

Performance Management: A model and research agenda

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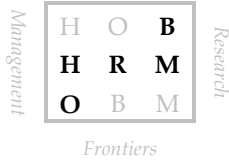
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Abstract	Performance Management deals with the challenge organizations face in defining, measuring and stimulating employee performance with the ultimate goal to improve organizational performance. Thus, Performance Management involves multiple levels of analysis and is clearly linked to the topics studied in strategic HRM as well as performance appraisal. This paper presents a model for Performance Management combining insights from strategic HRM and I/O psychology. The model incorporates multi-level elements, and adds to previous models by explicitly incorporating employee perceptions, the role of direct supervisors and possible reversed causality. Challenges for future research are also presented.	
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Performance Management deals with the challenge organizations face in defining, measuring and stimulating employee performance with the ultimate goal to improve organizational performance. Thus, Performance Management involves multiple levels of analysis and is clearly linked to the topics studied in strategic HRM as well as performance appraisal. This paper presents a model for Performance Management combining insights from strategic HRM and I/O psychology. The model incorporates multi-level elements, and adds to previous models by explicitly incorporating employee perceptions, the role of direct supervisors and possible reversed causality. Challenges for future research are also presented.

Key words: Performance management, Human Resource Management

The process of measuring and subsequently actively managing organizational and employee performance in order to improve organizational effectiveness is currently seen as critical to the development and survival of organizations. Different terms refer to performance management initiatives in organizations, for examples: performance-based budgeting, management-by-objectives, planning, programming and budgeting, and pay-for-performance (Heinrich, 2002). Initially, such initiatives stressed the need to make employee performance explicit and measurable in order to make performance more ‘manageable’. However, Performance Management has come to signify more than a list of singular practices aimed to measure and adapt employee performance. Rather, it is seen as an integrated process in which managers work with their employees to set expectations, measure and review results, and reward performance, in order to improve employee performance, with the ultimate aim to positively affect organizational success (e.g. Mondy, Noe & Premeaux, 2002). This same emphasis is found in the literature on strategic Human Resource Management (HRM)

emphasizing the importance of so-called high performance work systems (e.g. Appelbaum, Bailey, Berg & Kalleberg, 2000).

Different models of Performance Management are found in the literature. Such models have stressed its importance as a system for managing organizational performance, managing employee performance, or for integrating the management of organizational and employee performance. Definitions emphasize the latter. For example, DeNisi (2000) holds that Performance Management refers to the range of activities engaged in by an organization to enhance the performance of a target person or group, with the ultimate purpose of improving organizational effectiveness. Baron and Armstrong (1998) emphasize the strategic and integrated nature of Performance Management, which in their view focuses on ‘increasing the effectiveness of organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors’ (p.38-39). They see Performance Management as a continuous process involving performance reviews focusing on the future rather than the past.

Clearly, the process of Performance Management involves managing employee efforts based on measured performance outcomes. Thus, determining what constitutes good performance and how the different aspects of high performance can be measured is critical to the design of an effective Performance Management process. These topics have been extensively studied in the area of performance appraisal (PA). Much of the PA research stems from I/O psychology, where the accurate measurement of key aspects of employee performance has constituted an important research topic. DeNisi (2000, p.121) defines PA as ‘the system whereby an organization assigns some “score” to indicate the level of performance of a target person or group’. Mondy et al. (2002) define PA as a system of review and evaluation of an individual’s (or team’s) performance. Topics of investigation in

PA research include both the content (what is appraised) and the process of appraising performance (who appraises and how is it done) within organizations.

The emphasis in the area of performance appraisal (PA) has changed over the years. Research used to focus on accuracy of (supervisory) performance ratings and other such limited and measurement focused issues, but has broadened and currently also addresses social and motivational aspects of appraisal (Fletcher, 2001). Fletcher defines PA more broadly as 'activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards' (p.473). Defined as such, PA is an important part of Performance Management. Fletcher holds that as a set of practices (and in the form of Performance Management), PA has now become part of a more strategic approach to integrating HR activities and business policies.

