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Performance management effectiveness: lessons from world-leading firms

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While interest in performance management has increased considerably in recent years, research has revealed inconsistent results about its effectiveness. Inconsistencies may be related to insufficient understanding of the factors likely to enhance the effectiveness of performance management systems. The current study seeks to address this issue by investigating performance management systems in 16 world-leading firms. We use signalling theory [e.g. Spence (1973), *Quarterly Journal of Economics*, 87, 355–374; Murray (1991), *Journal of Marketing*, 55, 10–25] to propose that to the extent that firms promote certain facilitating practices, employees infer that management is concerned with performance management issues, and this may have a trickle-down effect with regard to the effectiveness of the firm's performance management system. Our framework proposes four performance management system facilitators, which include (1) taking a broad view of performance management that includes both strategic and tactical elements; (2) involving senior managers in the process; (3) clearly communicating performance expectations and (4) formally training performance raters.

Keywords: communication; performance management; performance measurement; senior management involvement; training

Introduction

Performance management refers to a range of activities engaged in by organisations to enhance the performance of individuals and units, with the ultimate purpose of improving organisational effectiveness (DeNisi 2000). Activities that fit within this definition are, for example, the setting of corporate, departmental, team, and individual objectives, and the use of appraisal systems, reward strategies, training schemes and individual career plans (Roberts 2001). The overall goal of performance management is, therefore, to ensure that the organisation and all of its subsystems (processes, units and employees) are working together in an optimum fashion to achieve the results desired by the organisation (Castka, Bamber and Sharp 2003).

Over the past two decades, with the growing understanding of the role of human capital in firm success, performance management has become increasingly important as 'managers, be they in the public or private sector, are under constant pressure to improve the performance of their organizations' (Holloway, Francis and Hinton 1999, p. 351). Not surprisingly, the theme has become the focus of many scholar enquiries as well (e.g. Fletcher and Williams 1996; DeNisi 2000; Thorpe and Beasley 2004). However, while several authors (e.g. Otley 1980; Armstrong 2000; Molleman and Timmerman 2003) acknowledge the much-touted benefits of performance management systems,

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suggesting that these systems make a useful contribution to the effectiveness of organisations, others (e.g. Rademan and Vos 2001; Furnham 2004; Hazard 2004) express criticism and concern regarding their effectiveness. The current study seeks to explain these divergent findings; we draw from signalling theory (e.g. Spence 1973; Murray 1991) to propose a framework of organisational facilitating practices, which may be particularly relevant for understanding the conditions under which performance management systems are most effective in achieving organisational goals.

Signalling theory suggests that people (employees, customers, shareholders, etc.) need tangible information to help them understand the organisation's interests or future prospects. The information gathered is often used to form inferences about what issues are important in the organisation, and may thus serve to guide or strengthen relevant behaviours (Murray 1991; Srivastava and Lurie 2001). The theory has been applied in a wide range of topics, from dividend payments to price-matching policies and employee recruitment (e.g. Turban and Greening 1996; Srivastava and Lurie 2001). We apply this theory here to understand how certain organisational facilitating practices may indicate management concerns for performance management issues, and so enhance the effectiveness of the performance management system. In particular, as we describe in detail below, previous research on performance management suggests a number of observable, formal practices, which have an important signalling function, helping employees sense what the organisation expects of them and what the organisation really values. In line with recent studies on signalling theory (e.g. Bowen and Ostroff 2004; Casper and Harris 2008), such practices are likely to promote positive employee and organisational outcomes.

Here, we focus on four formal structural practices that drive members' attention towards performance-related issues that are important from the standpoint of the employer. First, while many firms refer to practices such as performance evaluation or feedback as the core (if not the only) component of performance management, *a more comprehensive approach* may reflect the firm's view of performance management not just as a tactical tool, but also as strategic. Second, *senior management involvement* may contribute to the success of performance management systems by means of a stronger alignment between the firm's strategy and its HR practices. Third, *clear communication* during the performance management process may help employees understand what is expected from them, and why their efforts are important. And finally, *formal rater training* may reflect efforts by the firm to keep performance assessments unbiased. These four facilitating practices are examined using qualitative data drawn from 248 in-depth interviews in 16 world-leading firms across 19 countries.

