendations regarding performance management analytics originate primarily from industrial and organizational psychology (Chapter 5). On the other hand, best-practice recommendations regarding the relationship between performance management and strategic planning were derived primarily from theories and research from strategic management studies (Chapter 3). In addition, much of the best-practice recommendations regarding team performance management originated from the field of organizational behavior (Chapter 11).

Sixth, this edition emphasizes the important interplay between science and practice. Unfortunately, there is a great divide in management and related fields between scholars and practitioners. From the perspective of scholars, much of the work conducted by practitioners is seen as relevant but not rigorous. Conversely, from the perspective of practitioners, the work done by scholars is seen as rigorous but mostly not relevant. This "science-practice divide" has been documented by a content analysis of highly prestigious scholarly journals, which regularly publish research results that do not seem directly relevant to the needs of managers and organizations.[11] This edition attempts to bridge this divide by discussing best-practice recommendations based on sound theory and research and, at the same time, discussing the realities of organizations and how some of these practices have been implemented in actual organizations.[12]

Seventh, this edition, like its predecessor, describes the technical aspects of implementing a performance management system in detail. In addition, this edition emphasizes the key role that interpersonal dynamics play in the process.[13] Traditionally, much of the performance appraisal literature has focused almost exclusively on ratings and the measurement of performance—for example, whether it is better to use five-point versus seven-point scales. However, more recent research suggests that issues such as trust, politics, leadership, negotiation, mentorship, communication, and other topics related to interpersonal dynamics are just as important in determining the success of a performance management system. Accordingly, this edition discusses the need to establish a helping and trusting relationship between supervisors and employees (Chapter 9), the role of an organization's top management in determining the success of a system (Chapter 3), and the motivation of supervisors to provide accurate performance ratings (Chapter 6), among many other related issues throughout the book.

Eighth, this edition includes "company spotlight" boxes in every chapter. These application boxes are important because they serve the purpose of illustrating the concepts described in each chapter using contemporary examples. Also, these boxes will allow you to see how performance management is "done in real organizations" as well as allow you to think about some thorny and, in some cases, unresolved issues. Some of the organizations featured in this fifth edition include The Gap, Sears, Nike, Adobe, U.S. Department of Defense, Accenture, Goldman Sachs, Google, Airbnb, Facebook, Netflix, Microsoft, Salesforce, Dollar General, Intermex, BT Global Services, Accenture, Deloitte, GE, Nokia, and many others—including several less-known SMEs.

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Ninth, this fifth edition includes new hands-on "Exercises" at the end of each chapter. These hands-on exercises will make learning the material more fun and also enhance the pedagogical experience of your course. In total, this edition includes 22 exercises (i.e., two per chapter).

Finally, this new edition includes two case studies in each chapter, also for a total of 22. One case in every other chapter has been updated. In addition, the instructor's manual includes several more cases per chapter, for a total of about 40 additional ones. Thus, depending on an instructor's preference, a course based on this new edition could be taught entirely following a case format, experiential format, lecture format, or a combination of the three.

In addition to the aforementioned changes that permeate the entire book, each chapter includes new sections. Consider the following examples:

- Chapter 4: New section on competency architectures. A competency architecture offers a set of rules to guide the selection of competencies and proficiency levels required for every job profile in a firm. This new section describes four types of competencies: (1) core, (2) job family, (3) technical or professional, and (4) leadership. The new material describes the benefits of designing and implementing a competency architecture such as alignment, fairness, and continuity.
- Chapter 5: New material on how AI is increasingly being used to measure performance and identify talent. While the use of AI is still nascent, this new material describes this increasing trend that is here to stay and how firms are already delegating several responsibilities to AI. This section describes that the performance management activities that can be enhanced by AI include identifying high and low performers, recognizing workers' strengths, hiring, measuring employee engagement, and retention.
- Chapter 9: New section on why and how to stay connected with ex-employees. This new material describes that whenever managers need to make the tough call, they should ensure they manage the exit of employees properly so the relationship is not broken and they can stay connected with ex-employees. Some of the long-lasting benefits of keeping these ties include (1) potential clients, (2) future business partners, (3) brand ambassadors, and (4) rehires.
- Chapter 9: New section on the need for leaders to also receive coaching. This new section explains that with an increase in managers' workloads, leaders tend to not find the time to develop their own skills. Leaders need training on hiring the right team members, motivating and developing them, evaluating both individual and team dynamics, resolving conflicts, and developing partnerships. They must also develop self-awareness and avoid becoming one of the four types of bad leaders: (1) micromanagers, (2) neglectful managers, (3) bully bosses, and (4) divisive bosses.
- Chapter 10: New section on what to do when employees reach the top of their salary bands. This new material discusses the need for leaders to control salary growth by ensuring that their salary structure is not so rigid that top performers are forced to leave the firm if they are offered better compensation elsewhere. To avoid the departure of critical employees, the new material describes the need for leaders to engage in proactive career discussions. To make sure these conversations are

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effective, they should involve good planning, looking for potential solutions, being aware of unique circumstances, analyzing the frequency of cases, and crafting a policy for the future.

Plan for the Book

Part I, which includes Chapters 1 through 3, addresses general as well as strategic considerations regarding performance management. Chapter 1 discusses the advantages of implementing a successful performance management system, as well as the negative outcomes associated with deficient systems, including lowered employee motivation and perceptions of unfairness. This chapter also includes the features of an ideal system. Chapter 2 describes the performance management process starting with what should be done before a system is implemented and ending with the performance review stage. Chapter 3 links performance management systems with an organization's strategic plan. This chapter makes it clear that a good performance management system is a critical component of the successful implementation of an organization's strategy.

Part II, including Chapters 4 through 7, addresses the details of system implementation. This discussion is sufficiently general yet detailed enough so that all managers, not just HR managers, will benefit from this material. Chapters 4 and 5 describe some of the technical aspects associated with the assessment of performance and how to identify and measure both behaviors and results. Chapter 6 discusses performance analytics and the advantages and disadvantages of using various sources of performance information (e.g., supervisor, peers, and customers). Finally, Chapter 7 describes the steps involved in rolling out the new performance management system or changes in an existing system, including a communication plan and pilot testing of the system before it is implemented.

Part III, including Chapters 8 and 9, addresses employee and leadership development issues. Chapter 8 includes a description of employee developmental plans and the advantages of using multisource feedback systems for developmental purposes. Chapter 9 addresses the skills needed by supervisors to become true "performance management leaders."

Part IV, including Chapters 10 and 11, concerns the relationship among performance management, rewards, the law, and teams. Chapter 10 includes a discussion of different types of rewards (including relational or intangible rewards), traditional and contingent pay plans, and their links to performance management. In addition, this chapter provides a discussion of legal issues to consider when implementing a performance management system. Finally, Chapter 11 addresses the timely topic of how to design and implement performance management systems dealing specifically with team performance.

Faculty and Student Resources

Each of the chapters includes a list of actionable learning objectives at the beginning as well as summary points at the end, two hands-on exercises, and two case studies for discussion. I hope this material will allow students to have an enjoyable and productive

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learning experience that will enhance their own individual human capital. Also, there are additional resources available for instructors, including PowerPoint slides, exam questions and answers (multiple choice and essay-type), and additional case studies that can be used for in-class discussions or also as examination materials or take-home homework or examinations. These materials will allow instructors to prepare for teaching this course quicker and make teaching this course a more enjoyable and interactive experience. To request access the instructor resources, visit www.chicagobusinesspress.com.

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I thank each of you for your time and intellectual investment in this project. Your coaching and feedback certainly helped me improve my performance!

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Dr. Herman Aguinis is the Avram Tucker Distinguished Scholar, Professor of Management, and Chairperson of the Department of Management at the George Washington University School of Business. He has been elected for the presidency track of the Academy of Management (AOM), served as program chair for the AOM 2020 Virtual Conference and as AOM president in 2021–2022. The Web of Science Highly Cited Researchers Reports has ranked him among the world's 100 most impactful researchers in economics and business every year since 2018. He has been a visiting scholar at universities in the People's Republic of China (Beijing and Hong Kong), Malaysia, Singapore, Argentina, France, Spain, Puerto Rico, Australia, and South Africa. His research, teaching, and consulting activities focus on the acquisition and deployment of talent in organizations. Dr. Aguinis has published ten books, including *Applied Psychology in Human Resource Management* (with Wayne F. Cascio, 8th ed., 2019, Sage), *Performance Management for Dummies* (2019, Wiley), and *Regression Analysis for Categorical Moderators* (2004, Guilford). In addition, he has written about 200 refereed journal articles. Dr. Aguinis is a Fellow of the Academy of Management, American Psychological Association, the Society for Industrial and Organizational Psychology, and the Association for Psychological Science. He has served as president of the Iberoamerican Academy of Management, division chair for the Research Methods Division of the Academy of Management, and editor-in-chief for the journal *Organizational Research Methods*. He has delivered about 300 presentations and keynote addresses at professional conferences, delivered more than 160 invited presentations in all seven continents except for Antarctica, raised about $5 million for his research and teaching endeavors from private foundations and federal sources (e.g., National Science Foundation), and consulted with numerous organizations in the United States, Europe, and Latin America. He has received several career contributions awards, including the Losey Award by the Society for Human Resource Management Foundation for lifetime achievement in human resource research, Academy of Management Research Methods Division Distinguished Career Award for lifetime contributions, Society for Industrial and Organizational Psychology Scientific Contributions Award for lifetime contributions, Academy of Management Practice Theme Committee Scholar Practice Impact Award recognizing outstanding impact on policy making and managerial and organizational practices, Academy of Management Entrepreneurship Division IDEA Thought Leader Award, and International Council for Small Business Global Leadership Excellence Award in Support of MSMEs. His research has been featured by *The Economist*, *Forbes*, *BusinessWeek*, *National Public Radio*, *USA Today*, *Univision*, and other media. For more information, please visit http://hermanaguinis.com/

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Part One

Strategic and General Considerations

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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.

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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

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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

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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

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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.

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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

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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)

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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]

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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.

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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]

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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.

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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

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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.

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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

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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

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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

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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

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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

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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

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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?

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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

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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

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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

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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

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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)

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- 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.

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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.	

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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*)

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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."

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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

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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.

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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

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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.

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chapter 2

Performance Management Process

One bad day from one member of my staff doesn't mean they are not really good at their jobs the rest of the time. I play a long game in terms of management.

–Helen McCabe

Learning Objectives

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

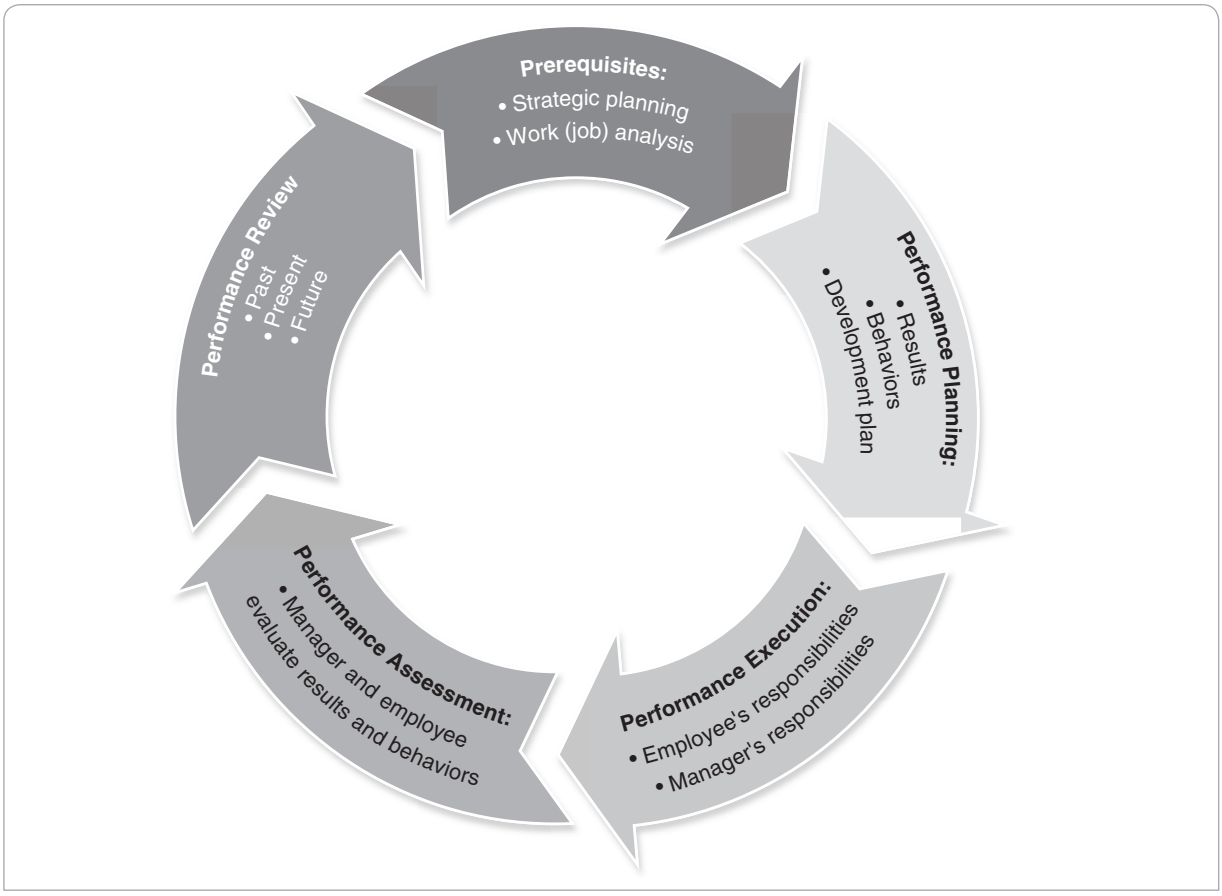
- Articulate that performance management is an ongoing and circular process that includes the interrelated components of prerequisites, performance planning, performance execution, performance assessment, and performance review.
- Argue that the poor implementation of any of the performance management process components has a negative impact on the system as a whole and that a dysfunctional or disrupted link between any two of the components also has a negative impact on the entire system.
- Assemble important prerequisites needed before a performance management system is implemented, including knowledge of the organization's mission and strategic goals through strategic planning and knowledge of the job in question through work analysis.
- Conduct a work analysis to determine the knowledge, skills, and abilities (KSAs), tasks, technology, work activities, work context and working conditions of a particular job; and produce a job description that incorporates the KSAs of the job and information on the organization and unit mission and strategic goals.
- Distinguish results from behaviors and understand the need to consider both as well as development plans in the performance planning stage of performance management.
- Critique the employee's role in performance execution, and distinguish areas over which the employee has primary responsibility from areas over which the manager has primary responsibility.
- Recommend the employee's and the manager's responsibility in the performance assessment phase.
- Be prepared to participate in appraisal meetings that involve the past, the present, and the future.

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As described in Chapter 1, performance management is an ongoing process. It certainly does not take place just once a year. Also, performance management is a continuous process, and it includes several components.[1] Moreover, performance management is not "owned" by the human resources (HR) function. Clearly, the HR function plays a critical role in terms of offering support and resources, such as in-person and online training opportunities and online tools that can be used to measure performance and share feedback. To show understanding and support for performance management, both the CEO and the top management team must understand the benefits of an efficient system. When designing and implementing a performance management system, the role of the CEO and top management team is key because they should lead by example and encourage the rest of the managers in the organization to do the same[2]. In other words, performance management must be owned and managed by each unit and supervisors play a critical role. After all, the principal responsibility of managers is to manage, right?

The components of a performance management system are closely related to each other, and the poor implementation of any of them has a negative impact on the performance management system as a whole. The components in the performance management process are shown in Figure 2.1. But here's an important clarification about this

FIGURE 2.1 • Overview of Performance Management Process and its Components



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chapter: It is a sort of preview, because it provides an overview and brief description of each of these components. So, when appropriate, the various sections in this chapter refer to subsequent chapters that include more detailed information on various topics. Let's start with the prerequisites.

Prerequisites

There are two important prerequisites that are required before a performance management system is implemented. First, knowledge of the organization's mission and strategic goals. Second, knowledge of the job in question.[3]

Strategic Planning

Chapter 3 will address the strategic planning process in detail. For now, please consider that knowledge of the organization's mission and strategic goals is a result of strategic planning. Also, as will be discussed in detail in Chapter 3, the strategic planning process may take place *after* the mission and vision statements are created. In other words, there is a constant back and forth between mission and vision and strategic planning.