Current research links HRM to organizational performance (e.g. Boselie, Paauwe & Jansen, 2001). There is obviously a link between HRM and Performance Management. Taking a Performance Management approach involves aligning HRM practices in such a way that they maximize current as well as future employee performance, which in turn is expected to affect organizational performance. According to Roberts (2001) Performance Management involves the setting of corporate, departmental, team and individual objectives (sometimes labelled 'policy deployment', the cascading down of strategic objectives to a meaningful set of targets for every individual involved); the use of performance appraisal systems; appropriate reward strategies and schemes; training and development strategies and plans; feedback, communication and coaching; individual career planning; mechanisms for monitoring the effectiveness of performance management system and interventions and even culture management. Thus, Performance Management involves the day-to-day management, as well as the support and development of people.

Performance Management involves aligning HRM practices so that employee performance and development are enhanced, with the aim of maximizing organizational performance. However, such an integration of practices is not easy. Also, aligning practices directly involved in Performance Management also affects other practices, such as selection. Complicated cross-level processes are involved in the proposed performance cycles. Often the proposed causal chain involves organizational level HRM practices affecting individual performance, which in turn affects organizational performance. However, in research the impact of individual and group performance on organizational performance is mostly assumed rather than tested. DeNisi (2000) holds that although performance at a higher level of analysis (e.g. the organization) is in part due to performance at lower levels (e.g. individuals, teams), it is often more than the simple sum of such performance at lower levels. Changing individual performance is often not enough to improve an organization's performance. Vice versa, variables at the organizational level may constrain individual performance. Thus, to understand and change individual performance, one needs to understand the organizational context in which it occurs. Such organizational level variables are often left out of consideration in studies focusing on the individual level. Thus, research in this area should take multi and cross-level effects into account.

Aim of the current paper is to develop a model and research agenda for Performance Management that is grounded in the HRM / Performance Management field. First, we briefly address HRM and performance. A typical model of the causal relationships between HRM practices and employee as well as organizational performance is presented and we build on this model to create a model of Performance Management. The model leads to suggestions for future research in the Performance Management field.

Modeling the link between HRM and performance

The Performance Management perspective stresses the need to align HRM practices with the aim of affecting employee and organizational performance. Thus, an integrated set of HRM practices is central to Performance Management. The relationship between HRM and (firm) performance has been the topic of a heated debate over the last decade (e.g. Wright & Snell, 1998). Studies in this area often report positive relationships between integrated bundles of HRM practices and different measures of organizational performance (e.g. Arthur, 1994; Delery & Doty, 1996; Guthrie, 2001; Huselid, 1995; MacDuffie, 1995).

Although significant progress has been made in unraveling the links between HRM and performance, even though several theoretical and empirical problems remain. Most studies suffer from methodological limitations. For example, many are conducted at a single point in time (cross-sectional). Most use single respondents (mostly HR managers) as their source of information. They tend to focus on the managerial view and seldom assess the employees' perspective. Often sample sizes are limited. Also, the theoretical foundation for how and why measured HRM practices might affect performance is not always clear. For example, Guest (2001) illustrates that theory building as well as operationalizing and measuring HRM, performance, and the relationship between them is still problematic. Which HRM practices should be studied? How can these be measured? Which performance outcomes are relevant? What are the causal mechanisms involved?

In modeling the relationship between HRM and performance, HRM practices are typically expected to increase employees' organizational commitment and motivation, which in turn affects employee performance and ultimately organizational performance (see e.g. models by Becker, Huselid, Pickus & Spratt, 1997; Guest, 1997; Paauwe & Richardson, 1997). In Guest's (1997) model, see figure 1, HRM practices (e.g. selection, training) ensue from HRM strategies (e.g. differentiation, cost-reduction). HRM practices are assumed to

result in HRM outcomes (e.g. employee commitment, workforce flexibility). Such HRM outcomes then result in employee behavior (e.g. effort, cooperation). The behavioral outcomes influence performance outcomes (e.g. productivity, innovation, absenteeism). The last step in the causal chain is formed by financial outcomes (e.g. profits).

--Insert Figure 1 somewhere here --

Guest's model adds to previous models by including different levels of analysis. DeNisi (2000) notes that performance is both a multilevel and a cross-level phenomenon. Performance exists at different levels (e.g. individual, group, organization) and although the models for performance at each of these levels are not completely identical, they are similar, which suggests performance can be seen as a multi-level construct. Performance is also a cross-level construct as performance at one level of analysis influences performance at other levels. Such influences can run both ways (e.g. individual performance can influence organizational performance as well as vice versa).