Performance management system effectiveness

Performance management is a continuous process of identifying, measuring and developing the performance of organisation members and aligning performance with the strategic goals of the organisation (Aguinis 2007). As this definition (and others) suggests, performance measurement is but one element in performance management. Yet, the terms are often used – incorrectly – interchangeably (Stewart, Belcourt, Bohlander, Snell and Sherman 2003). While performance measurement has been used to describe the 'act of measuring the performance', performance management has been referred to as a holistic system that 'aims to react to the "outcome" measure using it in order to manage the performance' (Radnor and McGuire 2004, p. 246).

In spite of its appealing rationale, the evidence that performance management plays an important role in firm success is far from conclusive (Glendinning 2002). More specifically, performance management 'has been one of the most praised, criticised, and debated management practices for decades' (Lawler 1994, p. 16) and 'it continues to be a major source of frustration for managers' (McDonald and Smith 1995, p. 59). On the one hand, previous research reveals a significant number of proponents of performance management (e.g. Armstrong 2000; Molleman and Timmerman 2003), providing evidence that firms with programmes that manage the performance of their people outperform firms without such programmes on a wide range of financial and productivity measures.

On the other hand, detractors of performance management also provide valid evidence for the lack of success achieved with performance management systems. For example, Coens and Jenkins (2000) maintain that although performance management processes are used in 80% of workplaces in the USA, 90%of these are dissatisfied with the process. In response to such results, researchers (e.g. Rademan and Vos 2001; Furnham 2004) have suggested that certain elements should be included in an optimally effective performance management system. For example, it is recommended that the system should be constantly evolving and proactive rather than reactive (Antonioni 1994), or that it should be designed to recognise not only individual performance, but also overall team performance (Lawler 1994). As these studies suggest, the content of the system (i.e. *what* elements are included) is highly important to its success.

At the same time, several researchers argue that it is *how* the system is implemented that makes a crucial difference between successful and unsuccessful systems. It has been suggested that, when implemented and maintained improperly, performance management systems can become a burden rather than a motivational tool and can create significant employee relations problems (Glendinning 2002; Hazard 2004). Recognising that performance management systems may not be ultimately or universally effective, we draw from signalling theory to develop a framework of organisational practices likely to facilitate the effectiveness of these systems, exploring both as to what elements are included and how they are implemented.

Organisational practices as signals

Signalling theory was first introduced by Spence (1973) in his essay on hiring decisions under uncertainty. Spence argued that because employers are often unable to assess the productive capabilities of the job applicant, they seek information concerning these capabilities based on observable attributes that constitute the image that the applicant presents. While certain attributes, such as gender or age, are unalterable, Spence (1973) also refers to *signals* or attributes attached to the individual that are subjected to manipulation by him or her. These signals were found to have significant effects on employers' judgments of job applicants. The notion of signalling was further developed by other researchers (e.g. Greening and Turban 2000), many of whom examined how observable actions by an organisation (rather than actions of job applicants, as in Spence's (1973) original essay) are interpreted as signals of less observable characteristics – values and goals – by other parties, including competitors, customers and job applicants. In this sense, signals may be seen as tactics that management in organisations uses to influence (i.e. 'manipulate', in Spence's terms) the perceptions and behaviours of other parties (Rousseau 1995; Bowen and Ostroff 2004).