Strategic planning allows an organization to clearly define its purpose and reason for existing, where it wants to be in the future, the goals it wants to achieve, and the strategies it will use to attain these goals. Once the goals for the entire organization have been established, similar goals cascade downward, with units setting objectives to support the organization's overall mission and objectives. The cascading continues downward until each employee has a set of goals compatible with those of the entire organization. The same process applies to large, small, and medium-sized organizations.

Unfortunately, it is often the case that many organizational units are not in tune with the organization's strategic direction. However, there seems to be a trend in the positive direction. For example, a study including public sector organizations in Queensland, Australia, showed a fairly high level of strategic integration of the HR function. Specifically, approximately 80% of the organizations that participated in the study were categorized as having achieved the highest level of strategic integration. This level is characterized by a dynamic and multifaceted linkage based on an "integrative relationship between people management and strategic management process."[4] Recall that an important objective of any performance management system is to enhance each employee's contribution to the goals of the organization. If there is a lack of clarity regarding where the organization wants to go, or if the relationship between the organization's mission and strategies and the unit's mission and strategies is not clear, there will be a lack of clarity regarding what each employee needs to do and achieve to help the organization get there.

Work (Job) Analysis

The second important prerequisite before a performance management system is implemented is to understand the job in question. Although traditionally the literature has used the term *job,* the use of *work* is more appropriate today because job seems to convey the notion that there is a static, constant, and even rigid set of tasks and responsibilities.[5] In fact, given changes in the nature of work and organizations (as discussed in Chapter 1),

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jobs are anything but static. Because people are asked to work on new projects, participate on different teams, and use new apps and technologies on an ongoing basis, jobs also change on an ongoing basis. So, because new tasks and responsibilities are created all the time, new "jobs" are also created all the time and old ones are redesigned on an ongoing basis.[6] From this point forward, we will still use the term *job* but make sure you keep in mind this dynamic point of view.

Understanding employees' tasks and responsibilities is done through work analysis. Work analysis is a process of determining the key components of a particular job, including activities, tasks, products, services, and processes. A work analysis is a fundamental prerequisite of any performance management system because, without a work analysis, it is difficult to understand what constitutes the required duties for a particular position. If we don't know what an employee is supposed to do on the job, we won't know what needs to be evaluated and how to do so.

As a result of a work analysis, we obtain information regarding the tasks carried out and the knowledge, skills, and abilities (KSAs) required of a particular job. Knowledge includes having the information needed to perform the work but not necessarily having done it. Skills refer to required attributes that are usually acquired by having done the work in the past. Ability refers to having the physical, emotional, intellectual, and psychological aptitude to perform the work, but neither having done the job nor having been trained to do the work is required.[7]

The tasks and KSAs needed for the various jobs are typically presented in the form of a job description, which summarizes the job duties, needed KSAs, and working conditions for a particular position. As an illustration, see Figure 2-2 titled "Job Description for Trailer Truck Driver: Civilian Personnel Management Service, U.S. Department of Defense." This job description includes information about what tasks are performed (e.g., operation of a specific type of truck). It also includes information about the needed knowledge (e.g., manifests, bills of lading), skills (e.g., keeping truck and trailer under control, particularly in difficult weather conditions), and abilities (e.g., physical and spatial abilities needed to turn narrow corners).

Work analysis can be conducted using observation, off-the-shelf questionnaires, or interviews.[8] Data are collected from job incumbents (i.e., those doing the job at present) and their supervisors. Alternatively, if the job is yet to be created, data can be gathered from the individual(s) responsible for creating the new position and those who will supervise individuals in the new position. Observation methods include job analysts watching incumbents do the job, or even trying to do the work themselves, and then producing a

FIGURE 2.2 • Job Description for Trailer Truck Driver: Civilian Personnel Management Service, U.S. Department of Defense

Operates gasoline- or diesel-powered truck or truck tractor equipped with two or more driving wheels and with four or more forward speed transmissions, which may include two or more gear ranges. These vehicles are coupled to a trailer or semitrailer by use of a turntable (fifth wheel) or pintle (pivot) hook. Drives over public roads to transport materials, merchandise, or equipment. Performs difficult driving tasks such as backing truck to loading platform, turning narrow corners, negotiating narrow passageways, and keeping truck and trailer under control, particularly on wet or icy highways. May assist in loading and unloading truck. May also handle manifest, bills of lading, expense accounts, and other papers pertinent to the shipment.

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description of what they have observed. This method can be subject to biases because job analysts may not be able to distinguish important from unimportant tasks. Such analysis may not be suitable for many jobs. For example, a job analyst could not do the work of a police officer for safety reasons, or the work of a software programmer for lack of knowledge and skills to do the work. Off-the-shelf methods involve distributing questionnaires, including a common list of tasks or KSAs, and asking individuals to fill them out, indicating the extent to which each task or KSA is required for a particular job in question. These generic off-the-shelf tools can be practical, but they might not capture the nuances and idiosyncrasies of jobs out of the mainstream or jobs that involve novel technologies.

Interviews are a very popular work analysis method. During a work analysis interview, the job analyst asks the interviewee to describe what he or she does (or what individuals in the position do) during a typical day at the job from start to finish (i.e., in chronological order). Alternatively, the job analyst can ask the interviewee to describe the major duties involved in the job and then ask him or her to break down these duties into specific tasks. Once a list of tasks has been compiled, all incumbents should have an opportunity to review the information and rate each task in terms of frequency and criticality. The frequency and criticality scales may be the following:[9]

Frequency	Criticality
0: not performed	0: not critical
1: every few months to yearly	1: low level of criticality
2: every few weeks to monthly	2: below average level of criticality
3: every few days to weekly	3: average level of criticality
4: every few hours to daily	4: above average level of criticality
5: hourly to many times each hour	5: extremely critical

Rating both frequency and criticality is necessary because some tasks may be performed regularly (e.g., making coffee several times a day) but may not be very critical. The job analyst can then multiply the frequency scores by the criticality scores to obtain an overall score for each task. So, if making coffee receives a frequency score of 4 (i.e., "every few hours to daily") and a criticality score of 0 (i.e., "not critical"), the overall score would be $4 \times 0 = 0$. Considering frequency scores alone would have given us the wrong impression that making coffee is a task that deserved a prominent role in the job description. Overall scores for all tasks can be ranked from highest to lowest to obtain a final list of tasks.

Numerous work analysis questionnaires are available online. These questionnaires, which can be administered online, with a paper survey, or in interview format, can be used for a variety of positions. For example, the state of Delaware uses a work analysis questionnaire available at http://www.delawarepersonnel.com/class/forms/jaq/jaq.shtml. This questionnaire includes 18 multiple-choice job content questions. Job content information is assessed through three factors: (1) knowledge and skills, (2) problem solving, and (3) accountability and end results. For example, consider the following question about problem-solving

> *Which one statement most accurately describes your freedom to consider alternatives when addressing issues or problems? Select only one choice below.*

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- I follow detailed task lists or instructions from my supervisor or lead worker to get my work done. I refer problems immediately to my supervisor or others.
- I follow detailed standard procedures or instructions from my supervisor to get my work done. Occasionally, I change the work procedures or the order of the tasks (for example, filing records, sorting mail, cleaning floors).
- I follow standard work routines and well-understood tasks. Problems are alike from day-to-day. When problems arise, I can often respond by changing the order in which tasks are done (for example, typing, record keeping, supply delivery, telephone console operation, technical assistance on a survey crew).
- Due to changing work situations, I solve problems by considering different options with the guidance of my supervisor or within well-defined principles and procedures. I often consider the most appropriate procedure or example to follow (for example, deciding the layout of bridge designs, counseling clients on social services options, or investigating and interpreting state and federal laws in response to a complaint and recommending an appropriate course of action).
- I solve problems by considering many different principles, procedures, and standards. Because of changing priorities and work situations, I may consider which among several procedures to follow, and in what order to achieve the proper results (for example, administering state support services, considering family counseling or foster care options for a family in crisis, or how to organize health screening clinics).
- I solve problems by considering courses of action within the framework of existing policies, principles, and standards. I know what needs to be accomplished but must decide how to accomplish it. I may consider whether new methods need to be developed to achieve the proper results (for example, reengineering the way work is done and organized to improve the delivery of state services).
- I solve problems by considering courses of action within broad state or department policies and immediate objectives. I may determine that new department policies are needed. Although general goals are in place, I must set the plan and determine the priorities and processes to achieve state or department objectives (for example, considering the efficient organization of the largest divisions in the state or developing new principles and practices affecting services to citizens).

Conducting a Google search for the phrase "job analysis questionnaire template" leads to several other instruments offered free of charge by the following organizations, among many others:

- Society for Human Resource Management
- University of Houston
- University of Toledo
- WorldatWork

Be aware that some of these instruments may have been created for specific types of positions and industries (e.g., service jobs, nonsupervisory jobs). Make sure you check the suitability of the instrument before using it in a different organizational and industry context. Combining items and formats from various instruments already available may be the most effective way to proceed.

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An important component of a good work analysis is rater training. In other words, there are several biases that can affect the accuracy of the information provided by individuals regarding KSAs needed for a job.[10] Consider the following biasing factors:

1. *Self-serving bias:* This bias leads people to report that their own behaviors and personality traits are more needed for successful job performance compared to behaviors and personality traits of others. This is because people tend to attribute success to themselves and failure to external causes (i.e., factors outside of their control).
2. *Social projection and false consensus bias:* Social projection bias leads people to believe that others behave similarly to themselves and, hence, lead people to think about themselves when reporting KSAs for their job instead of people in general. False consensus bias is similar in that it leads people to believe that others share the same beliefs and attitudes as themselves.
3. *Carelessness bias:* Participants in job analysis differ in how carefully they attend to the job analysis rating task.[11] For example, they differ regarding how closely they read items, how appropriately they answer a specific question, and the extent to which they make needed distinctions between items. This bias is related to how people process information. Specifically, people rely on automatic (i.e., fast, effortless) and controlled (i.e., slow, effortful) information-processing modes. So they represent a potential trade-off between accuracy and quality (controlled processing) versus speed and efficiency (automatic processing). Careless bias results from the use of automatic versus controlled processes.

Taken together, self-serving, social projection, false consensus, and carelessness biases affect work analysis ratings because they lead people to believe that their own KSAs are those driving success on their jobs. So, these lead to an exaggerated view regarding the KSAs needed—and this exaggeration is based on precisely the KSAs that job incumbents have.

How do we address these biases? An experimental study involving two independent samples of 96 administrative support assistants and 95 supervisors working for a large city government implemented a successful Web-based training program that was able to mitigate some of these biases.[12] Specifically, across the five job characteristics rated in that study, individuals who did not participate in the Web-based training program were 62% (administrative support assistants) and 68% (supervisors) more likely to provide a higher rating than if the same individual provided the work analysis ratings after participating in the training program. The Web-based training program, which takes about 15 minutes to administer, provides a common frame of reference for all raters and includes the following five steps:

1. provide raters with a definition of each rating dimension
2. define the scale anchors
3. describe what behaviors were indicative of each dimension
4. allow raters to practice their rating skills, and
5. provide feedback on the practice

The information obtained from a work analysis is used for writing a job description. Writing a job description may seem like a daunting task; however, it does not have to be difficult. Generic job descriptions can be obtained online from the Occupational

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Informational Network (O*NET) (https://www.onetonline.org). O*NET is a comprehensive database of worker attributes and job characteristics that provides a common language for defining and describing occupations. The information available via O*NET can serve as a foundation for a job description. For each job, O*NET provides information on tasks, knowledge, technology skills, knowledge, skills, abilities, work activities, detailed work activities, work context, job zone, education, interests, work styles, work values, and credentials. Specifically:

- Personal requirements: the skills and knowledge required to perform the work
- Personal characteristics: the abilities, interests and values needed to perform the work
- Experience requirements: the training and level of licensing and experience needed for the work
- Job requirements: the work activities and context, including the physical, social, and organizational factors involved in the work
- Labor market: the occupational outlook and the pay scale for the work

O*NET descriptions can be easily adapted and changed to accommodate specific local characteristics of a given organization. For example, see O*NET's description for truck drivers in Figure 2.3 titled "Summary Report for Heavy and Tractor-Trailer Truck Drivers" (from O*NET)." This figure includes only some of the categories and only the top five topics (you can see the full information online). First, the summary description can be checked for accuracy and relevance by supervisors. Then, the list of KSAs provided by O*NET can be readily rated by incumbents (and additional KSAs may be added if needed). Clearly, this is a more detailed and useful job description compared to the generic description of truck driver in Figure 2.2.

O*NET is a particularly useful resource for small businesses because, for most of them, conducting a work analysis may not be feasible simply because there are not sufficient numbers of people in any particular position from whom to collect data. In addition, O*NET can be used when organizations expand and new positions are created. One thing needs to be clear, however: jobs change. Thus, job descriptions must be checked for accuracy and updated on an ongoing basis.

Job descriptions are a key prerequisite for any performance management system because they provide the criteria (i.e., yardsticks) that will be used in measuring performance. Such criteria may concern behaviors (i.e., how to perform) or results (i.e., what outcomes should result from performance). In our truck driver example, a behavioral criterion could involve the skill "equipment maintenance." For example, a supervisor may rate the extent to which the employee "performs routine maintenance on equipment and determines when and what kind of maintenance is needed." Regarding results, these criteria usually fall into one of the following categories: (1) quality, (2) quantity, (3) cost-effectiveness, and (4) timeliness.[13] In the truck driver example, results-oriented criteria can include the number of accidents (i.e., quality) and the amount of load transported over a specific period of time (i.e., quantity).

Some organizations are becoming aware of the importance of considering prerequisites before implementing a performance management system. Take the case of AllianceHealth Deaconess Hospital in Oklahoma City, Oklahoma, which includes a workforce of more than 500 healthcare professionals who maintain a 291-bed facility offering cancer

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FIGURE 2.3 • Summary Report for Heavy and Tractor-trailer Truck Drivers (from O*NET)[a]

DESCRIPTION

Drive a tractor-trailer combination or a truck with a capacity of at least 26,000 pounds Gross Vehicle Weight (GVW). May be required to unload truck. Requires commercial drivers' license.

TASKS

- Check vehicles to ensure that mechanical, safety, and emergency equipment is in good working order.
- Follow appropriate safety procedures for transporting dangerous goods.
- Inspect loads to ensure that cargo is secure.
- Maintain logs of working hours or of vehicle service or repair status, following applicable state and federal regulations.
- Secure cargo for transport, using ropes, blocks, chain, binders, or covers.

TECHNOLOGY SKILLS

- Data base user interface and query software—ddlsoftware.com drivers daily log program DDL; Easy Trucking Software; Fog Line Software Truckn2004; TruckersHelper
- Office suite software—Microsoft Office
- Operating system software—Microsoft Windows
- Route navigation software—ALK Technologies PC*Miler; MarcoSoft Quo Vadis
- Spreadsheet software—Microsoft Excel Hot technology.

KNOWLEDGE

- Transportation—Knowledge of principles and methods for moving people or goods by air, rail, sea, or road, including the relative costs and benefits.
- Public Safety and Security—Knowledge of relevant equipment, policies, procedures, and strategies to promote effective local, state, or national security operations for the protection of people, data, property, and institutions.
- Customer and Personal Service—Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.
- English Language—Knowledge of the structure and content of the English language including the meaning and spelling of words, rules of composition, and grammar.
- Mechanical—Knowledge of machines and tools, including their designs, uses, repair, and maintenance.

SKILLS

- Operation and Control—Controlling operations of equipment or systems.
- Operation Monitoring—Watching gauges, dials, or other indicators to make sure a machine is working properly.
- Time Management—Managing one's own time and the time of others.
- Critical Thinking—Using logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions, or approaches to problems.
- Monitoring Monitoring/Assessing performance of yourself, other individuals, or organizations to make improvements or take corrective action.

ABILITIES

- Control Precision—The ability to quickly and repeatedly adjust the controls of a machine or a vehicle to exact positions.
- Far Vision—The ability to see details at a distance.
- Multilimb Coordination—The ability to coordinate two or more limbs (for example, two arms, two legs, or one leg and one arm) while sitting, standing, or lying down. It does not involve performing the activities while the whole body is in motion.
- Near Vision—The ability to see details at close range (within a few feet of the observer).
- Reaction Time—The ability to quickly respond (with the hand, finger, or foot) to a signal (sound, light, picture) when it appears.

(*Continued*)

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FIGURE 2.3 • (Continued)

WORK ACTIVITIES

- Operating Vehicles, Mechanized Devices, or Equipment—Running, maneuvering, navigating, or driving vehicles or mechanized equipment, such as forklifts, passenger vehicles, aircraft, or watercraft.
- Inspecting Equipment, Structures, or Material—Inspecting equipment, structures, or materials to identify the cause of errors or other problems or defects.
- Getting Information—Observing, receiving, and otherwise obtaining information from all relevant sources.
- Identifying Objects, Actions, and Events—Identifying information by categorizing, estimating, recognizing differences or similarities, and detecting changes in circumstances or events.
- Controlling Machines and Processes—Using either control mechanisms or direct physical activity to operate machines or processes (not including computers or vehicles).