Although models such as Guest's are useful in developing insight in the relationship between HRM practices and performance, problems remain. For example, the logical distance between the different elements in the model can be problematic. Also, effects of different HRM practices may differ or even counteract each other. The proposed chain of events assumes complicates cross-level processes. For instance, Guest's model proposes that organization level HR practices directly affect individual level employee outcomes and later in the causal chain, individual performance is assumed to affect organizational performance. Testing this process is complicated as the different levels of analysis and cross-level effects place stringent requirements on data and analytical techniques. Another problem is that the directionality of the results should not be taken for granted (e.g. high performance may positively affect commitment as much as vice versa). Also, different employees are often assumed to perceive the employment practices offered by the organization similarly, which is

not necessarily the case (e.g. Guest, 1999). Finally, the role of direct managers and supervisors in the (fair) implementation of HRM practices is often underestimated. This is especially relevant when considering Performance Management, in which managers play key role in assessing and improving employee performance. Several of these points are taken into account in the model presented below. Also, as stated, modelling these relationships implies a specification of the cross- and multi-level nature of the research phenomenon. Thus, before discussing the model, we first touch on the multi-level nature of the employment relationship.

The employment relationship at multiple levels

Central to HRM and Performance Management is the employment relationship, which can be studied on different levels as well as from different perspectives. Relevant levels include the individual, group, functional, organizational, industry and societal level. The different perspectives include a legal or institutional dimension (the legal contract), a business or organizational dimension (the transactional contract) and a person or human dimension (the psychological contract). This suggests many different starting points for studying HRM and contrasts the micro and macro perspectives in this field. The macro perspective emphasizes the collective level and regularities in social behavior are assumed to transcend differences among individual social actors. Given a set of demographics and situational constraints people are assumed to behave similarly. A risk of this view is ignoring relevant individual variation that may influence the collective. The micro level emphasizes the existence and importance of variations in individual behavior and characteristics. The focus is on the individual level with the risk of paying insufficient attention to the contextual factors that constrain the effect of individual differences (Kozlowski & Klein, 2000).

Although different dimensions of the employment relationship could be studied at multiple levels, they are typically linked to specific levels. For example, the legal and institutional dimension of the employment relationship is most often assessed at the societal

and industry levels (e.g. labour legislation and the role of trade unions and works councils). The transactional perspective is taken, for example, in organizational level HRM research on effects of employee rewards systems on organization outcomes such as productivity. Research on the person dimension (psychological contract) is focused mostly on the individual level and relates, for example, to the influence of perceived agreements between an employee and employer on employee behaviour.

Managing performance in organizations: a conceptual model

Figure 2 depicts our model of Performance Management. The model proposes an impact of the aligned set of HRM practices involved in Performance Management on employee perceptions and attitudes and proposes that front-line managers play a crucial mediating role in implementing these practices. Employee perceptions and attitudes affect employee performance, which in turn affects organizational performance. The model also addresses reversed causality and some of the contingencies. We did not include overall strategy or business strategy or even HRM strategy in the model for two reasons. First, there is still little empirical evidence for a link between (a) business strategy and HRM strategy, and (b) HRM strategy and HR practices or bundles of HR practices. Second, we want to keep the model as clear and parsimonious as possible. For the same reason, the organizational performance box was not further refined. Obviously, distinctions are possible between more proximal outcomes such as productivity, turnover and more distal financial performance measures. However, for our purposes, organizational level outcome measures are placed together. As compared to other models, employee perceptions, reversed causality and the role of direct supervisors/managers are more prominent. Below, we briefly discuss these three points and provide a summary of the key assumptions and propositions of the model.

--- Insert figure 2 somewhere here ---

The role of the supervisor

Managers put Performance Management into practice, and by doing so will affect employees' perception as well as their commitment, motivation, and trust. Work on leadership, leader-member exchange, goal-setting and motivation, perceived supervisory and organizational support, and procedural and interactional justice may help further delineate the importance of direct supervisors and front-line managers in implementing HR practices (see e.g. Colquitt, Conlon, Wesson, Porter & Ng, 2001; De Haas, Algera, Van Tuijl & Meulman, 2000; Den Hartog & Koopman, 2001; Locke & Latham, 2002; Rhoades & Eisenberger, 2002).