Although, as suggested above, signalling theory has been applied to a wide variety of issues, its practical application is limited in that studies have mostly examined signalling processes initiated by or targeted at external constituencies such as shareholders, job applicants, customers and competitors (e.g. Krugman and Obstfeld 1994). Consequently, we know little about internal organisational signalling processes, i.e. processes through which firms introduce and sustain issues of particular importance in order for employees to behave vis-a-vis the firm. The few studies that have examined signalling within organisations tend to focus on perceived organisational support as the underlying mechanisms. For example, Casper and Harris (2008) found that work–life balance policies, such as dependent care assistance and flexible schedules, facilitate organisational attachment indirectly by signalling that the organisation cares about employee well-being.

In line with Spence (1973) and Rousseau (1995), we assume that signalling exists when the organisation promotes certain practices, which are perceived by employees as signals. Signalling thus assumes an interaction between organisations and their members, which results from the way organisations choose, design and implement their practices. Signalling in this way is considered to be a means by which an organisation influences the attitudes and behaviour of the employee. Furthermore, while firms may use other, normative, often *informal* practices such as culture to set expectations that guide members' behaviour, in this study we focus on *formal* structural practices that drive members' attention towards performance-related issues that are important from the standpoint of the employer. These practices can be seen as structural signals or 'vehicles people use to convey commitments and offer inducements for present and future behavior' (Rousseau 1995, p. 169). This may be particularly salient in the context of high-performance organisations, i.e. organisations that have achieved above-average performance in terms of their financial, market, internal efficiency, and long-term growth and innovation performance (Hubbard, Samuel, Heap and Cocks 2002). In the following sections, we discuss organisational practices, which may help such firms leverage the effectiveness of performance management systems.

Performance management as a strategic and tactical tool

Many studies (e.g. Millett 1998; Armstrong 2000; Molleman and Timmerman 2003) suggest that performance management systems are designed to achieve several, diverse objectives. However, these objectives when explored further can be summarised into two main categories, namely *strategic* and *tactical* goals (Armstrong 2000; Aguinis 2007).

- *Strategic goals*. Performance management systems are designed to help top management achieve strategic business objectives. By linking the organisational goals with individual goals, the performance management system reinforces behaviours consistent with the attainment of organisational goals (Cleveland, Murphy and Williams 1989; Aguinis 2007). When employees acknowledge that performance efforts within the firm are aligned and complementary, this is a clear signal about which attitudes and behaviours have the potential to contribute to the operation of the organisation.
- *Tactical goals*. Performance management systems are designed to furnish valid and useful information for making HR-related decisions, including salary adjustments, promotions, employee retention and termination, recognition of superior individual performance, identification of poor performance, and merit increases. When employees are aware of the information on which performance-based reward decisions are made, this is a clear signal about what is valued by the organisation. In addition, this information allows managers to provide on-going coaching to their employees, by pointing out strengths and weaknesses as well as the causes of performance deficiencies (Cleveland et al. 1989; Aguinis 2007).

Involvement of senior management

Traditionally, the HR function is responsible for the design, implementation, monitoring, administration and perpetuation of the performance management system. Therefore, advocates of performance management systems, often 'come from either operations or human resources. Neither of these functions typically have the most power in contemporary organisations' (Pfeffer 1996, p. 37). Indeed, the HR function is recognised as having one of the weakest powerbases in organisations (Farndale 2005). Accordingly, performance management is likely to be more effective when senior executives signal this process as an integral, core operation of the HR function and the enterprise as a whole. Simply put, the amount of 'buy-in' senior managers have in the system is likely to have a direct effect on the success or failure of the system (Glendinning 2002). Moreover, senior management involvement may contribute to the effectiveness of performance management systems by means of a stronger alignment between the firm's goals and its HR practices (Wright and McMahan 1992).

Clear communication of performance expectations

Employees need to have adequate and unambiguous information regarding performance expectations as they are required to infer cause–effect attributions on the basis of this communication (Fiske and Taylor 1991; Bowen and Ostroff 2004). Employees often seek such information, in terms of what is expected from them, where they and their department fit in the overall goals, and what the company's plans are for the near and more distant future (Mitchell 2002). Management can communicate these issues in a clear and consistent manner in order to build awareness, and in the process they signal the importance of these issues to employees.