DETAILED WORK ACTIVITIES

- Inspect motor vehicles.
- Follow safety procedures for vehicle operation.
- Inspect cargo to ensure it is properly loaded or secured.
- Record operational or production data.
- Record service or repair activities.

WORK CONTEXT

- In an Enclosed Vehicle or Equipment—88% responded "Every day."
- Duration of Typical Work Week—84% responded "More than 40 hours."
- Outdoors, Exposed to Weather—76% responded "Every day."
- Time Pressure—69% responded "Every day."
- Very Hot or Cold Temperatures—60% responded "Every day."

EDUCATION

- High school diploma or equivalent (56% of respondents)
- Less than high school diploma (19% of respondents)
- Post-secondary certificate (15% of respondents)</

WORK STYLES

- Dependability—Job requires being reliable, responsible, and dependable and fulfilling obligations.
- Self-Control—Job requires maintaining composure, keeping emotions in check, controlling anger, and avoiding aggressive behavior, even in very difficult situations.
- Attention to Detail—Job requires being careful about detail and thorough in completing work tasks.
- Integrity—Job requires being honest and ethical.
- Stress Tolerance—Job requires accepting criticism and dealing calmly and effectively with high stress situations.

WORK VALUES

- Support—Occupations that satisfy this work value offer supportive management that stands behind employees. Corresponding needs are Company Policies, Supervision: Human Relations, and Supervision: Technical.
- Independence—Occupations that satisfy this work value allow employees to work on their own and make decisions. Corresponding needs are Creativity, Responsibility, and Autonomy.
- Working Conditions—Occupations that satisfy this work value offer job security and good working conditions. Corresponding needs are Activity, Compensation, Independence, Security, Variety, and Working Conditions.

*This description includes the top five in each category only.

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care, cardiac care, orthopedic care, and wound care and rehabilitation. AllianceHealth Deaconess Hospital has been able to effectively integrate employees' job descriptions within their performance management system. The need for this integration was reinforced by results from an employee survey revealing that employees did not know what they were being evaluated on. Therefore, with the input of employees, the hospital updated each of the 260 job descriptions. At present, each employee's job description is part of the performance review form. The new forms incorporate task performance standards as well as behaviors specific to individual jobs. For example, a nurse may be evaluated on "how well he or she safely, timely, and respectfully administers patient medication and on his or her planning and organization skills." In addition, Deaconess Hospital has been able to link each employee's performance to the strategic goals of the organization. Specifically, all employees are rated on the following core behaviors considered to be of top strategic importance for: (1) adaptability, (2) building customer loyalty, (3) building trust, and (4) contributing to team success.[14]

In summary, there are two important prerequisites that must exist before the implementation of a successful performance management system. First, there is a need to have good knowledge of the organization's mission and strategic goals. This knowledge, combined with knowledge regarding the mission and strategic goals of their unit, allows employees to make contributions that will have a positive impact on both the unit and the organization. Second, there is a need to have good knowledge of the position in question: what tasks need to be done, how they should be done, and what KSAs are needed. Such knowledge is obtained through a work analysis. If we have good information regarding a job, then it is easier to establish criteria for job success.

Performance Planning

Armed with the knowledge of the organization's strategic goals and information about the position, the supervisor and the employee formally meet to discuss and agree upon what needs to be done and how it should be done. This performance planning discussion includes a consideration of both results and behaviors (described in greater detail in Chapter 4), as well as a developmental plan (described in greater detail in Chapter 8).

Results

Results refer to what needs to be done or the outcomes an employee must produce. A consideration of results needs to include the *key accountabilities*, or broad areas of a job for which the employee is responsible for producing results. This information is typically obtained from the job description. A discussion of results also includes specific objectives that the employee will achieve as part of each accountability. Objectives are statements of important and measurable outcomes. Finally, discussing results also means discussing performance standards. A performance standard is a yardstick used to evaluate how well employees have achieved each objective. Performance standards provide information about acceptable and unacceptable performance (e.g., quality, quantity, cost, and time).

Consider the job of a university professor. Two key accountabilities are (1) teaching (preparation and delivery of instructional materials to students) and (2) research

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(creation and dissemination of new knowledge). An objective for teaching could be "to obtain a student evaluation of teaching performance of 3 on a 4-point scale." An objective for research could be "to publish two articles in scholarly refereed journals per year." Performance standards could be "to obtain a student evaluation of teaching performance of at least 2 on a 4-point scale" and "to publish at least one article in scholarly referred journals per year." Thus, the objective is the desired level of performance, whereas the standard is usually a minimum acceptable level of performance.

Behaviors

Although it is important to measure results, an exclusive emphasis on results can give a skewed or incomplete picture of employee performance. For example, for some jobs it may be difficult to establish precise objectives and standards. For other jobs, employees may have control over how they do their jobs but not over the results of their behaviors. For example, the sales figures of a salesperson could be affected more by the assigned sales territory than by the salesperson's ability and performance. Behaviors, or how a job is done, thus constitute an important component of the planning phase. This is probably why results from a survey indicated that, in addition to sales figures, salespeople would like to be appraised on such behavioral criteria as communications skills and product knowledge.[15]

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

Development Plan

An important step before the review cycle begins is for the supervisor and employee to agree on a development plan. At a minimum, this plan should include identifying areas that need improvement and setting goals to be achieved in each area. Development plans usually include both results and behaviors.

In summary, performance planning includes the consideration of results and behaviors and the developmental plan. A discussion of results needs to include key accountabilities (i.e., broad areas for which an employee is responsible), specific objectives for each key accountability (i.e., goals to be reached), and performance standards (i.e., what constitutes acceptable and unacceptable levels of performance). A discussion of behaviors needs to include competencies (i.e., clusters of KSAs). Finally, the developmental plan includes a description of areas that need improving and goals to be achieved in each area. Company Spotlight 2.1 includes a description of how performance planning is implemented at Discover.

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

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Company Spotlight 2.1

PERFORMANCE PLANNING AT ACCENTURE

Accenture is a global professional services firm specialized in IT and consulting services with more than 330,000 employees worldwide. The company changed its performance management process to implement a more fluid one. Employees receive feedback from their managers on an ongoing basis after each project and not just once a year. Accenture is taking several steps to ensure that performance planning and employee development support the organization's business objectives. Accenture's new model is designed to better map ongoing performance discussions between employees and their managers. The company is shifting its focus to immediate performance development rather than a forced annual ranking based on last year's metrics. To do this, it uses an internal application to help members of the organization transmit their comments. Accenture's strategy includes meeting with employees to agree on metrics in the performance planning stage, developing an action plan, and providing feedback at the end of each assignment so there are ongoing evaluations and ratings to determine how successful the learning experience is. Accenture uses the various stages of the performance management process to ensure that employee development is an approach that matches the mission of providing a workplace that supports high performance. This new strategy ensures that this is done on an ongoing basis and not just once a year.[16, 17]

Performance Execution

Once the review cycle begins, the employee strives to produce the results and display the behaviors agreed upon earlier as well as to work on developmental needs. The employee has primary responsibility and ownership of this process. Employee participation does not begin at the performance execution stage, however. As noted earlier, employees need to have active input in the development of job descriptions, performance standards, and the creation of the rating form. In addition, at later stages, employees are active participants in the evaluation process in that they provide a self-assessment, and the performance review interview is a two-way communication process. At the performance execution stage, the following factors must be present:[18]

1. *Commitment to goal achievement.* The employee must be committed to the goals that were set. One way to enhance commitment is to allow the employee to be an active participant in the process of setting the goals.
2. *Check-ins and performance touchpoints.* The employee has performance "touchpoints" with many people inside and outside of the organization on an ongoing basis. So he should not wait until the review cycle is over to solicit performance feedback in the form of "check-ins." Also, the employee should not wait until a serious problem develops to ask for coaching. The employee needs to take a proactive role in soliciting performance feedback and coaching from her supervisor.[19] Supervisors

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and others with whom the employee has performance touchpoints can provide performance feedback (e.g., team members) but are busy with multiple obligations. The burden is on the employee to communicate openly and regularly via ongoing check-ins with her performance touchpoints.

3. *Collecting and sharing performance data.* The employee should provide the supervisor with regular updates on progress toward goal achievement, in terms of both behaviors and results.
4. *Preparing for performance reviews.* The employee should not wait until the end of the review cycle approaches to prepare for the review. On the contrary, the employee should engage in an ongoing and realistic self-appraisal, so immediate corrective action can be taken if necessary. The usefulness of the self-appraisal process can be enhanced by gathering informal performance information from peers and customers (both internal and external).

Although the employee has primary responsibilities for performance execution, the supervisor also needs to do his share of the work. Supervisors have primary responsibility over the following issues:[20]

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

The summary list included in Table 2.1 makes it clear that both the employee and the manager are responsible for performance execution. As an example of this shared responsibility in an actual organization, consider the case of International Business Machines (IBM). IBM is one of the world's largest multinational technology companies with more than 400,000 employees in 170 countries. IBM recently transitioned from the previous once-a-year "stack ranking" review that compared employees to a more frequent and personalized review focusing on employee's own goals. Before deciding on a new performance management system, IBM's HR department asked for employees' input through its internal social media site. Employees reported they wanted more frequent feedback and the ability to change their goals as the year progressed. IBM recognized

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TABLE 2.1 • Performance Execution Stage: Areas for Which Employees and Managers Have Primary Responsibility

Employees	Managers
Commitment to goal achievement	Observation and documentation
Check-ins and performance touchpoints	Updates
Collecting and sharing performance data	Feedback
Preparing for performance reviews	Resources
	Reinforcement

that the fast-paced business environment meant that new things come along, leading to employees experimenting and iterating. This meant that employees are often not working on what they originally proposed at the beginning of the year. Accordingly, a new system was designed that allows employees to set annual goals and short-term milestones. Based on continuous feedback from managers, employees are able to update their goals and milestones throughout the year. By allowing employees to change and develop their own goals throughout the year, IBM can now avoid irrelevant year-end discussions and have richer dialogue through frequent check-ins with employees.[21]

Performance Assessment

In the assessment phase, both the employee and the manager are responsible for evaluating the extent to which the desired behaviors have been displayed, and whether the desired results have been achieved. Although many sources can be used to collect performance information (e.g., supervisors, other team members), in most cases the direct supervisor provides the information. This also includes an evaluation of the extent to which the goals stated in the development plan have been achieved.

It is important that both the employee and the manager take ownership of the assessment process. The employee evaluates his own performance, and so does the manager. The fact that both parties are involved in the assessment provides good information to be used in the review phase. When both the employee and the supervisor are active participants in the evaluation process, there is a greater likelihood that the information will be used productively in the future. Specifically, the inclusion of self-ratings helps emphasize possible discrepancies between self-views and the views that other important participants (i.e., supervisors, other team members, customers) have of what we are doing, how we are doing it, and what results we are producing. It is the discrepancy between these views that is most likely to trigger development efforts, particularly when feedback from the supervisor and others is more negative than are employee self-evaluations.[22]

The inclusion of self-appraisals is also beneficial regarding important additional factors. Self-appraisals can reduce an employee's defensiveness during an appraisal meeting and increase the employee's satisfaction with the performance management system, as well as enhance perceptions of accuracy and fairness and, therefore acceptance of the system.[23] Company Spotlight 2.2 describes how this process is implemented at Google.

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Company Spotlight 2.2

PERFORMANCE ASSESSMENT AT GOOGLE

Google is consistently ranked at the top of Fortune's 100 best companies to work for. Google uses a 360-degree review process, conducted semiannually. Managers take two things into account when evaluating employees: results (what the employee accomplished) and behaviors (how the employee attained these results). The self-assessment, peer reviews, and manager reviews are based on a five-point scale (1 = needs improvement; 5 = superb) and use the following six criteria: 1) "Googleyness"—adherence to Google values; 2) Problem solving—analytical skills applied to work; 3) Execution—delivering great work with great autonomy; 4) Thought leadership—how much an employee is seen as a reference for a specific area of expertise; 5) Leadership—displaying leadership skills such as being proactive and taking the lead on projects; and 6) Presence—the ability to make yourself known in a large organization. To reduce bias, managers meet and review all employees' ratings together. In summary, Google utilizes its performance assessment process to provide a clear link between each individual and team activity and the strategic objectives of the organization.[24]

In sum, both the employee and the supervisor must evaluate employee performance. As will be described in detail in Chapter 6, employee involvement in the process increases employee ownership and commitment to the system. In addition, it provides important information to be discussed during the performance review, which is discussed next.

Performance Review

The performance review stage involves the formal meeting between the employee and the manager to review their assessments. This meeting is usually called the *appraisal meeting or discussion.* Although good performance management systems include ongoing check-ins, the formal appraisal meeting is important because it provides a formal setting in which the employee receives feedback on his performance.

In spite of its importance in performance management, the appraisal meeting is often regarded as the "Achilles' heel of the entire process."[25] This is because many managers are uncomfortable providing performance feedback, particularly when performance is deficient.[26] This high level of discomfort, which often translates into anxiety and the avoidance of the appraisal interview, can be mitigated through training those responsible for providing feedback. As will be discussed in detail in Chapters 6 and 9, providing feedback in an effective manner is extremely important because it leads not only to performance improvement but also to employee satisfaction with the system. For example, a study involving more than 200 teachers in Malaysia, including individuals with distinct Chinese, Malay, and Indian cultural backgrounds, found that when they received effective feedback, they reported greater satisfaction with the system even when

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they received low performance ratings.[27] At this point, however, let's emphasize that people are apprehensive about both receiving *and* giving performance information, and this apprehension reinforces the importance of a formal performance review as part of any performance management system.[28]

Remember Jack Welch, the late, famed former chairman and CEO of General Electric (GE)? Although this leadership style was unique, colorful, and often controversial, during his 20-year tenure at GE, the company's value rose about 4,000%. He addressed the issue of giving honest feedback in many of his public appearances after he retired.[29] At an appearance in front of an audience of about 2,000 managers, he asked them if their organizations had integrity. As was expected, a vast majority of managers, about 95%, raised their hands. Then he asked the same audience if their organization's leaders provide direct reports with honest and straightforward performance feedback. Only about 5% of the people raised their hands. Avoiding giving negative feedback is very dangerous because it conveys the message that mediocrity is acceptable and damages the morale of the top performers, who are about four times as productive as the poor performers.

In most cases, the appraisal meeting is regarded as a review of the past, that is, what was done (i.e., results) and how it was done (i.e., behaviors). For example, a survey including more than 150 organizations in Scotland showed that performance management systems in more than 80% of organizations emphasize the past.[30] But the appraisal meeting should also include a discussion of the employee's developmental progress as well as future plans. The conversation should include a discussion of goals and development plans that the employee will be expected to achieve over the period before the next formal review session. In addition, a good appraisal meeting includes information on what new compensation and rewards, if any, the employee may be receiving as a result of her performance. In short, the appraisal discussion focuses on the past (what has been done and how), the present (what compensation is received or denied as a result), and the future (goals to be attained before the upcoming review session).

As noted earlier, the discussion about past performance can be challenging, particularly when performance levels have not reached acceptable levels. Following is a script reflecting what the first few seconds of the appraisal meeting can be like.[31]

> Good afternoon, Lucy, please have a seat. As you know, we take performance very seriously and we scheduled our meeting today to talk about the work you have done over the past year. Because we believe in the importance of talking about performance issues, I blocked an hour of my time during which I won't take any phone calls, and I also won't be texting or emailing with anyone. I want to be able to focus 100% on our conversation because talking about performance will be helpful to both of us. There should be no surprises, given that we have been communicating about your performance on an ongoing basis. You have also received feedback not only from me but also from your peers. Let's go through this process step by step. First, I would like you to tell me about your own views about your performance during the past year. Specifically, please share with me what are the things you believe you did particularly well and areas in which you think you may have been able to do better. As a second step, I will tell you about the performance evaluation I prepared. As a third step, we will talk about the issues on which you and I agree. As a fourth step, we can talk about issues for which we may have different perspectives. I will explain the

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reasoning behind my views, and I want to hear the reasoning behind yours. In terms of my evaluation of your work, I want to first make sure we agree on what are the specific goals and objectives of your job. Then, we will talk about the results you achieved this year and the section on the evaluation form about job skills and competencies. After we talk about that, I will tell you what my overall rating is and why I believe this is an appropriate score. OK, let's go ahead and start. Please tell me about how things went this past year.