An HR department can develop (or buy in) sophisticated Performance Management tools. However, whether these really sort effect depends on the appropriate enactment by line managers (e.g. Gratton & Truss, 2003). Their consistency, fairness and skill in using tools such as holding consultation meetings and conducting appraisal interviews will to a large degree determine whether such tools indeed generate positive effects on commitment and employee performance. The role of first line managers in carrying out policies set by the firm is mentioned in the HRM literature (e.g. Storey, 1995), however, studies have mostly ignored this role. Performance Management clearly and directly involves managers in the process. Managers set challenging yet attainable objectives, appraise performance and give feedback. They ensure possibilities for subordinates' development and stimulate a climate in which high performance is stressed. Thus, managers' skill and fairness in performing these tasks as well as their relationships with their different subordinates will play a key role in the success of Performance Management.

Employee perceptions

HRM practices can be seen as 'signals' of the organizations' intentions towards its employees and are interpreted as such by individual employees (e.g. Rousseau & Greller, 1994). However, employees do not necessarily perceive such 'signals' similarly or react to them in a

similar manner. Guest (1999) noted that only little research focuses on employee's reactions to HRM. He suggests that the impact of HR practices on employees' commitment and performance depends on employees' perception and evaluation of these practices. Perception and attitudes may mediate and moderate the relationship between HRM practices and employee performance related behavior.

Variation may exist in employees' perceptions of HRM practices or benefits offered by the organization even when in objective terms what is offered to different employees is very similar. Individual differences in perceptions and reactions to what the organization has to offer may, for instance, follow from an employee's previous experience, their beliefs, comparison to others, or the type of employment contract. Also, different promises made to prospective employees in the recruitment process may result in different evaluations of what the employer offers (e.g. Rousseau, 1989). This latter perspective is related to research on the psychological contract, which studies employees' evaluation of the content of their exchange relationship with the organization. Rousseau (1989, p. 121) defined the psychological contract as 'individual beliefs in a reciprocal obligation between the individual and the organization'. Research has focused mostly on the aftermath of contract formation, breach and associated responses. For instance, research on violation of the psychological contract shows the consequences of contract breach such as a loss of trust and decrease in commitment (e.g. Robinson, 1996). Also, research indicates that workers with different types of psychological contracts respond differently to violation of the contract and organizational change (Rousseau, 2001). Similarly, research in the area of met expectations (e.g. Irving & Meyer, 1994) and person-organization fit (e.g. Kristoff, 1996) call attention to the effect that individual differences in the employment relationship may have on outcomes such as commitment and employee performance.

Reversed causality

Much of the research on HRM and performance is cross-sectional. Thus, directionality of the linkages is often assumed rather than tested. HRM is proposed to be one of the causes of a better competitive position and better financial performance of firms. However, there are also compelling arguments for a reversed link. Organizations that perform better in financial terms may have more opportunities to invest in High Performance Work Systems. Thus, the model proposes that besides HRM influencing performance, there is also a reverse loop. Organizational success, for example, in terms of high profits or significant growth of market share, has a positive effect on the willingness to invest in HR practices (e.g. Hiltrop, 1999; Paauwe & Richardson, 1997). Unraveling what causes what is not easy. Using subjective performance indicators, Guest, Michie, Conway and Sheehan (2003) find links between HRM and both productivity and financial performance, but their longitudinal study fails to show that HRM causes higher performance. Their analyses support the view that profitability creates scope for more HRM rather than vice versa. This also holds at other levels. High performance is proposed to positively affect employees' commitment, trust, and motivation. Employees will be motivated by personal as well as organizational success. For example, performance affects commitment as much as vice versa. Empirical support for such processes is available (see e.g. Locke & Latham, 2002)

The model: key propositions

A summary of the key assumptions of the proposed model is:

- Most Performance Management practices (e.g. performance appraisal, feedback training, coaching, information sharing) are facilitated and implemented by direct supervisors or front-line managers. Therefore the behavior of line-managers will mediate the effect of (most) practices on employee perception (and behavior).

- HRM and Performance Management practices (as implemented by managers) first affect the employee's perception and evaluations. For example, only if information sharing is seen and interpreted as such (and not as a manipulative form of commanding), it will have the opportunity to positively affect intentions and behavior.
- Employee behavior in turn will have its impact on organizational performance (e.g. productivity). Contextual factors can constrain the impact individual performance has on organizational level outcomes.
- Reversed causality plays a role. Organizational success (e.g. high profits or growth of market share) could increase (a) the willingness of top management to invest in HR practices, and (b) the employees' commitment, trust, and motivation.
- Organizational contextual factors, both internal (e.g. capital intensity) and external (e.g. degree of unionization in the industry), and individual employee characteristics (e.g. age, gender and level of education) and preferences (e.g. preferred job type, level of autonomy) may constrain the proposed relationships between HR practices and organizational performance.