Moreover, by sharing this information and creating an open environment, HR responsibilities are, to a certain extent, devolved. Such a configuration may be geared to securing commitment from both line managers and employees, enhancing perceptions of employer–employee partnership and promoting an integrative work climate (Whittaker and Marchington 2003). Employees, and also managers at the mid- and-lower levels, may therefore not only be more motivated to adhere to performance-related priorities, but also more likely to acknowledge the potential benefits of the performance management system and be satisfied with the implications this system has for their own interests (Mitchell 2002; Wei and Lau 2005).

Rater training

It has been suggested that those involved in performance management processes (e.g. HR personnel, middle and line managers) are integral to the success or failure of the process and, therefore, must be sufficiently trained (Kanin and Bevan 1992). In particular, if a manager is trained incorrectly, the likelihood of rater bias (i.e. subjective inflating or deflating of performance reviews because of either intentional or unconscious errors) increases. This has been found to have destructive consequences for the success and legitimacy of performance evaluation programmes (Smith 1986; Woehr and Huffcut 1994).

Trained managers were found to be more knowledgeable of the performance appraisal procedure, and their appraisal discussions were also perceived by employees as more satisfying than employees of untrained managers (Davis and Mount 1984). Other studies (for a meta-analysis, see Woehr and Huffcut 1994) conclude that performance appraisal training results in an overall increase in rating accuracy. Furthermore, to the degree that rater training signals to both supervisors and employees that the organisation is concerned with the way performance evaluations are conducted, is willing to invest in concrete measures to make sure that evaluations are unbiased and takes the trouble of sending its mangers to a dedicated training, employees are likely to infer that this practice is of great importance to the firm.

Taken together, the aforementioned facilitating practices are proposed as formal indicators of an organisation's commitment to performance management effectiveness. It is suggested that the presence of these practices signals that the organisation cares about performance management, and this, in turn, facilitates the effectiveness of the system.

Method

In order to explore these facilitators of performance management effectiveness, the first stage was to select a sample of high-performance firms. This was done based on the criteria of superior business performance and reputation as an employer as defined through 2004 *Fortune* listings or equivalent rankings. In total, case studies were carried out in 16 such organisations (see Table 1). By looking at the performance management systems in these successful firms, we may gain a better understanding of the conditions for their effectiveness. Indeed, this method of case selection is purposive and follows that suggested by Truss (2001, p. 1122): 'to take a firm that is financially successful in conventional terms and ask what HR policies it uses to achieve this level of performance'.

The study was carried out collaboratively by researchers across the globe.[1] The results presented here are based on interviews conducted in 2004–2005 with 153 HR professionals and 95 non-HR staff (senior executives, line managers and employee representatives) in 16 multinational companies based in 19 countries. Pseudonyms based on the relevant sector are used here to protect the identity of the companies for confidentiality reasons.

The interviews were semi-structured, based on a schedule designed and piloted by the research team, including questions on the business context, HRM practices and the HR function. Letters were sent to the head of HR at corporate headquarters, inviting the companies to participate in the study. One contact person per company was established, who provided a list of interviewees for the study, based on the researchers' requests. (The risk of self-selection bias as a result of interviewees being allocated by the company is recognised; however, in order to gain sufficient access, this was the most feasible methodology.) The country locations for the interviews were selected based on a combination of where access was offered and where the research team were able to travel to.

Interviews, which lasted around one and a half hours, were carried out predominantly face-to-face. Interviewees were asked to reflect on HRM best practices in general, without the interviewers providing an *a priori* list. In general, the most common areas of best practice to be mentioned spontaneously were performance management, leadership development and talent management. The interviewer then posed further questions to gain a more detailed picture about why these practices in particular were so important, the content of the practices and how they were being implemented (see Appendix A). Due to the open style of questioning, this may have resulted in different information per practice being gathered from the different sources. However, as the purpose of this article is to provide as broad as possible an overview of performance management across the sample of firms, less emphasis was placed on directly collecting equivalent data.