We will discuss performance reviews in more detail in chapter 9. For now, however, consider the following six recommended steps for conducting productive performance reviews:[32]

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

In closing, the performance management process includes a cycle that starts with prerequisites and ends with the formal performance review. However, the cycle is not over after the formal review. In fact, the process starts all over again: there needs to be a discussion of prerequisites, including the updated organization's mission and strategic goals and the updated job's KSAs. Because markets change, customers' preferences and needs change, and products change, there is a need to continuously monitor the prerequisites so that performance planning, and all the subsequent stages, are consistent with the organization's strategic objectives. Recall that, in the end, one of the main goals of any performance management system is to promote the achievement of organization-wide goals. Obviously, if managers and employees are not aware of what these strategic goals are, it is unlikely that the performance management system will be instrumental in accomplishing the strategic goals.

SUMMARY POINTS

- The role of the CEO and top management team is key in its design and implementation. They should lead by example and encourage the rest of the managers in the organization to do the same. HR function plays a critical role in terms of offering support and resources.
- Performance management is an ongoing and circular process. It never ends. Once established in

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an organization, it becomes part of an organization's culture. The performance management process includes five closely related components: (1) prerequisites, (2) performance planning, (3) performance execution, (4) performance assessment, and (5) performance review.

- Each of the five components of the performance management process plays an important role. If any of these components is implemented poorly, then the entire performance management system suffers. For example, lack of knowledge of the organization's mission and strategic goals and the job in question (i.e., prerequisites) will not allow performance planning (i.e., performance road map) to be aligned with organizational goals, which in turn will lead to poor performance execution. In short, a performance management system is only as good as its weakest component.
- The links between the various components must be clearly established. For example, performance planning needs to be closely related to performance execution. Performance planning is a futile exercise if execution does not follow from it. The same applies to all the arrows linking the various components, as shown in Figure 2.1.
- The first component of the performance management process involves two prerequisites. First, there is a need to have good knowledge of the organization's mission and strategic goals. This knowledge, combined with knowledge regarding the mission and strategic goals of one's unit, allows employees to make contributions that will have a positive impact on their units and on the organization. Second, there is a need to have good knowledge of the job in question. A work analysis allows for the determination of the key components of a particular job: what tasks need to be done, how they should be done, and what KSAs are needed. If we have good information regarding a job, then it is easier to establish criteria for job success.
- Work analysis is a technique used to understand employees' tasks and responsibilities and can be conducted using interviews, observation, or off-the-shelf questionnaires. It is important to train individuals to fill out work analysis instruments to minimize biases (i.e., self-serving bias, social projection, false consensus, carelessness responding) in the resulting ratings. Once a list of tasks has been compiled, all incumbents should have an opportunity to review the information and rate each task in terms of its frequency and criticality.
- The second component of the performance management process involves performance planning. Performance planning includes the consideration of results and behaviors, as well as a developmental plan. A discussion of results needs to include key accountabilities (i.e., broad areas for which an employee is responsible), specific objectives for each key accountability (i.e., goals to be reached), and performance standards (i.e., what are acceptable and unacceptable levels of performance). A discussion of behaviors needs to include competencies (i.e., clusters of KSAs). Finally, the developmental plan includes a description of areas that need improvement and goals to be achieved in each area.
- The third component involves performance execution. Both the employee and the manager are responsible for performance execution. For example, the employee needs to be committed to goal achievement and should take a proactive role in seeking feedback from his or her supervisor and other performance touchpoints (e.g., other team members, customers). The burden is on the employee to communicate openly and regularly with the supervisor. Also, the employee has a responsibility to be prepared for the performance review by conducting regular and realistic self-appraisals. On the other hand, the supervisor also has important responsibilities. These include observing and documenting performance, updating the employee on any changes in the goals of the organization, and providing resources and reinforcement so the employee can succeed and continue to be motivated.
- The fourth component involves performance assessment. Both the employee and the supervisor must evaluate employee performance. Involving the employee in the process increases his or her ownership and commitment to the system. In addition, it provides important information to be discussed during the performance review. In the absence of self-appraisals, it is often not clear to supervisors if employees have a real understanding of what is expected of them.
- The fifth component involves performance review when the employee and manager meet to discuss employee performance. This formal meeting is

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usually called the appraisal meeting. This meeting typically emphasizes the past: what the employee has done and how it was done. But a more effective appraisal meeting also focuses on the present and the future. The present involves the changes in compensation that may result from the results obtained. The future involves a discussion of goals and development plans that the employee will be expected to achieve during the period before the next review session.

EXERCISE 2-1

Work (Job) Analysis

Please conduct a work analysis for the position "wait staff" at a local restaurant. This work analysis may benefit from interviewing incumbents (i.e., wait staff) as well as supervisors (i.e., restaurant's general manager). In addition, of course, you can rely on your own knowledge of this job. By the end of your work analysis, follow the O*NET format and create a summary description for the position as well as a list of tasks, technology skills, knowledge, skills, abilities, work activities, detailed work activities, work context, education, work styles, and work values needed for successful performance. Use Figure 2.3 "Summary Report for Tractor-Trailer Truck Drivers (from O*NET)" as a template.

As a minimum, your job description should include four lists—one for tasks, one for knowledge, one for skills, and one for abilities. For each of the four lists, rate the corresponding elements in terms of frequency and criticality. Use the scales provided below to rate each element. Then, multiply the frequency and criticality scores for each of the elements in each list to obtain its overall score. Then, arrange the list of elements in order of importance from high to low.

Frequency and Criticality Scales

Frequency	Criticality
0: not performed	0: not critical
1: every few months to yearly	1: low level of criticality
2: every few weeks to monthly	2: below average level of criticality
3: every few days to weekly	3: average level of criticality
4: every few hours to daily	4: above average level of criticality
5: hourly to many times each hour	5: extremely critical

Have one or more people do the same rating task with the same job description. Then, answer the following questions.

1. Are there any disagreements between or among the resulting orderings? If so, why do you think that is the case?
2. What can be done to mitigate any observed disagreement between or among the resulting orderings? After discussing some possible techniques for reducing disagreement, if there were indeed any disagreements, apply some of those techniques until 100% agreement is reached.

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3. Recall that tasks listed in a job description can largely be divided into behaviors (i.e., how to perform) and results (i.e., what outcomes should result from performance). In the job description you created, which of the tasks are behaviors and which tasks are outcomes? Are there more behaviors or more outcomes? Or is there a strong balance between the two types of tasks? Whether there is such an imbalance or balance, do you think the observed balance or imbalance is justified? Explain.

EXERCISE 2-2

Performance Review Meeting

As part of this exercise, you will be asked to conduct a performance review meeting in front of the classroom. Specifically, you will prepare a performance assessment of student participation in the classroom for a particular student and then meet with that student to deliver the performance review face-to-face and real-time in front of the class. You will either play the role of the supervising manager giving the performance review, or the direct report receiving the performance review.

Steps:

1. Conduct a self-appraisal of your own class participation performance
   a. Rate your participation from 0 (lowest level contribution) to 15 (highest possible contribution) on each of the items listed below and note the reasons for the score you assign yourself.
   b. In rating participation, use the following specific eight items:
      i. Being an active participant, but not a dominating participant.
      ii. Being a good listener and demonstrating respect for others' opinions.
      iii. Making thoughtful, insightful comments, and not speaking just to be heard.
      iv. Building on others' comments.
      v. Asking questions, not just giving answers.
      vi. Identifying key assumptions underlying discussion points and arguments.
      vii. Judiciously playing the role of the "devil's advocate."
      viii. Being constructive and positive in one's comments.
2. Choose any five students from the class and prepare an assessment of their participation performance for all students in your class.
   a. Rate their participation from 0 (lowest level contribution) to 15 (highest possible contribution) using the same eight items listed above.
3. Prepare to provide a performance review to each of these five classmates, including ratings and the reasons for the scores you assigned them. (Hint: Consider the steps of the performance management cycle in Figure 2-1 when writing your assessment.)

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a. The performance review meeting should not be longer than 10 minutes. (Hint: *The performance review subsection of the chapter lists the issues typically discussed in a performance review and provides an example of how to begin a review.)*

b. Make sure to include both positive and negative feedback that allows your classmates to improve their performance.

4. The other students in the classroom will then evaluate the performance review meeting and provide feedback on how performance review meetings can be improved in the future.

CASE STUDY 2-1

Front Range Medical Associates (FRMA)

Front Range Medical Associates (FRMA) is a small medical practice owned by four doctors who are general practitioners. The mission of FRMA is to provide the best health care and medical assistance for the families of Granite, a mid-size city at the base of the Rocky Mountains. FRMA employs three clerical employees, four nurses, two physicians' assistants, two laboratory technicians, and a custodian. One clerical employee spends most of his time identifying what insurance coverage is available to the various patients and negotiating costs with the various insurance companies. Although the company has hired some of the employees since 1974, it has relied on generic job descriptions and the institutional memory of Lenore, the head clerk, and Roseanne, the head nurse. However, Roseanne retired last summer, and Lenore is planning to retire in a year. The nurses now report directly to the doctors, who also oversee the physicians' assistants. The doctors have noticed that the previously well-run underpinnings of their practice have developed some glitches. They have hired you to help them get things running smoothly again. Please answer the following questions.

1. Dr. Beasley, the senior member of the practice, tells you that he has heard that a performance management system might be a good idea. He asks you to explain the key features of such a system to him. Please provide him with detailed and convincing information.

2. One of the problems at FRMA is that job duties are unclear. Discuss the information you would need to help FRMA address this problem and explain how you would get this information.

3. The following is part of a generic job description for registered nurses obtained from O*NET.

29-1111.00—Registered Nurses: Assess patient health problems and needs, develop and implement nursing care plans, and maintain medical records. Administer nursing care to ill, injured, convalescent, or disabled patients. May advise patients on health maintenance and disease prevention or provide case management. Licensing or registration required.

Expand this generic job description in the context of FRMA's mission.

4. You are advising Dr. Beasley about developing a performance plan for the employees in the practice. What factors should he consider in developing this plan?

5. Explain the responsibilities of the supervisor and the employees during the performance execution and review phases.

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CASE STUDY 2-2

Performance Management at KS Cleaners

KS Cleaners (KSC) is a small company that provides several services to its customers: dry cleaning of clothes, laundry, ironing, and some clothing repair work. KSC specializes in low-cost volume, promising that dry cleaning will be returned to its customers the day after it is turned in. The charge is $2.25 for each item dry-cleaned; there is an extra charge for ironing, although ironing is usually not necessary because the items are placed on clothes hangers immediately after they are removed from the dryers. Laundry is $1.50 per item, with an extra charge for ironing if desired. Clothing repair, such as hemming, replacement of buttons and zippers, and so on, is charged by the hour.

In addition to Kevin, the owner and manager, there are eight employees: two dry cleaners, a seamstress, and five general duty employees, who rotate where they are needed among front counter customer service and sorting clothes, loading the machines, removing clothes from machines, folding or hanging up the items, and preparing them for pickup. Kevin has found that he can hire teenagers for the general duty positions because these duties don't require much training. The company needs employees who are focused on customer satisfaction and quick turnaround; when there are slow times, however, these high school students often work on homework, socialize, or spend time on their smart phones, which is acceptable behavior as long as the work gets done and the customers are happy.

Pay ranges from minimum wage for the general duty employees to $20 per hour for the dry cleaners. The seamstress is paid on a negotiated piecework basis, depending on the complexity of the task.

This shop has been doing so well that Kevin is thinking about opening another one. He has done some research and realizes that he will need to formalize procedures that, heretofore, he has run almost by instinct. A new manager will need to operate the new shop in a fashion that is identical to the successful way he has run his current shop. Although he dreads the process, he recognizes that it is time to document procedures and formalize job descriptions. He has hired you to help him develop a performance management process.

1. In the context of KSC, critically evaluate the availability of any prerequisites to implementing a performance management process.
2. Discuss your plans for developing formal job descriptions for the employees at the second shop.
3. Explain key features of developing performance plans for the employees. Provide examples of factors you would consider in developing such plans for the dry cleaner.
4. In the context of KSC, create two results-oriented performance standards for the general duty employees.

The following information was obtained from O*NET.

41-2021.00—Counter and Rental Clerks:

Knowledge: Customer and Personal Service—Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.

Technology Skills: Data base user interface and query software—Database software

Abilities: Oral Expression—The ability to communicate information and ideas in speaking so others will understand.

Work Activities: Performing for or Working Directly with the Public—Performing for people or dealing directly with the public. This includes serving customers in restaurants and stores and receiving clients or guests.

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5. Discuss the factors that should be considered in establishing behavior-oriented performance standards for the general duty employees. Give an example of such a standard.
6. Provide a detailed discussion of both the responsibilities of the manager and the responsibilities of the general duty employees during the performance execution phase.
7. Explain the process that Kevin should use to get information when he is developing the performance assessments for the general duty employees.

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chapter 3

Performance Management and Strategic Planning

Strategy is a style of thinking, a conscious and deliberate process, an intensive implementation system, the science of insuring future success.

—Pete Johnson

Learning Objectives

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

- Critique the definition and purposes of strategic planning.
- Create alignment between performance management and an organization's strategic priorities and direction.
- Assess the critical role of the HR function in the strategic planning process.
- Devise an environmental (i.e., SWOT) analysis that includes a consideration of both internal (strengths and weaknesses) and external (opportunities and threats) trends.
- Prepare a gap analysis resulting from a consideration of external and internal trends that point to leverage, constraints, vulnerabilities, and problems that dictate an organization's mission.
- Produce state-of-the-science mission and vision statements, objectives, and strategies for the organization and its units.
- Devise job descriptions that take into account a unit's and the organization's vision, mission, objectives, and strategies.
- Build up support for the performance management system by using it as a tool to help achieve the organization's strategic priorities.

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In Chapters 1 and 2, we discussed the fact that good performance management systems encourage employees to make tangible and important contributions toward the organization's strategic objectives. When these contributions to the top organizational and unit priorities are made clear, performance management systems are likely to receive crucial top management support. Without this support, it is unlikely that a performance management system will even get off the ground. How, then, are these strategic organizational objectives identified? How does an organization know what the "target" should be, what it is trying to accomplish, and how to do it?

The HR function plays a key role as a strategic partner in helping answer these questions. Unfortunately, the HR function is often vilified as being merely operational and not able to think or act strategically. Well, over the past two decades or so, an entire new field of research and practice has emerged that is called *strategic human resource management (SHRM)*. SHRM is about planning and implementing HR policies and activities with the goal of enabling an organization to achieve its objectives.[1] Performance management is an ideal vehicle to demonstrate the strategic role and contributions of the HR function because it allows for explicit and clear linkages between what HR is doing and the organization's mission, vision, and objectives. By being involved and hopefully leading the rollout of the strategic planning process and linking a firm's objectives with the performance management system, the HR function can serve as an expert internal consultant and get a "seat at the table" of the top management team. In fact, the few current and former CEOs with HR background, including Samuel R. Allen at John Deere, James C. Smith at Thomson Reuters, Steven L. Newman at Transocean, and Mary Barra at General Motors, have been able to serve as strategic partners while heading their respective HR units, which is in large part what propelled their trajectory into the very top of their organizations. First, let's define strategic planning and describe its purposes.

Definition and Purposes of Strategic Planning

Strategic planning is a process that involves describing the organization's destination, assessing barriers that stand in the way of that destination, and selecting approaches for moving forward.[2] Among other useful outcomes, strategic planning allows for the allocation of resources in a way that provides organizations with a competitive advantage because they are assigned in a more effective and more targeted manner.[3] Overall, a strategic plan serves as a blueprint that defines how the organization will allocate its resources in pursuit of its most critical and important objectives.

Strategic planning serves the following seven specific purposes: First and foremost, strategic planning allows organizations to define their identity. In other words, it provides organizations with a clearer sense of who they are and what their purpose is. Second, strategic planning helps organizations prepare for the future because it clarifies the desired destination. Knowing where the organization wants to go is a key first step in planning how to get there and then doing so. Third, strategic planning allows organizations to analyze their external and internal environment, and doing so enhances their ability to adapt to environmental changes and even anticipate future changes. Although knowledge of the environment does not guarantee that an organization will be more likely to change and adapt, its knowledge is the first and critical step toward possible

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TABLE 3.1 • Strategic Plan: Purposes

Helps define the organization's identity
Helps organizations prepare for the future
Enhances ability to adapt to environmental changes
Provides focus and allows for better allocation of resources
Produces an organizational culture of cooperation
Allows for the consideration of new options and opportunities
Provides employees with information to direct daily activities

adaptation. Fourth, strategic planning provides organizations with focus and allows them to allocate resources to what matters most. In turn, the improved allocation of resources is likely to stimulate growth and improve organizational performance and profitability. Fifth, strategic planning helps produce a common perspective and culture of cooperation within the organization, given that a common set of objectives is created. Such a common agenda and culture of cooperation can gain organizations a key competitive advantage. Sixth, strategic planning can be a good corporate eye-opener because it generates new options and opportunities to be considered. For example, new opportunities can include expanding to new markets or offering new products. Finally, strategic planning can be a powerful tool to guide employees' daily activities because it identifies the behaviors and results that are directly linked to the organization's objective and really matter. Thus, a strategic plan provides critical information to be used in the performance management system. To summarize, Table 3.1 lists the key purposes of a strategic plan.