Discussion and future research

Performance Management involves aligning the total set of an organization's HRM practices in such a way that employee and, ultimately, organizational performance is maximized. Thus, the link with the field of HRM is clear and many of the research challenges outlined in the HRM and performance field also hold when considering Performance Management (see e.g. Delery, 1998; Gerhart, Wright and McMahan, 2000). The model presented above also suggests a research agenda that is more specific for Performance Management, for example through clearly addressing the role of employee perceptions and supervisors in research. Research is needed on the differences in enactment of HRM practices and the effects thereof. Also, research could assess whether the type of relationship the front line supervisor has with

each subordinate (LMX) moderates the link between HRM practices and employee perceptions. Other such hypotheses can be developed and tested.

Research on different levels of analysis as well as cross-level influences are of interest. For example, how and when do individual and group performance influence organizational performance (and vice versa)? The 'middle section' of the model describes the impact of direct supervisor/front-line managers, employee's perceptions and attitudes, and employee behavior suggesting research on individual employee level. Organizational performance is on the organizational level and HRM practices are set out at the organizational level, although organizations may differentiate between employee groups (e.g. Den Hartog & Verburg, 2004). Other levels (such as groups/teams) are also of interest (e.g. how does individual performance relate to team performance, when do group norms constrain individual behaviour). Future research will also need to consider the many methodological challenges involved in multiple and cross-level research (see e.g. Kozlowski & Klein, 2000).

As stated the measurement of performance plays an important role in Performance Management and some of the interesting challenges for future research are related to Performance Appraisal (PA). For instance, Fletcher (2001) suggests that the content of appraisal nowadays goes beyond task performance to incorporate contextual performance. A key challenge in this area is determining what constitutes good performance (and hence what should be measured and stimulated), which is also highly relevant for the wider Performance Management process. For example, Molleman and Timmerman (2003) describe the impact of shifts in organizational performance indicators on those of employees. They argue that as organization's leading performance indicators shift towards innovation and the creation of knowledge, more non-routine work and interdependence between workers is found and performance criteria at lower levels should shift to reflect this.

The context of Performance Management is changing, and Fletcher (2001) mentions cultural differences and the impact of new technology as interesting emerging areas of research. For instance, as more and more organizations work internationally, collaboration and coordination of people located in different nations increases. Often this collaboration within organizations takes the form of global work teams. Performance Management is problematic in such teams as members are likely to have widely differing viewpoints about appropriate ways to reward, recognize, evaluate and train and develop team members (Kirkman & Den Hartog, 2003). Another point to consider are legal implications that the use of certain practices may have, which will differ for different countries. Thus, future research on the wider (and sometimes cross-cultural) context is of interest.

Obviously, additional theory building in the area of Performance Management is needed. Although our model proposes a general process involving several different steps, it does not yet specify all of the processes taking place in detail. Research can focus on the model as a whole or try to flesh out in more detail what happens in specific parts of the process. Gaining insight in the processes and variables that play a role in the process performance management is not only of academic interest. Companies in many different areas are trying to improve their output by implementing performance management systems and finding that this is an arduous and complicated task. Research may help improve such systems. Such similarity of interests of academics and practitioners may help academics gain better entrance to the empirical reality, which is badly needed to perform the multilevel research needed to enhance understanding of how and why Performance Management works.