The content of the interviews was aggregated to company level, and summarised in individual case studies, which were passed to the designated contact person in each company to check for factual errors. This resulted in very few and only minor changes

Table 1. Description of the case companies.

Company	Sector	Country of origin	2004 Fortune (or equivalent) listings	Interviews: Total	HR[a]	Non-HR[b]	Head-quarters	Region/country	Division/plant	Countries where interviews took place
Aeroco	Aerospace, defence	UK	Global 500	12	8	4	7	2	3	UK, USA
Consumerco	Fast-moving consumer goods	USA	Global 500, Fortune 500, Best companies to work for, Global most admired	11	9	2	4	5	2	Netherlands, Switzerland, UK, USA
Digico	Consumer electronics	Korea	Global 500, Global most admired	22	18	4	5	9	8	Korea, Malaysia, Singapore, USA
Electronico	Electronics/ electrical engineering	German	Global 500, Best companies to work for, Global most admired, Europe's top 50 companies	18	11	7	4	6	8	Germany, Netherlands, Spain
Engineerco	Electrical engineering	Sweden/Switzerland	Global 500, Best companies to work for, Global most admired	13	6	7	3	7	3	Netherlands, Sweden, Switzerland
Foodco	Fast-moving consumer goods	UK/Netherlands	Global 500, Global most admired, Europe's top 50 companies	9	9	6	3	0	5	Netherlands
Infoteco	IT and consulting services	India	Global 500, Global most admired	19	6	13	19	0	0	India
Innovco	Software/hardware/ IT services	USA	Global 500, Fortune 500, Best companies to work for, America's most admired	9	9	0	4	4	1	France, China, USA
Manufco	Consumer electronics	Japan	Global 500	24	11	13	18	2	4	Japan, Singapore, UK, USA
Oilco	Oil/energy	UK/Netherlands	Global 500	24	24	0	7	17	0	Dubai, Netherlands, Singapore, UK, USA
Powerco	Power generation and distribution	France	Global 500, Europe's top 50 companies	9	9	0	2	5	2	France, Germany, UK
Retailco	Retail	Sweden	Best companies to work for	9	7	2	4	3	2	Netherlands, Sweden
Softco	IT software and infrastructures	USA	Fortune 500	17	4	13	4	13	0	France, Germany, Italy, UK
Teleco	Telecommunication/ IT services	UK	Global 500, Fortune 500, Dow Jones Telecom Sustainable Index Award	15	9	6	10	5	0	Belgium, Germany, UK
Turboco	Aerospace, marine and energy	UK	Pacific Star award for activities in Asia, Business commitment to the environment award	25	12	13	12	6	7	Brazil, Germany, Netherlands, Norway, Switzerland, UK, USA
Visionco	Consumer electronics	China	Top manufacturer	12	4	8	5	2	5	China, France

Note: Where a zero appears in the table, this means that no respondents of this type were made available for the study for this company. This may affect the interpretation of the responses; however, this was compensated by ensuring as broad as possible a variety of responses based on the other criteria.

[a] HR titles included: Senior VP, VP, Assistant VP, Director, Associate Director, Manager, Leader, Head, Business Partner (across general HR and specific functional areas).

[b] Non-HR titles included: CEO, President, CFO, VP Operations, General Manager, Business Unit Manager, Plant Manager, Country Manager, Assistant Manager, Works Council Chair, Trade Union Representative.

being suggested, which were then incorporated into the final case study. Any discrepancies between multiple respondents within the same company were noted in the case study. The completed case studies were coded by the authors independently. Where minor differences in coding between the authors were identified, these were discussed and an appropriate coding was agreed upon together. Specifically, the data were coded based on details of the company's performance management practice objectives, senior management involvement, communication and rater training. The specific pieces of text coded under these headings were then collated in a process of data reduction and interpreted further to produce the following findings.