Process of Linking Performance Management to the Strategic Plan

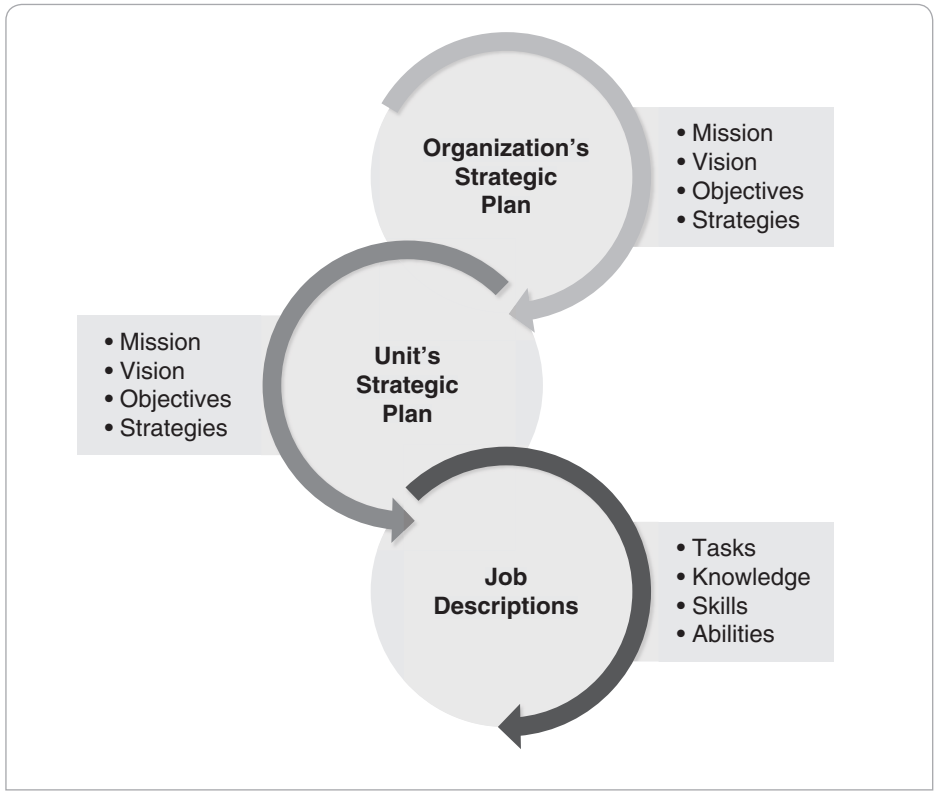
The mere presence of a strategic plan does not guarantee that this information will be used effectively as part of the performance management system. In fact, countless organizations spend thousands of hours creating strategic plans that are mostly talk and lead to no tangible actions. In fact, many organizations spend too much time and effort crafting their mission and vision statements without undertaking any concrete follow-up actions. The process then ends up being a huge waste of time and a source of frustration and long-lasting cynicism, particularly in situations when there is frequent leadership turnover and a strategic planning process is put into motion over and over again, usually leading to nothing more than reports and updated website content. In those situations, it is typical to hear people say: "Oh no, again! Another CEO and another strategic plan!" For example, a worldwide survey of senior executives from 197 companies with combined sales exceeding $500 million showed that less than 15% spent any time evaluating how the previous year's strategic plan affected current performance. The study also found that corporate strategies routinely only deliver between 50% and 63% of their potential financial performance.[4] Thus, to ensure that strategy cascades down the organization and leads to concrete actions, a conscious effort must be made to link the strategic plan with what everyone does in the organization daily.

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Figure 3.1 provides a useful framework for understanding the relationship among an organization's strategic plan, a unit's strategic plan, and job descriptions (which are the drivers of individual and team tasks and knowledge, skills, and abilities (KSAs)—as described in Chapter 2). The organization's strategic plan includes a mission statement and a vision statement, as well as objectives and strategies that will allow for the fulfillment of the mission and vision. The strategies are created with the participation of managers at all levels. The higher the level of involvement, the more likely it is that managers will see the resulting strategies favorably.[5] As soon as the organizational strategies have been defined, senior management proceeds to meet with department or unit managers, who in turn solicit input from all people within their units to create unit-level mission and vision statements, objectives, and strategies. A critical issue is to ensure that each unit's or department's mission and vision statements, objectives, and strategies are consistent with those at the organizational level. Job descriptions are then revised and updated to make sure they are consistent with unit and organizational priorities. So, again, because they are driven by the job descriptions, the performance management system includes results, behaviors, and developmental plans for individuals that are consistent with the organizational- and department-level priorities.

Does the process of aligning organizational, unit, and individual priorities actually work in practice? Is this doable? The answer to these questions is "yes," and the benefits

FIGURE 3.1 • Link among Organization and Unit Strategic Plans and Job Descriptions



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of doing so are widely documented. Specifically, performance management systems have a critical role in translating strategy into action.[6] In fact, a study including 338 organizations in 42 countries found that performance management is the third most important factor affecting the success of a strategic plan. This is particularly true for organizations that operate in rapidly changing environments, regardless of their size, industry, and age.[7] For example, consider the case of automobile companies, which traditionally embrace the total quality management movement. Car manufacturers like Toyota instill quality into every activity. But, as documented in a recent study conducted in the U.K., leaders in many of the car manufacturing companies use a past-oriented, individual-based management system that is not aligned with a total quality culture. If leaders truly wish to integrate total quality as a key strategic direction, performance management should be coherent with a total quality management culture. For example, performance management should focus on process and system-level issues to identify any potential problems before they happen. Also, such an aligned performance management system would encourage employees to speak up about any potential problems and would measure not just results but also processes. In other words, this performance management system would have to be an ongoing activity focused on the development of the individual employee and the assessment of both task performance and the quality improvement behaviors shown by employees.[8]

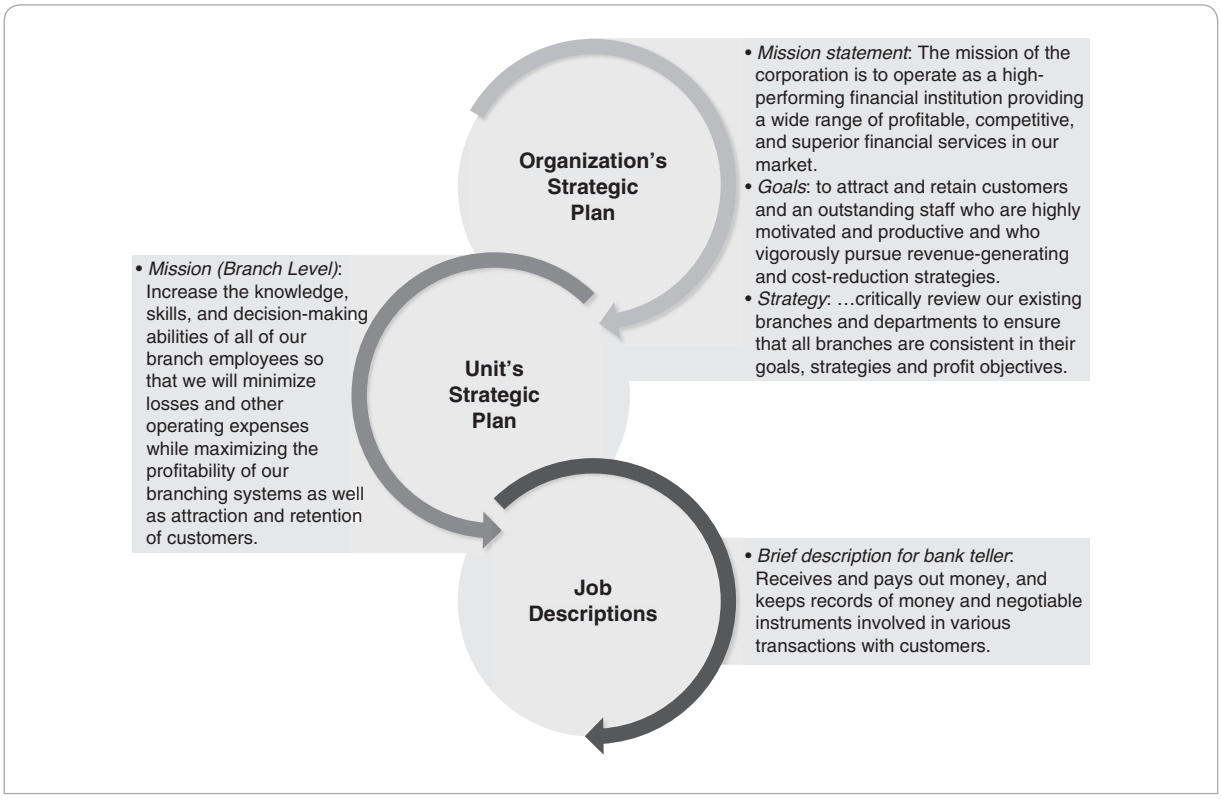
One way to formalize the link between strategic planning and performance management is through the implementation of a *balanced scorecard.* Although this approach has been revised since it was originally proposed by Kaplan and Norton in 1992[9], the basic components are largely unchanged. In a nutshell, a balanced scorecard involves creating indicators of individual performance along four separate "perspectives" of an organization's success. For the case of a bank, consider the following: (a) financial (i.e., cost control, sales growth rate, profit growth rate), (b) customer (e.g., service product quality, customer satisfaction, service timing), (c) internal process (e.g., information delivery, interaction between employees and clients, standard operation process), and (d) learning and growth (e.g., corporate image, competitiveness, employee satisfaction).

In addition to including individual performance measures that go beyond pure financial goals, an important feature is that each of the indicators should be directly related to a firm's mission and vision. This is usually shown graphically with a *strategy map*, which is a flow-chart type diagram with circles and arrows that links objectives developed for each of the four perspectives in a causal chain that eventually leads to a direct impact on the firm's objectives. For example, regarding the illustrative financial indicators mentioned above, a strategy map could show the following sequence: employee satisfaction (learning and growth) → interaction between employees and clients (internal processes) → customer satisfaction (customer) → sales growth rate (financial), which leads to achieving the bank's objective of increase the number of corporate accounts and the total value of commercial loans by the end of the quarter. As a more general example of linking strategy and performance management that does not include the specific balanced scorecard approach, consider the case of KeyBank, a financial services company with assets of $172 billion (as of 2020), which provides investment management, retail and commercial banking, consumer finance, and investment banking products and services. KeyBank has about 1,200 branches, 1,600 ATMs, and 18,000 employees. As of 2020, KeyBank was ranked 412th on the Fortune 500 list. In Utah, KeyBank successfully

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developed a performance management system that is aligned with the strategic plan of the organization.[10] To do this, the bank first involved managers at all hierarchical levels to develop an organization mission statement. Next, they developed objectives and strategies that would help achieve KeyBank's mission. The mission statement, objectives, and strategies at the organizational level served as the foundation for developing the strategies for individual branches. To develop these, senior managers met with branch managers to discuss the organization's objectives and strategies and to explain the importance of adopting similar ones in each branch. Subsequently, each of the branch managers met with their employees to develop branch mission statements and objectives. One important premise in this exercise was that each branch's mission statement and objectives had to be aligned with the corporate mission statement, objectives, and strategies. After organizational and branch objectives and strategies were aligned, managers and employees reviewed individual job descriptions. That is, each job description was tailored so that individual tasks, duties, and responsibilities were clear and contributed to meeting the department's and the organization's objectives. Involving employees in this process helped them to gain a clear understanding of how their performance affected the branch and, in turn, the organization. A revised version of the process implemented at KeyBank of Utah is shown in Figure 3.2.

FIGURE 3.2 • Summary of Alignment of Performance Management and Strategic Plan at KeyBank of Utah



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Consider KeyBank's overall and branch mission statements in Figure 3.2 and the brief job description for bank teller. Now, reread the more detailed job description from O*NET for truck driver in Figure 2.3. What are critical technology skills and abilities that could be included in the bank teller job description to make it more specific and useful and congruent with organization-level and branch-level objectives? What are some key results and behaviors that should be included in the performance management system to make sure there is good alignment between the objectives of the organization and the branch, and individual key accountabilities, performance objectives, and performance standards? (Hint: feel free to look up the job description for bank teller on O*NET.)

What happened after KeyBank of Utah implemented this system? In general terms, KeyBank was able to enjoy several positive consequences of aligning corporate, branch, and individual objectives. After the implementation of its new performance management system, KeyBank found several meaningful benefits, including the following:

- Managers knew that employees were focused on meeting important objectives.
- Employees had more decision-making power.
- Lower-level managers had a better understanding of higher-level managers' decisions.
- Communication increased and improved among managers and between managers and employees.

In sum, to be most useful and impactful, an organization's performance management system must rely on its strategic plan. The job descriptions, which serve as roadmaps for what individuals are supposed to do, how, and what results will be produced, must be aligned with the vision, mission, objectives, and strategies of the organization and unit. Organizations can expect greater returns from implementing a performance management system when such alignment is in place. Also, to the extent that the HR function is involved in the design and implementation of the performance management system, it will gain credibility and will be seen as a strategic and valued contributor to the entire organization.

Strategic Planning Process

Chapter 2 included a brief overview of the strategic planning process. But the development of an organization's strategic plan requires a careful analysis of the organization's competitive situation, the organization's current position and destination, the development of the organization's strategic objectives, the design of a plan of action and implementation, and the allocation of resources (human, organizational, physical) that will increase the likelihood of achieving the stated objectives.[11] And the HR function can and should play an important role in this process.

Critical Role of the HR Function

As mentioned in the opening section of this chapter, the HR function can play a critical role in creating and implementing the strategies that will allow the organization to realize its mission and vision. Specifically, the HR function can make the following contributions:

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- *Communicate knowledge of strategic plan.* The HR function can be a good conduit to communicate the various components of the strategic plan (e.g., mission, vision, and objectives) to all the employees.
- *Outline knowledge, skills, and abilities (KSAs) needed for strategy implementation.* The HR function, through job analyses and the resulting job descriptions, serves as a repository of knowledge regarding what KSAs are needed for a successful implementation of the strategic plan. Thus, the HR function is in a unique situation to provide information about whether the current workforce has the KSAs needed to support the strategic plan and, if not, to offer suggestions about what types of employees should be hired and what types of plans (e.g., training and development initiatives) should be put in place to develop the needed KSAs internally.
- *Propose compensation systems.* The HR function can provide useful information on what type of compensation system should be implemented to motivate employees to support the strategic plan.

In addition to serving as a necessary guide for individual and team performance, knowledge of organization- and unit-level mission and vision provides the HR function with information about how to design the performance management system. Specifically, there are many choices in how the system is designed. For example, the system might place more emphasis on behaviors (i.e., processes) than on results (i.e., outcomes), or the system might emphasize more short-term criteria (i.e., quarterly objectives) than long-term criteria (triennial). Some of these choices are presented in Table 3.2.

As a result of the strategic planning process, knowledge of the organization and unit vision and mission allows the HR function to serve as an internal consultant and to make informed decisions about performance management design choices. More detailed information on each of the factors guiding each of these design choices is provided in subsequent chapters. For now, as one illustration, assume an organization is producing a mature product in a fairly stable industry. In this situation, an emphasis on behaviors rather than results may be preferred because the relationship between processes and outcomes is well known, and the top priority is that employees display reliable and consistent behaviors in making the product. Regardless of the type of criteria used, be it behaviors or results, these must be observable (i.e., the person rating the criteria needs to have the ability to observe what is rated) and verifiable (i.e., there needs to be evidence to confirm the criteria rated).