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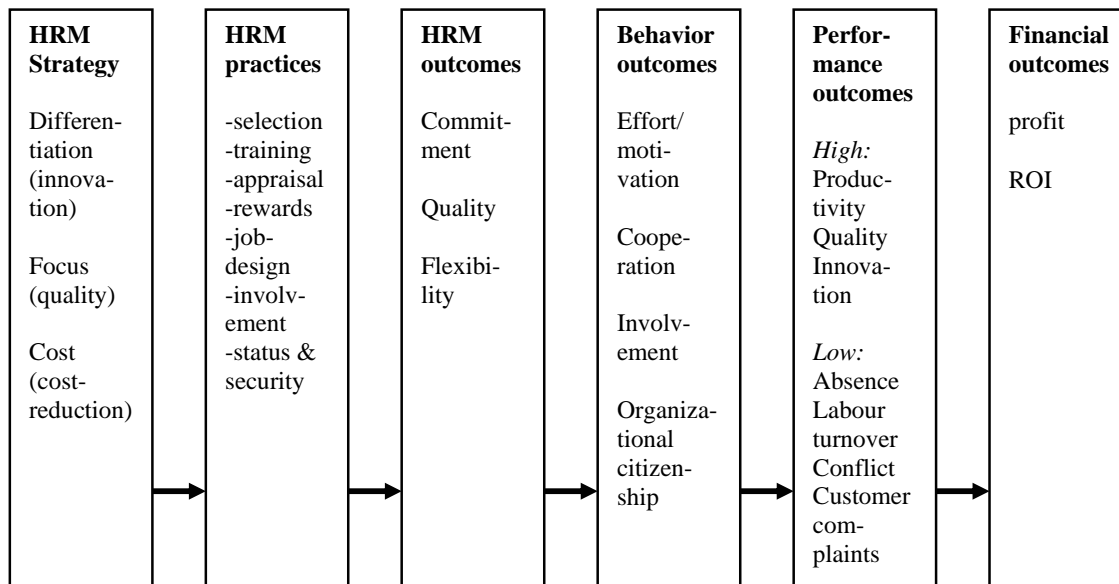
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Source: Guest (1997)

Figure 1 Linking HRM and Performance

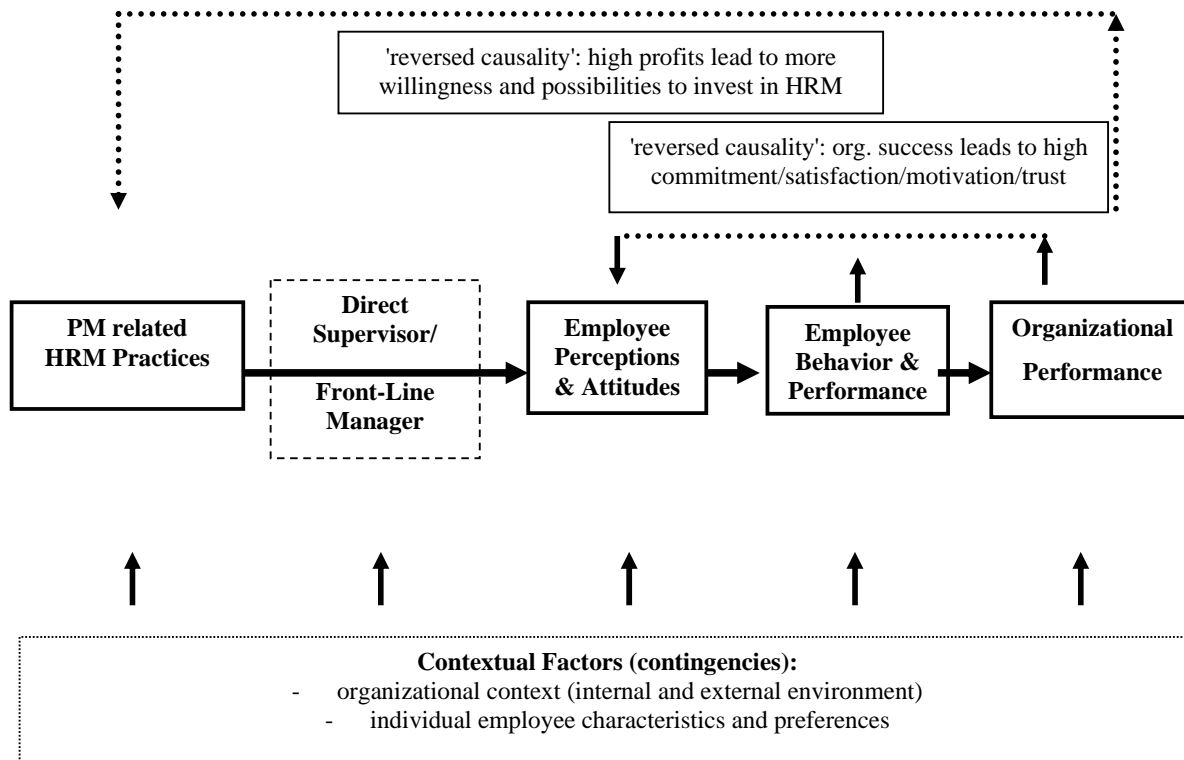


Figure 2 A model of the HRM and performance relationship from a PM perspective

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