Findings

Strategic and tactical goals

The first stage of the data analysis was to examine references to the strategic and tactical objectives of performance management systems in the case companies. One theme that emerged was a general shift in organisational mindset from a tactical to strategic focus. As interviewees in Visionco noted, their performance management system was in the process of being transformed from a system that emphasised 'performance check' to a system that also focused on 'competence development', emphasising the growth of the individual and the company together.

Out of the 16 companies studied, interviewees in 12 companies specified examples of strategic objectives. Examples of these strategic objectives included close alignment with organisational objectives:

> I look at the corporate objectives, the business plan, and say well okay, I can see a number of objectives the chief exec wants the company to achieve. So where, what's my contribution as HR leader to achieve some of that stuff. And therefore who are the key people I need around me to make this happen (HR Manager, UK, Aeroco).

Alignment with the local culture:

> we want to have [performance evaluation] and then it's our job at least to put this through in the organisation, to the last level so to speak. In the same way hopefully a little bit linked to the local culture. So we at [Business Division], for instance, have the worldwide staff dialogue system: it's very similar, but for example in Japan it's a little bit different because of the culture (SVP HR, Business Division, Germany, Electronico).

And alignment between personal and organisational goals:

> We have an approach of balance scorecard across the company, which also links to a country-wide bonus arrangement. So we have a balance scorecard which we measure ourselves which includes hard financial measures but also soft measures like the number of training days, the amount of coaching performance that has been done across the company, our safety record. And we share our bonus based on that (HR Director, UK, Powerco).

There was a variation in the way in which such alignment objectives were defined. For example, the life-long employment culture in Powerco means that the issue of low performance must be addressed, and this is done through numerous processes such as employee training and mobility. Aeroco's performance management system was described as being embedded in the goal of achieving a high-performance culture that nurtures world-class leaders and highly competent employees.

In addition to strategic goals, all participating firms referred to certain tactical objectives of performance management, with the primary goal being information gathering. More specifically, the common (from most to least frequently mentioned) goals are to evaluate employee performance, and, on the basis of this evaluation:

(a) to disseminate compensation:

> So you're bonussed for the fact that you've achieved your objectives and the way you've achieved them, but your salary review is your performance over the last year and your potential in the next sort of twelve months or so (Leadership Development Manager, UK, Aeroco).

(b) to define training and development needs:

> Most managers will identify there's a gap in someone's ability. That can be done by a manager. However, what we have is the learning and development forum, so we've got people out in the businesses who are knowledgeable in terms of how you can best fill those gaps (HR Director, UK, Powerco).

(c) to make career decisions:

> We fix here the final potential, we have to write down in the form how we see the person, then we say, okay, you have the potential, you want to be a director, or we say, no you will remain forever in this job, we don't see the potential that you will ever become a manager (Business manager, Germany, Electronico).

In summary, at the strategic level, 12 of the firms appeared to have developed a comprehensive, long-term approach to performance management – one that stresses the need to maintain a strong link between employee needs/interests and the firm's strategy/goals. In terms of tactical goals, those were geared towards information gathering, with a particular emphasis on performance evaluation at the individual level and subsequent performance-based compensation. Columns 1a and 1b of Table 2 summarise these findings.

Extent of senior management involvement

The following stage of analysis was to examine the extent to which senior managers are involved in performance management. Interviewees in 9 out of the 16 firms noted that while the HR function is responsible for all technical aspects related to performance management (e.g. annual reports, employee records and comparative data analysis), senior managers are those in charge of defining the objectives of performance management. Senior managers' involvement appears to be important because (a) they often outline future directions for the entire organisation, and thus are able to match these directions with corresponding performance management objectives:

> We discuss every year again at our board. Yesterday we had a discussion on that. [. . .] And here you have performance, with performance appraisal we said before, which is based 80% on the target achievement and 20% on skills, more of the how than of the what (HR Manager, Spain, Electronico).