TABLE 3.2 • Some Choices in Performance Management System Design to be Guided by an Organization's Strategic Plan

Criteria: Behavioral criteria vs. results criteria
Participation: Low employee participation vs. high employee participation
Temporal dimension: Short-term criteria vs. long-term criteria
Level of criteria: Individual criteria vs. team/group criteria
System orientation: Developmental orientation vs. administrative orientation
Compensation: Pay for performance (i.e., merit-based) vs. pay for tenure/position

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As a second example, consider the actual case of Dell computers. Dell is one of the top players in the personal computer industry through its mode of online direct selling. Dell's main strategic business strategy is to be a low-cost leader in an industry that deals with a product that has now become a commodity. However, in addition to a low-cost strategy, Dell has a customer relationship business strategy of maintaining customer service at a high level, while reducing costs. Dell's performance management system provides a strong link between individual objectives and organizational performance by including a results component (i.e., cost) and a behavioral component (i.e., customer service).[12] At Dell, both low cost and high levels of customer service (for both internal and external customers) are important dimensions of the performance management system. Also, the system is strongly linked not only to the strategic objectives (i.e., low cost and high levels of customer service) but also to the organization's "winning culture" (i.e., achievement of personal and business objectives through its focus on interaction between managers and team members).

Next, let's discuss the several steps involved in the creation of a strategic plan. These include (1) the conduct of an environmental or SWOT analysis (i.e., the identification of the external and internal strengths, weaknesses, opportunities, and threats of the external and internal environment in which the organization operates); (2) the creation of an organizational mission (i.e., statement of what the organization is all about); (3) the creation of an organizational vision (i.e., statement of where the organization intends to be in the long term, say, about 5 to 10 years); (4) setting objectives (i.e., what the organization intends to do in the short term, say, one to three years); and (5) the creation of strategies that will allow the organization to fulfill its mission and vision and achieve its objectives (i.e., descriptions of game plans or how-to procedures to reach the stated objectives).

Although we will describe these steps sequentially, the strategic planning process is not linear. For example, there may first be a rough draft of the organization's mission and vision and *then* an environmental or SWOT analysis may follow to help define the mission and vision more clearly. In other words, the mission and vision may be drafted first, and the environmental analysis may be completed second. The important point is that there is a constant back and forth among these issues: the vision and mission affect the type of environmental analysis to be conducted, and the results of an environmental analysis are used to revise the mission and vision. By necessity, we need to discuss them one by one; however, keep in mind that they affect and inform each other on an ongoing basis. Let's begin with a discussion of environmental or SWOT analysis.

External and Internal Environmental (i.e., SWOT) Analysis

The first step in conducting a strategic plan is to step back to take in the "big picture." This is accomplished through what is called an environmental or SWOT analysis.[13] An environmental analysis identifies external and internal parameters with the purpose of understanding broad issues related to the context and industry where the organization operates so that decisions can be made against the backdrop of this broader context.[14]

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External Environment An examination of the *external environment* includes consideration of opportunities and threats. Opportunities are characteristics of the environment that can help the organization succeed. Examples of such opportunities might be markets not currently being served, untapped talent pools, and new technological advances. On the other hand, threats are characteristics of the external environment that can prevent the organization from being successful. Examples of such threats range from economic recession to the launching of innovative products and services on the part of competitors. A common framework for understanding industry-based threats is the now-classic work by Michael E. Porter called five-force analysis.[15] These include three forces from horizontal competition (i.e., the threat of substitute products or services, the threat of established rivals, and the threat of new entrants), and two forces from vertical competition (i.e., the bargaining power of suppliers and the bargaining power of customers).

For example, consider the case of Frontier Airlines, which is an affordable-fare airline headquartered at Denver International Airport serving more than 55 cities in the United States, Mexico, the Dominican Republic, and Cuba on approximately 275 daily flights.[16] Frontier commenced operations in July 1994 given two key opportunities in the external environment. First, two major competing airlines (Continental and United, which since then have merged) engaged in a dramatic downsizing of its Denver operations, leading to service gaps in various major markets that Frontier filled. Second, the city of Denver replaced the heavily congested Stapleton Airport with the much larger Denver International Airport. In February 2004, United Airlines, the largest carrier operating out of Denver International Airport, made changes in the environment that resulted in a direct horizontal threat to Frontier: United Airlines launched its own low-fare affiliate. The new affiliate, Ted, was going toe-to-toe with Frontier. Peter McDonald, then vice president for operations for United Airlines, reported that Ted's cost per available seat mile was in the ballpark of Frontier's 8.3 cents.[17] So what had been an opportunity for Frontier no longer remained one, given the launching of Ted. To make things even worse for Frontier, Southwest Airlines, another low-cost competitor, also entered the Denver market a few years later—and now Frontier is only the third-largest carrier in Denver after United and Southwest. To complement the more general five-force analysis proposed by Michael Porter, the following is a nonexhaustive list of external factors that should be considered in any environmental analysis:

- *Economic.* For example, is there an economic recession on the horizon? Or is the current economic recession likely to end in the near future? How would these economic trends affect our business?
- *Political/legal.* For example, how will political changes domestically or in the international markets we are planning on entering affect our entry strategy?
- *Social.* For example, what is the impact of the entry of Millennials in the workforce (and the massive retirement of Baby Boomers)?
- *Technological.* For example, what technological changes are anticipated in our industry and how will these changes affect how we do business?
- *Competitors.* For example, how do the strategies and products of our competitors affect our own strategies and products? Can we anticipate our competitors' next move?

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- *Customers.* For example, what do our customers want now, and what will they want in the next five years or so? Can we anticipate such needs?
- *Suppliers.* For example, what is the relationship with our suppliers now, and is it likely to change, and in what way, in the near future?

An examination of external trends is critical for businesses of all sizes. But it is particularly challenging for multinational organizations because they are concerned with both domestic and international trends. In fact, monitoring the external environment is so important in the strategic planning of multinational organizations that a survey of U.S. multinational corporations showed that 89% of departments responsible for the assessment of the external environment report directly to a member of the board of directors.[18]

Internal Environment An examination of the *internal environment* includes consideration of strengths and weaknesses. Strengths are internal characteristics that the organization can use to its advantage. For example, what are the organization's assets and the staff's key skills? At Frontier, several key executives from other airlines were recruited, an important strength that was needed given the emergence of horizontal threats. These executives created a senior management team with long-term experience in the Denver market.

Weaknesses are internal characteristics that are likely to hinder the success of the organization. These could include an obsolete organizational structure that does not allow for effective organization across units; the misalignment of organizational-, unit-, individual-level objectives; a talent pool with skills that have become obsolete given changes in the industry and in technology.

The following is a nonexhaustive list of internal issues that should be considered in any environmental analysis:

- *Organizational structure.* For example, is the current structure conducive to fast and effective communication?
- *Organizational culture.* Organizational culture includes the unwritten norms and values espoused by the members of the organization. For example, is the current organizational culture likely to encourage or hinder innovation and entrepreneurial behaviors on the part of middle-level managers? Is there a culture in which new ideas and suggestions are quickly suppressed with the argument that "this has never been done before"?
- *Politics.* For example, are the various units competing for resources in such a way that any type of cross-unit collaboration is virtually impossible? Or are units likely to be open and collaborative in cross-unit projects?
- *Processes.* For example, are the supply chains working properly? Are all touchpoints with customers working properly? Can customers reach us when they need to and receive a satisfying response when they do?
- *Size.* For example, is the organization too small or too large? Are we growing too fast? Will we be able to manage growth (or downsizing) effectively?

Table 3.3 includes a summary list of external and internal trends to be considered in conducting an environmental analysis. Think about your current employer (or last

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TABLE 3.3 • Trends to Consider in Conducting an External and Internal Environmental (i.e., SWOT) Analysis

External	Internal
Economic	Organizational structure
Political/legal	Organizational culture
Social	Politics
Technological	Processes
Competitors	Size
Customers	
Suppliers	

employer, if you are not currently employed). Look at Table 3.3. Where does your organization stand regarding each of these important external and internal issues? Regarding the external issues, what are some of the opportunities and threats? Regarding the internal issues, what are some of the strengths and weaknesses?

Gap Analysis After external and internal issues have been considered, information is collected regarding opportunities, threats, strengths, and weaknesses. This information is used to conduct a *gap analysis*, which analyzes the external environment in relation to the internal environment. The pairing of external opportunities and threats with internal strengths and weaknesses leads to the following situations (ranked from most to least competitive):

1. *Opportunity + Strength = Leverage.* The best combination of external and internal factors occurs when there is an opportunity in the environment and a matching strength within the organization to take advantage of that opportunity. These are obvious directions that the organization should pursue. Consider the case of IBM, the world's largest information technology company, as well as the world's largest business and technology services provider with a 2020 net income of $5.53 billion and total assets of $155.97 billion. IBM has concluded that the personal computer–driven client-server computing models no longer apply and that network-based computing is taking over. As noted by former IBM CEO Virginia (Ginni) Rometty, "Digital is the wires, but digital intelligence, or artificial intelligence as some people call it, is about much more than that. This next decade is about how you combine those and become a cognitive business. It's the dawn of a new era." This realization shifted the focus to servers, databases, and software for transaction and data management. Furthermore, IBM recognized the upsurge of network-connected devices, including smartphones and tablets. To take advantage of this external opportunity, IBM now focuses its resources on supporting network systems, developing software for the network-connected devices, and manufacturing specialized components. Consider the categories of products that IBM offers today: (a) Cloud, (b) Cognitive, (c) Data and Analytics, (d) Internet of Things, (e) IT Infrastructure, (f) Mobile, and (g) Security.[19] This is a long way from IBM's first products involving clocks and

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cash registers! IBM built up its software capabilities through internal development and outside acquisitions. In short, IBM developed a leverage factor by identifying internal strengths that matched external opportunities, which in turn led to a successful business model.

2. *Opportunity + Weakness = Constraint.* In a constraint situation, the external opportunity is present; however, the internal situation is not conducive to taking advantage of the external opportunity. At IBM, this situation could have taken place if IBM did not have the internal capabilities to develop software and other products for the network-connected devices and specialized components. The external opportunity would still be there but, absent the internal capabilities, it would not turn into an advantageous business scenario.
3. *Threat + Strength = Vulnerability.* In this situation, there is an external threat, but this threat can be contained because of the presence of internal strengths. If this had been the case at IBM, the company would not have been able to take advantage of a new situation; nevertheless, existing strengths would have allowed IBM to continue to operate in other areas.
4. *Threat + Weakness = Problem.* In the worst scenario, there is an external threat and an accompanying internal weakness. For example, in the 1980s, IBM refused to adapt to the demands of the emerging microcomputer market (i.e., today's personal systems including desktops, laptops, and notebooks). IBM did not have the internal capability to address customers' needs for personal systems and instead continued to focus on its internal strength: the mainframe computer. IBM's poor performance in the early 1990s was a direct consequence of this problem situation: the external threat (increasing demand for personal systems and dwindling demand for mainframe computers) was met with an internal weakness (lack of ability to shift internal focus from the mainframe to the personal systems and devices).

Consider the organization you are currently working for, or the organization for which you have worked most recently. Try to identify one leverage and one problem based on an analysis of opportunities, threats, strengths, and weaknesses. What was the situation like? What were the outcomes?

In sum, the process of creating a strategic plan begins with an environmental, also called SWOT, analysis, which considers internal as well as external trends. Internal trends can be classified as either strengths or weaknesses, and external trends can be classified as either opportunities or threats. A gap analysis consists of pairing strengths and weaknesses with opportunities and threats and determining whether the situation is advantageous (i.e., leverage), disadvantageous (i.e., problem), or somewhere in between (i.e., constraint and vulnerability). A SWOT analysis offers critical information for all organizations—as illustrated with the case of Airbnb in Company Spotlight 3.1.

Mission

After the environmental analysis has been completed and the gap analysis reveals an organization's leverage, constraints, vulnerabilities, and problems, the members of the organization must determine who they are and what they do. This information will then be incorporated into the organization's mission statement. The mission statement summarizes the organization's most important reason for its existence. Mission statements

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Company Spotlight 3.1

SWOT AND GAP ANALYSIS AT AIRBNB[20]

Airbnb is an online hospitality service broker that allows customers to rent short-term lodging from local residents. Launched in 2008, it has more than 7 million listings in 100,000 cities and 220 countries. The company is now valued at over $130 billion.[21]

Strengths	Weaknesses
• First to market • Host incentive (hosts can make money) • Ease of use (search by price, location, dates) • Website design • Profiles (browse hosts and review them) • No daily updates required for listings	• Lack of brand awareness in new markets • Company quality dependent on hosts and customers • Ease of competitor entry • Legal costs to deal with zoning laws (e.g., prohibiting people from running a business) • Insurance costs to protect hosts and customers
Opportunities	**Threats**
• Lower prices than hotels • More connected to city and its culture • Easy to become a host and connect with local residents • Large market for temporary housing • Growing use of online booking	• Established lodging providers (e.g., hotels) • Online rooms (e.g., Craigslist, couchsurfing.com) • Competitors copying business model • Bad press surrounding poor room, poor customers, or poor hosts

Gap Analysis (Leverage):

- Provide alternative to hotels by providing temporary housing that allows hosts to make money and users to save money and experience local culture.
- Provide easy-to-use web platform that allows hosts to easily post temporary housing by posting their listing once, and users to easily search and filter.

provide information on the purpose of the organization and its scope. State-of-the-science mission statements provide answers to the following questions:

- Why does the organization exist?
- What is the scope of the organization's activities?
- Who are the customers served?
- What are the products or services offered?

As an example, consider the mission statement for the Coca-Cola Company:

- To refresh the world mind, body, and spirit.
- To inspire moments of optimism and happiness through our brands and actions.
- To create value and make a difference.[22]

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Presumably, this mission statement was preceded by an environmental analysis examining external and internal trends. We do not have information on this. But what we do know is that this mission statement provides some information regarding the four questions noted earlier. Based on this mission statement, we have information about why the company exists (i.e., "to refresh the world") and the scope of the organization's activities (i.e., "to inspire moments of optimism and happiness, create value, and make a difference"). The mission statement does not, however, include information about who the customers are. Also, there is no information about specific products (e.g., Fanta, Sprite, Minute Maid, Powerade, Dasani, Fresca).

More specific and detailed information would be needed if Coca-Cola's mission statement is to be used by its various units to create their own mission statements. More detailed information is also needed if both the organization and unit mission statements will be used as input for individual job descriptions, which will in turn be used for managing individual and team performance. State-of-the-science mission statements include the following components:

- Basic product or service to be offered (does what?)
- Primary markets or customer groups to be served (to whom?)
- Unique benefits and advantages of products or services (with what benefits?)
- Technology to be used in production or delivery
- Fundamental concern for survival through growth and profitability

Mission statements can also include information about the organization's values and beliefs, but these are sometimes listed separately, including:

- Managerial philosophy of the organization
- Public image sought by the organization
- Self-concept of business adopted by employees, shareholders, and other stakeholders

In sum, a mission statement defines why the organization exists, the scope of its activities, the customers served, and the products and services offered. Mission statements also include specific information, such as the technology used in production or delivery, and the unique benefits or advantages of the organization's products and services. Finally, a mission statement can include a statement of values and beliefs, such as the organization's managerial philosophy, or these can be presented separately.

Vision

An organization's vision is a statement of future aspirations. In other words, the vision statement includes a description of what the organization would like to become in the future—about 5 to 10 years out. Vision statements are typically written after the mission statement is completed because the organization needs to know who they are and what their purpose is before they can figure out who they want to be in the future. Note, however, that mission and vision statements are often combined and, therefore, in many cases it is difficult to differentiate one from the other. In such cases, the vision statement usually includes two components: a *core ideology,* which is referred to as the mission, and an *envisioned future*, which is what is referred to as the vision per se. The core ideology contains the core purpose and core values of an organization, and the envisioned future specifies long-term objectives and a picture of what the organization aspires to.

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Spectrum Brands provides an example of combining mission and vision into one statement. Spectrum Brands is a global consumer products company and a leading supplier of batteries, kitchen appliances, shaving and grooming products, personal care products, pet supplies, and home and garden products. Originally founded in 1906 as the French Battery Company in Madison, Wisconsin, and renamed Rayovac Company during the 1930s, the company changed its name to Spectrum Brands to reflect its diverse portfolio and position as a publicly held company. Some of its more recognizable brands include Rayovac, VARTA, Remington, George Foreman, Black+Decker, Nature's Miracle, Littermaid, and Liquid Fence. Based in Middleton, Wisconsin, Spectrum Brands' products are sold by the world's top 25 retailers and are available in more than one million stores in approximately 160 countries. Spectrum Brands' combined mission and vision statement is the following:

> Spectrum Brands is a rapidly growing, global, diversified, market-driven consumer products company.
>
> We will continue to grow our company through a combination of strategic acquisitions and organic growth.
>
> We will strengthen our brands and generate growth through emphasis on brand strategy/marketing and innovative product technology, design and packaging.
>
> We will leverage IT infrastructure, distribution channels, purchasing power and operational structure globally to continue to drive efficiencies and reduce costs.
>
> We will profitably expand distribution in all served markets.[23]

This statement includes components of a mission statement (i.e., "a rapidly growing, global, diversified, market-driven consumer products company") as well as components of a vision statement (e.g., "will strengthen our brands and generate growth through emphasis on brand strategy/marketing and innovative product technology, design and packaging"). Thus, this statement combines the present (i.e., who the company is, what it does) with the future (i.e., aspirations).

Other organizations make a more explicit differentiation between the mission and vision statements. Consider the vision statement for Greif, a global company headquartered in Delaware, Ohio, with approximately 13,000 employees and more than 200 operating locations in more than 50 countries. Greif offers rigid industrial packaging and services (e.g., steel, rigid intermediate bulk containers; blending, filling, and other packaging services), flexible products and services (e.g., flexible intermediate bulk containers, shipping sacks; reconditioning flexible intermediate bulk containers), paper packaging (e.g., containerboard, corrugated sheets and other corrugated products; packaging services), and land management (e.g., timber, timberland, and special use properties). Greif's vision statement is the following:[24]

Vision

In industrial packaging, be the best performing customer service company in the world.

> *Our Core Values. Our people are our past, present and future.* We will honor The Greif Way, building upon our rich history as a special place to work. We will operate within a culture of integrity, character and respect. We will maintain a safe working environment. We will attract and cultivate a responsible,

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competent, efficient and empowered workforce. We will provide opportunities to excel. We will communicate. We will listen.

Our customers are our reason for being. We will keep our promises to our customers. We will be synonymous with quality and service. We will solve their packaging challenges. We will prove the value of our relationship by being the best at what we do.

Our products are our livelihood. We will be a low-cost manufacturer and the high-value supplier in our business segments. We will innovate, using our ingenuity and creativity to provide better solutions. We will maintain our focus on where we can be the best and apply our expertise to do it better.

Our shareholders are our support. We will conduct our business ethically and with transparency. We will establish rigorous financial goals that will drive our business decisions and measure our progress. We will strive to attain a superior rate of return and maintain trust with our investors.

Our stage is the world. Our communities and the environment are our backdrop. We will be a conscientious global citizen, a responsive community neighbor and a responsible steward of the earth's natural resources.

Greif's vision statement is clearly future-oriented. It provides direction and focus. In addition, it includes several features that are required of useful vision statements. First, it focuses attention on what is most important and thus eliminates unproductive activities. Second, it provides a context from which to evaluate new external opportunities and threats. For example, the vision statement indicates that new opportunities for profitable growth in the industrial packaging and services business should be pursued. In addition, state-of-the-science vision statements have the following characteristics, not all of which are present in Greif's vision statement:

- *Brief.* A vision statement should be brief so that employees can remember it.
- *Verifiable.* A good vision statement should be able to stand the reality test. For example, how can we verify if Greif indeed becomes "one of the most desirable companies to work for in our industries, focusing on establishing a work atmosphere in which our employees can excel"?
- *Bound by a timeline.* A good vision statement specifies a timeline for the fulfillment of various aspirations.
- *Current.* Outdated vision statements are not useful. Vision statements should be updated on an ongoing basis, ideally as soon as the old vision is fulfilled.
- *Focused.* A good vision statement is not a laundry list of aspirations but rather focuses on just a few (perhaps not more than three or four) aspects of an organization's performance that are important to future success.
- *Understandable.* Vision statements need to be written in a clear and straightforward manner so that they are understood by all employees.
- *Inspiring.* Good vision statements make employees feel good about their organization's direction and motivate them to help achieve the vision.
- *A stretch.* Consider Microsoft's vision statement in the 1980s of "putting a computer on every desk and in every home," which was the vision when CEO Bill Gates started

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TABLE 3.4 • Characteristics of Good Vision Statements

Brief
Verifiable
Bound by a timeline
Current
Focused
Understandable
Inspiring
A stretch

the MS-DOS operating system. This vision statement was such a stretch that it was considered ludicrous at a time when the mainframe computer still reigned supreme and the first personal computers were being made and sold. But that vision became a reality. Two decades later, Microsoft revised their vision as follows: "putting a computer in every car and every pocket." Once again, this vision has now become a reality—in the form of car dashboards and smartphones.

In sum, a vision statement includes a description of future aspirations. Whereas the mission statement emphasizes the present, the vision statement emphasizes the future. Table 3.4 includes a summary list of the features that should be present in a good vision statement. Think about your current employer (or last employer, if you are not currently employed). Look at Table 3.4. How many of these features are reflected in your organization's vision statement? What should be added to the vision statements to make it more congruent with an ideal one?

Objectives

After an organization has analyzed its external opportunities and threats as well as internal strengths and weaknesses and has defined its mission and vision, it can realistically establish objectives that will further its mission. The purpose of setting such objectives is to formalize statements about what the organization hopes to achieve in the medium- to long-range period (i.e., within the next three to five years). Objectives provide more specific information regarding how the mission will be implemented. Objectives also provide a good basis for making decisions by keeping desired outcomes in mind. Objectives provide the basis for performance measurement because they allow for a comparison of what needs to be achieved versus what each unit, group, and individual is achieving. Moreover, objectives can also be a source of motivation and provide employees with a more tangible target for which to strive.

Consider the case of Harley-Davidson, Inc., the motorcycle manufacturer. Matthew S. Levatich, president and CEO from May 2015 to February 2020, said that a major objective is to "deliver those customer-growth objectives, not chassis-growth objectives. It sounds kind of trite: We're not really in the business of manufacturing motorcycles. We're in the business of building customers. When I joined [in 1994], we had made 86,000 motorcycles the prior year. Compare that to the peak in 2006 at about 350,000. It's less today, but we're working hard to get that volume back up. But the emphasis has shifted from making motorcycles to what I would say is identifying and finding customers—with product, with distribution, with everything we do at the company."[25] Operationally speaking, this means that Harley Davidson is trying to achieve the following:[26]

- Lead in every market: Harley-Davidson plans to achieve the leadership position in the 601cc motorcycle segment. As the company's CEO Matt Levatich put it, "This is not just about competing, but winning."
- Grow sales at a faster rate: Harley-Davidson plans to grow its retail sales in the United States as well as internationally at a faster pace. In the next five years, the company plans to add 150 to 200 dealers globally to achieve this objective.

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- Grow earnings faster than revenues: Harley-Davidson has stated an objective of growing its revenues over the next five years. It's also aiming at growing its earnings faster than its revenues through 2020 and beyond.

These objectives provide a clear direction for Harley-Davidson. In fact, they provide useful information to guide unit-level objectives as well as individual and team performance. The entire organization has a clear sense of focus because all members know that there are clear objectives in terms of market presence, growth, sales, earnings, and financial performance.

Strategies

At this point, we know what the organization is all about (mission), what it wants to be in the future (vision), and what it needs to do to get there (objectives). What remains is a discussion of *how to* fulfill the mission and vision and how to achieve the stated objectives. This is done by creating strategies, which are descriptions of game plans or how-to procedures to reach the stated objectives. The strategies could address issues of growth, survival, turnaround, stability, innovation, talent acquisition, and leadership, among others.

There is an entire field of study called "strategic management studies" devoted to the development and implementation of strategies. In fact, Deloitte, Boston Consulting Group, Bain & Company, KPMG, and Accenture offer consulting services in the domain of business strategy. Also, there are hundreds of books written on this topic. But to give you a brief overview of some possibilities, consider the following strategies, out of many, that could be implemented:[27]

- *Operations:* Addressing issues about the global economic environment in terms of market, capital, interest rates, labor costs, taxes, regulations, and available infrastructure.
- *Competitiveness:* Operating at optimum levels of productivity and efficiency: Continuous benchmarking, use of statistical tools for process optimization, total quality model, gathering data on customer expectations and experiences.
- *Optimal use of resources:* Optimization of global collaboration with suppliers, parts standardization and reduction, and flexible manufacturing and services.
- *Global corporate culture.* Respecting cultural values of different regions, constant training at all levels, policies of respect and recognition to individuals, and selecting of highly qualified employees.
- *Research and development:* Ongoing initiatives aimed at innovation and creativity.

Developing Strategic Plans at the Unit Level

As shown in Figure 3.1, the organization's strategic plan has a direct impact on the units' strategic plans. The case of KeyBank of Utah described earlier illustrates how the branches had a mission statement that was aligned with the overall organizational mission statement. Similarly, the vision statement, objectives, and strategies of the various units need to be congruent with the overall organizational vision, objectives, and strategies. Consider the case of Microsoft Corporation's mission statement:[28]

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Our Mission Our mission is to empower every person and every organization on the planet to achieve more.

What We Value

- *Innovation*: Learn about innovations from our computer science research organization. With more than 1,000 researchers in our labs, it's one of the largest in the world.
- *Diversity and Inclusion:* Explore how we maximize every person's contribution—from our employees to our customers—so that the way we innovate naturally includes diverse thought.
- *Corporate Social Responsibility*: See how we work to be a responsible partner to those who place their trust in us, conducting business in a way that is inclusive, transparent, and respectful of human rights.
- *Philanthropies*: Find out how we empower people by investing technology, money, employee talent, and the company's voice in programs that promote digital inclusion.
- *Environment*: Discover how we lead the way in sustainability and use our technologies to minimize the impact of our operations and products.
- *Trustworthy Computing*: Check out how we deliver secure, private, and reliable computing experiences based on sound business practices.

Now, consider the mission statement of one of Microsoft's units, Training and Education:

> With the charter to enable Microsoft engineering workgroups to realize their full potential for innovation and performance through world-class learning strategies, Microsoft Training and Education (MSTE) provides performance support strategies to support the overall corporation's software engineering efforts. Our efforts include the design, development, and delivery of learning programs, online information, and resources for Microsoft employees. MSTE's integrated suite of technical offerings supports our objective of having a significant impact on Microsoft's business. We promote best practices, cross-group communication, Microsoft expertise and Industry expertise.

As you can see, the mission of the training and education unit regarding the realization of people's full potential for innovation and performance is consistent with the overall mission to empower every person plays a central role. Of course, MSTE's mission is more focused on issues specifically relevant to the training and education function. Nevertheless, the link between the two mission statements is readily apparent.

The congruence between the mission of the organization and its various units is important regardless of the type of industry and the size of the organization. High-performing organizations have a clear alignment in the mission and vision of the overall and unit-level mission and vision statements. Consider the case of Norfolk State University (NSU), located in Norfolk, Virginia. NSU, the seventh-largest historically African American university in the United States, serves many students who are the first in their families to attend college. It offers about fifty academic programs, including sixteen master's and two doctoral degree programs. NSU has seven main schools offering courses to their approximately 6,200 and 800 undergraduate and graduate students, respectively: School of Business, School of Education, School of Liberal Arts, College of Engineering,

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Science & Technology, School of Social Work, and School of Extended Learning. The university's mission statement is the following:

> Through exemplary teaching, scholarship, and outreach, Norfolk State University transforms lives and communities by empowering individuals to maximize their potential, creating life-long learners equipped to be engaged leaders and productive global citizens.[29]

The mission statement of the School of Business indicates that its objective is to:

> ...be your path to an amazing future. At Norfolk State's School of Business, high character combines with high expectations, excellence in instruction and a global perspective to prepare students to succeed personally and professionally. Our graduates will be known for mastery of their academic specialties and the ability to apply their knowledge in the workplace and in service to others. It is precisely this type of preparation that has allowed our graduates to assume leadership roles in great organizations worldwide."[30]

Note that both mission statements are aligned and refer to similar issues. Specifically, they include the delivery of a high-quality education and academic achievement and educating productive citizens who will contribute to a global society.

In sum, the organization's strategic plan, including the mission, vision, objectives, and strategies, cascades down to all organizational levels. Thus, each division, branch, department, or unit also creates its own strategic plan, which should be consistent with the organization's overall plan.

Job Descriptions

Continuing with the sequence of components shown in Figure 3.1, job descriptions also need to be congruent with the organization and unit mission, vision, objectives, and strategies. We discussed the job analysis process leading to the creation of job descriptions in Chapter 2. Recall that job descriptions are important because they serve as a roadmap for what individuals are supposed to do, how, and what results will be produced. Moreover, job descriptions are important for new employees because they set clear expectations from day one. So, if job descriptions are consistent with the organization and unit mission, vision, objectives, and strategies, it is more likely that results produced by individuals and teams will contribute to the success of their units and organization as a whole. Please be patient for now. Chapter 4 will address how to define behaviors and results, and Chapter 5 and 6 will address how to measure them in great detail. For now, let's continue to address the links between strategic business priorities and job descriptions.

After the strategic plan is completed, some rewriting of the existing job descriptions may be in order. Recall the job description for Trailer Truck Driver as used by the Civilian Personnel Management Service (U.S. Department of Defense) (see Figure 3.3).

This description provides information about the various tasks performed together with a description of some of the KSAs required for the position. But what is the link with the organization and unit strategic plans? How do the specific tasks contribute to the strategic priorities of the transportation division and the organization as a whole? This description includes only cursory and indirect information regarding these issues. For example, one can assume that the proficient handling of bills of lading, expense

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FIGURE 3.3 • Job Description for Trailer Truck Driver: Civilian Personnel Management Service, U.S. Department of Defense

Operates gasoline- or diesel-powered truck or truck tractor equipped with two or more driving wheels and with four or more forward speed transmissions, which may include two or more gear ranges. These vehicles are coupled to a trailer or semi-trailer by use of a turntable (fifth wheel) or pintle (pivot) hook. Drives over public roads to transport materials, merchandise, or equipment. Performs difficult driving tasks such as backing truck to loading platform, turning narrow corners, negotiating narrow passageways, and keeping truck and trailer under control, particularly on wet or icy highways. May assist in loading and unloading truck. May also handle manifest, bills of lading, expense accounts, and other papers pertinent to the shipment.

FIGURE 3.4 • Job Description for Performance Solutions Group Manager at Microsoft

As the Performance Solutions Group Manager, you will be accountable for developing and delivering on a portal strategy that touches over 20,000 employees worldwide and involves a complex data delivery system. Additionally, the person is responsible for defining the cutting-edge tool suite used by the team to develop and maintain the portal, the content housed by the group, and all e-learning solutions. Key initiatives include redesigning the Engineering Excellence Guide within the next six months and evolving it over the next eighteen months to three years to become the industry-leading performance support site. Key challenges include maintaining and managing the cutting-edge tool suite used by the team and driving a clear vision for an industry-leading portal and content delivery plan.

Qualifications for this position are a minimum of five years of senior management experience, preferably in knowledge management, e-learning, or Web-based product development roles; ability to think strategically and exercise sound business judgment on behalf of Microsoft; excellent leadership, communication, interpersonal, and organizational skills; firsthand experience delivering/shipping Web-based learning and content management solutions; proven record of successful team management; and ability to work well independently and under pressure, while being flexible and adaptable to rapid change. Knowledge of performance support and training procedures, standards, and processes is preferred.

With the charter to enable Microsoft engineering workgroups to realize their full potential for innovation and performance through world-class learning strategies, Microsoft Training and Education (MSTE) provides performance support strategies to support the overall corporation's software engineering efforts. Our efforts include the design, development, and delivery of learning programs, online information, and resources for Microsoft employees. MSTE's integrated suite of technical offerings supports our objective of having a significant impact on Microsoft's business. We promote best practices, cross-group communication, Microsoft expertise and industry expertise.

accounts, and other papers pertinent to the shipment contributes toward a smooth shipping operation and, therefore, contributes to the transportation division. However, this link is not sufficiently clear.

On the other hand, consider a job announcement describing the position of Performance Solutions Group Manager in Microsoft's training and education unit (see Figure 3.4). This job description makes the link between the individual position and MSTE quite clear. First, the description includes MSTE's mission statement so that individuals become aware of how their specific role fits within the overall mission of the department. Second, the job description includes language to the effect that the work must lead to an "industry leading" product, which is consistent not only with MSTE's mission but also with Microsoft's overall mission. Third, in the needed qualifications section, there is a clear overlap between those needed for this specific position and those mentioned in MSTE's as well as in Microsoft's overall mission. In short, the person working as Performance Solutions Group Manager has a clear sense not only of her position but also of how behaviors and expected results are consistent with expectations about MSTE and Microsoft in general.

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In sum, the tasks and KSAs included in individual job descriptions must be congruent with the organization's and unit's strategic plans. In other words, job descriptions should include activities that, if executed well, will help execute the mission and vision. Job descriptions that are detached from strategic priorities will lead to performance evaluations focused on behaviors and results that are not central to an organization's success, and the performance management system will be seen as irrelevant and a big waste of time by managers and employee alike.

Building Support

Given the many competing projects and the usual scarcity of slack resources, some organizations may be reluctant to implement a performance management system. Primarily, the reasons include a lack of any perceived value-added, an initiative that requires many resources (particularly time from supervisors), and something that, simply put, seems to produce few tangible payoffs and even cause more harm than good. The need to align organization and unit priorities with the performance management system is one of the key factors contributing to obtaining the much-needed top management support for the system.

A good question that top management is likely to and, frankly, should ask is: "Why is performance management important and even necessary?" One answer to this question is that performance management is the primary tool that will allow top management to carry out its vision. The performance management system, when aligned with organization and unit priorities, is a critical tool to (1) allow all employees to understand where the organization stands and where it wants to go and (2) provide tools to employees (e.g., motivation, developmental resources) so that their behaviors and results will help the organization get there. Fundamentally, the implementation of any performance management system requires that the "What's in it for me?" question be answered convincingly. In the case of top management, the answer to the "What's in it for me?" question is that performance management can serve as a primary tool to realize its vision and achieve strategic objectives.

Building support for the system does not stop with top management, however. A critical aspect to keep in mind when developing a performance management system is whether managers are cynical about it. Leaders who are more cynical about the performance management system tend to be less effective and are also more likely to consider leaving their firms. To address this problem, HR leaders must ensure that managers see the performance management system as useful and track managers' cynicism through climate surveys[31]. In other words, all participants in the system need to understand the role they play and also receive a clear answer to the "What's in it for me?" question. Accordingly, communication about the system is key. This includes a clear description of the system's mechanics (e.g., when the performance planning meetings will take place, how to handle disagreements between supervisor and employees) and the system's consequences (e.g., relationship between performance evaluation and compensation). As discussed in Chapter 1, not involving people in the process of system design and implementation can create resistance, and the performance management system may result in more harm than good.

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Consider the role that good communication played in the launching of a revamped performance management system at Bankers Life and Casualty, an insurance company specializing in insurance for seniors and headquartered in Chicago. When Edward M. Berube was appointed as its president and CEO, he understood that Bankers Life and Casualty was facing important challenges, including new customer demands, the impact of the Internet, outsourcing, and increased competition. So, Bankers Life and Casualty engaged in a very aggressive marketing campaign, which included retaining actor Dick Van Dyke as its company spokesperson. In spite of these efforts, however, internal focus groups revealed that while employees understood the organization's strategic plan, they did not understand what role each person was supposed to play in helping the organization execute its strategy. In other words, employees did not have a clear understanding of how each person could help achieve the organization's strategic objectives, including focusing on the following three key areas: (1) distribution scope, scale, and productivity; (2) home office productivity and unit costs; and (3) product revenue and profitability.

Bankers Life and Casualty realized that a better link between strategy and job descriptions could be established by improving its performance management process. The HR function, therefore, proceeded to overhaul the performance management system so that the three areas of strategic importance just outlined would be part of everyone's job descriptions. The design and implementation of the new system was a *joint venture* between the HR and the communications departments. First, the HR and communications teams spoke candidly with the CEO about his expectations. The CEO responded with overwhelming support, stating that the performance management system would be implemented for every employee on preestablished dates and that he would hold his team accountable for making this happen. Then, to implement the performance management system, each unit met with its VP. During these meetings, each VP discussed how his or her unit's objectives were linked to the corporate objectives. Next, HR and communications led discussions surrounding objective setting, giving feedback, and writing developmental plans. Managers were then given the opportunity to share any feedback, concerns, or questions that they had about the program. During this forum, managers exchanged success stories and offered advice to one another. These success stories were then shared with the CEO. The CEO then shared these stories with those who reported directly to him to strengthen the visibility of his support for the program.

In short, the performance management system at Bankers Life and Casualty helped all employees understand their contributions to the organization's strategic plan. This was a key issue that motivated the CEO to give unqualified support to the system. This support gave a clear message to the rest of the organization that the performance management system was an important initiative that added value to the entire organization. The support of the CEO and other top executives, combined with a high degree of participation from all employees and their ability to voice concerns and provide feedback regarding the system, was a critical factor in the success of the performance management system at Bankers Life and Casualty.

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SUMMARY POINTS

- Strategic planning involves defining the organization's present and future identity. Overall, the strategic plan serves as a blueprint that allows organizations to allocate resources in a way that provides the organization with a competitive advantage.
- The HR function can play a critical role as a strategic partner and expert internal consultant in creating the strategic plan. Also, performance management is an ideal vehicle to demonstrate the strategic role of the HR function because it allows for explicit and clear linkages with organization's mission, vision, and objectives. By helping implement the strategic planning process and linking a firm's objectives with the performance management system, the HR function can get a "seat at the table" of the top management team.
- Strategic planning serves several specific purposes, including defining an organization's identity, preparing for the future, analyzing the environment, providing focus, creating a culture of cooperation, generating new options, and serving as a guide for the daily activities of all organizational members.
- Performance management systems must rely on the strategic plan to add value and be useful. The job descriptions of all employees must be aligned with the vision, mission, objectives, and strategies of the organization and unit. It is critical to align organizational, unit, and individual priorities. One formal approach to do this is the balanced scorecard approach.
- The process of creating a strategic plan begins with an environmental (SWOT) analysis, which considers internal (e.g., organizational structure, processes) as well as external (e.g., economic, technological) trends. Internal trends can be classified as either strengths or weaknesses, and external trends can be classified as either opportunities or threats. A gap analysis consists of pairing strengths and weaknesses with opportunities and threats and determining whether the situation is advantageous (i.e., leverage), disadvantageous (i.e., problem), or somewhere in between (i.e., constraint and vulnerability).
- The second step in creating a strategic plan is to write a mission statement based on the results of the gap analysis. A state-of-the-science mission statement defines why the organization exists, the scope of its activities, the customers served, and the products and services offered. Mission statements also include information about what technology is used in production or delivery, and the unique benefits or advantages of the organization's products and services. Finally, a mission statement can include a statement of values and beliefs, such as the organization's managerial philosophy, although some organizations choose to create separate value statements.
- The third component of a strategic plan is the vision statement, which includes a description of future aspirations. Whereas the mission statement emphasizes the present, the vision statement emphasizes the future. In many cases, however, the mission and vision statements are combined into one statement. State-of-the-science vision statements are brief, verifiable, bound by a timeline, current, focused, understandable, inspiring, and a stretch.
- After the mission and vision statements are created, the fourth step in the strategic planning process is to generate objectives that will help fulfill the mission and vision. Objectives provide more specific information regarding how the mission and vision will be implemented. Typically, objectives span a three- to five-year period.
- The fifth and final step in the strategic planning process is to identify strategies that will help achieve the stated objectives. These strategies are game plans and usually address issues surrounding growth, survival, turnaround, stability, innovation, and leadership.
- The organization's strategic plan, including the mission, vision, objectives, and strategies, cascades down to all organizational levels. Thus, each division, department, or unit also creates its own strategic plan, which should be consistent with the organization's overall plan. The most effective sequence for doing so is for the units to first agree on common strategies and then specify unit-level objectives.
- The tasks and KSAs included in individual job descriptions must be congruent with the organization's and unit's strategic plans. In other words,

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job descriptions should include activities that, if executed well, will in turn help execute the mission and vision. Job descriptions that are detached from strategic priorities will lead to performance evaluations focused on behaviors and results that are not central to an organization's success.

- To build support for the performance management system, top management must be aware that it is a primary tool and ideal conduit to execute an organization's strategic plan. This awareness will lead to top management's support for the system. In addition, all organizational members need to be able to answer the "What's in it for me?" question regarding the system. Implementing the performance management system will require considerable effort on the part of all those involved. Those doing the evaluation and those being evaluated should know how the system will benefit them directly.

EXERCISE 3-1

Linking Individual with Unit and Organizational Priorities

Obtain a copy of the job description for your current or most recent job. If this is not feasible, obtain a copy of a job description of someone you know. Then, obtain a copy of the mission statements for the organization and unit in question.

Revise the job description so that it is aligned with the unit and organizational strategic priorities. Revisions may include adding tasks and KSAs important in the mission statement that are not already included in the job description.

EXERCISE 3-2

Building Support for a Performance Management System at the Gap, Inc.*

You have just been appointed the Chief Human Resource Office (CHRO) for The Gap, Inc., a large retail clothing company with more than $1 billion in sales, 3,000 retail stores in the United States, and over 130,000 employees. The mission of the company is "to create emotional connections with customers through our brands, unique designs, and enjoyable store experiences."

The current performance management system is not delivering results in terms of business performance, with the company posting a 10% decline in sales during last month, the 12th monthly decrease in a row. The chief executive officer (CEO) believes that this is because of a lack of strategic alignment between the company's overall mission and its retail stores.

Imagine the class instructor is the CEO of the company, and the other students are members of the top management team. Your task is to devise a new strategic plan that achieves the CEO's goal of greater alignment between organizational- and store-level strategies. Based on the mission statement of the company and other information provided:

1. Develop a mission and vision statement that translates the organization's mission statement for the retail stores using the guidelines below *(Hint: Sections 3.3.3 and 3.3.4 provide detailed guidance and examples of mission and vision statements).*

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- Mission statements should include: The product offered (clothing); the target customer group (young adults and casual wear for professionals); benefits of the product (cost, quality, style); technology used (if applicable); and a focus on sales growth and profitability (increasing revenue).
- Vision statements should be: succinct, verifiable, time-bound, focused, clear, inspirational, and challenging.

2. Develop 2-3 retail store objectives and the strategies to achieve those objectives. These should be closely linked to the new mission and vision statement. *(Hint: Sections 3.3.5, 3.3.6, and 3.3.7 provide detailed guidance and examples of setting objectives and strategies)*
   - Objectives should address the next three to five years and provide a clear performance target to aim for. They might address issues such as sales revenue, payroll, or advertising.
   - Strategies should address *how* the objectives will be achieved. They might address issues such as operations, customer surveys and benchmarking, or inventory management.
3. Prepare a brief (5–10 minute) presentation that:
   - Presents the new strategic plan (mission, vision, objectives, and strategies) to the CEO and the top management team
   - Convinces the CEO and the top management team to support the new plan
     - Your presentation should clearly answer the question "What's in it for me?" for both the CEO and the rest of the top management team
     - Articulate how the new plan aligns with the organization's overall mission and how it will lead to greater sales
     - Consider how you can make the CEO and the rest of the top management team feel a sense of involvement and ownership (e.g., allow top management team members to provide suggestions about the verbiage of the mission or vision; allow them to take responsibility for some part of the process)

* This exercise is loosely based on Gap Inc. *Encouraging Employees to Grow, Perform and Succeed–without Ratings*. https://www.e-reward.co.uk/uploads/editor/files/GapInc_Case_Study.pdf

CASE STUDY 3-1

Evaluating Vision and Mission Statements at PepsiCo

Consider the mission and vision statements for PepsiCo and then answer the questions included below:

PepsiCo's Mission Statement*

Our mission: *Create more smiles with every sip and every bite.*

- For our consumers: By creating joyful moments through our delicious and nourishing products and unique brand experiences.
- For our customers: By being the best possible partner, driving game-changing innovation, and delivering a level of growth unmatched in our industry.
- Four our associates and our communities: By creating meaningful opportunities to work, gain new skills and build successful careers, and a diverse and inclusive workplace.
- For our planet: By conserving nature's precious resources and fostering a more sustainable planet for our children and grandchildren.

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- Four our shareholders: By delivering sustainable top-tier TSR and embracing best-in-class corporate governance.

PepsiCo's Vision Statement

Be the global leader in convenient foods and beverages by winning with purpose. This reflects our ambition to win sustainably in the marketplace and accelerate our top-line growth, whilst keeping our commitment to do good for the planet and our communities. It builds on decades of progress we've made since PepsiCo was founded in 1965, while setting a firm foundation for a new era of growth and prosperity. To help us achieve this vision, we've defined a new set of aspirations: to become Faster, Stronger, and Better.

1. The table below summarizes the key characteristics of ideal mission and vision statements as discussed in Chapter 3. Use the Y/N columns in the table to indicate whether each of the features is present, or not, in the mission and vision statements of PepsiCo.
2. How do the mission and vision statements relate to the eight characteristics of an ideal mission statement and the eight characteristics of an ideal vision statement? What are the gaps?
3. How useful are the mission and vision statements of PepsiCo in terms of linking organizational priorities with individual and team performance? In creating such a linkage, which ideal mission/vision statement characteristics (shown in the table above) seem to be more important than others? What other places might the HR department at PepsiCo look for information regarding how to more effectively cascade firm-level strategy to each individual's objectives?

	Characteristics	**Y/N**
	Basic product/service to be offered (does what)	
	Primary markets or customer groups to be served (to whom)	
Mission statement—who we are and what we do	Unique benefits, features, and advantages of products/services (with what benefits)	
	Technology to be used in production or delivery	
	Fundamental concern for survival through growth and profitability	
	Managerial philosophy of the organization	
	Public image sought by organization	
	Self-concept of business adopted by employees, shareholders, and other stakeholders	
	Brief—so that employees can remember it	
	Verifiable—able to stand the reality test	
	Bound by a timeline—specifies a timeline for fulfillment of the various aspirations	
	Current—updated on an ongoing basis	
Vision—Statement of future aspirations	Focused—lists a few (3–4) aspects of organization's performance that are important to future success	
	Understandable—written in a clear and straightforward manner so that they are understood by all employees	
	Inspiring—makes employees feel good about their organization's direction and motivates them to help achieve the vision	
	Stretch—objective not easily attained	

* PepsiCo (2021). Mission & vision. https://www.pepsico.com/about/mission-and-vision, PepsiCo, Inc. Used with permission.

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CASE STUDY 3-2

Linking Performance Management to Strategy at Boeing

Consider the following description about Boeing[32]:

The Boeing Company is an American multinational firm that designs, manufactures, and sells airplanes, rotorcraft, rockets, satellites, telecommunications equipment, and missiles worldwide. Boeing is the world's largest aerospace company and the second-largest defense contractor in the world based on 2018 revenue. It is also the largest exporter in the United States by dollar value.

In March 2019, the Boeing 737 MAX passenger airliner was grounded worldwide after 346 people died in two crashes, Lion Air Flight 610 on October 29, 2018, and Ethiopian Airlines Flight 302 on March 10, 2019. Ethiopian Airlines immediately grounded the entire MAX fleet. The next day, the Civil Aviation Administration of China ordered the first nationwide grounding, and many other aviation authorities followed suit. The U.S. Federal Aviation Administration (FAA) also ended up grounding all 737 MAX planes on March 13 after an investigation determined evidence of accident similarities. These groundings became the longest ever of a U.S. airliner and included a total of 387 aircraft, which had served 8,600 flights per week for 59 airlines. However, this was not the first scandal for Boeing. Before the 737 MAX crashes, Boeing was having difficulties creating an aircraft that would meet the demand for a midsized aircraft in between its single-aisle 737 and larger twin-aisle 787 planes. With the MAX crisis, the plans to launch an entirely new jetliner for this midsize market (the fastest growing market in the industry) have been abandoned.

Those familiar with the company highlighted that the severe problems that Boeing was facing were a consequence of a culture that consistently prioritized short-term rewards to shareholders over engineering-driven decisions and long-term strategy, including investments in R&D. Even Wall Street analysts were complaining that the board of directors was unable to provide the leadership the company needed.

Imagine you are an HR executive at Boeing. The board of directors just met and decided to prioritize the safety of the planes and promote R&D to ensure long-term sustainability. They are asking you to develop a new performance management system and ensure that these strategic goals are properly implemented in the next six months. Given the company's new strategic orientation, what would you do to help align a new performance management system with this strategic direction? How would you explain anticipated benefits? What would you say and do to garner company-wide support for your proposed performance management system?

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Part Two

System Implementation

chapter 4

Defining Performance and Choosing a Measurement Approach

You have to measure to understand

—Ginni Rometty

Learning Objectives

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

- Argue that performance involves both behaviors and results and that performance is evaluative and multidimensional in nature.
- Prepare a list of the factors that determine performance, including abilities and other traits, knowledge and skills (including declarative knowledge and procedural knowledge), and context.
- Propose a list of contextual factors (e.g., HR policies, organizational and national culture) that have a direct impact on performance.
- Plan interventions involving deliberate practice and extreme ownership with the goal of improving performance.
- Propose how to address and anticipate performance problems.
- Identify the competency architecture for a given job.
- Create a performance management system that could include key performance indicators (KPIs) of each of the four types or dimensions of performance: (a) task, (b) contextual, (c) counterproductive, and (d) adaptive.
- Set up a behavior approach to measuring performance (e.g., competency modeling), which basically focuses on how the job is done as opposed to the results produced.
- Set up a results approach to measuring performance, which basically focuses on the outcomes of work as opposed to the manner in which the work is done.