And (b) the actions of senior managers are highly visible, and are, thus, likely to ensure that objectives are pursued:

> I am aware that there is a new [performance management] programme, and also my leadership is serious about it, i.e. not only do we *talk* about it, but we also *want* to talk (HR Manager, Benelux, Consumerco).

Senior management appeared to be involved in some but not all aspects of the performance management system: it was suggested that managers at the lower levels are able to identify more accurately the needs and potential of their immediate subordinates. In Turboco, for example, senior leaders are expected to have a clear vision of the future and the means by which it should be achieved. Accordingly, they impact corporate performance positively by focusing on key targets drawn from the vision and promoting alignment. Yet one-to-one meetings between individuals and their line manager are where

Table 2. Practices facilitating performance management effectiveness in the case companies.

Firm / *Facilitator*	*1a* *Strategic tool*	*1b* *Tactical tool*	*2* *Senior management involvement*	*3* *Communicating performance expectations*	*4a* *Rater training*	*4b* *Handling potential rater bias*
Aeroco	+	+	+	a, b		
Consumerco	+	+		a, c		
Digico		+		a		d
Electronico	+	+	+	a, c	+	d, e
Engineerco	+	+	+	a		d, for managers; b
Foodco		+		a, b, c		
Infoteco	+	+	+	a, c	+	d
Innovco	+	+	+	a		
Manufco	+	+		a, b, c		d
Oilco	+	+		a		
Powerco	+	+	+	a, c	+	e
Retailco		+	+	a, b, c	+	
Softco		+		a, b	+	
Teleco	+	+		a, b, c		d
Turboco	+	+	+	a, b	+	
Visionco	+	+	+	a, c		e

Note: +, practice is present; a, Supervisor feedback; b, Socialisation; c, Communication tools; d, Multiple raters; e, Balanced scorecards.

personal objectives are set, past objectives reviewed, and development options selected within the context of the individual's career aspirations. Column 2 in Table 2 summarises the findings related to senior management involvement.

Communication

In the following stage of analysis, we explored the data to find patterns indicating how information regarding performance expectations was communicated to employees. Three primary communication mechanisms were identified, all of which aim to ensure that people have a clear sense of direction and understand what is necessary to contribute to firm success. First, *supervisor feedback* (mostly delivered during an annual or more frequent evaluation process) provides opportunities for open discussion in which desired goals are set:

> I sit down with my boss, we talk about my performance during the year in terms of my objectives, whether I've achieved some or none, or whether I've exceeded them. So there's a performance scale, and we'll set objectives for the forthcoming year. And at that point in time my boss will decide, based on both my performance and my behaviour and what he's actually seen during the course of that year, will decide where he would place me in terms of the spectrum profile [...] Eventually I'll be able to see that in my [personal development plan] which is new for this year (HR Manager, UK, Aeroco).

Second, formal programmes for *socialisation* are used to develop and improve certain professional and personal capabilities, particularly in response to new business opportunities and needs under changing market conditions. Several interviewees noted that their firm aims to give its employees ongoing information on the skills and behaviours, which are believed to be essential to future success and how these can be developed. In Retailco, for example, new employees are assigned someone to help them get to know the store. This method of socialisation is crucial to Retailco, as what people need to learn is not clearly documented and is largely stored in people's heads:

> We're working more and more with mentors so that people come in, they've got a buddy more or less who they can go to and ask how does this work, what do I see here, is it strange, or is that normal, or can I do that? (HR Manager, Store, The Netherlands, Retailco).

Third, several firms use *communication tools* such as intranet, bulletin boards, group/departmental meetings, internal newsletters and leaflets, and excellence awards. These tools provide all employees with access to information about current targets, how well they are addressed, and how units/individuals may further assist in achieving them. For example, in Consumerco (based on researcher observation), as part of an effort for continuous improvement, information about targets and measures is publicly visible around the factory; the cost of waste is described in tangible terms as part of a programme to eliminate waste completely. Similarly in Foodco, information is displayed around the factory, continuously monitoring the achievement of targets in different performance areas. Infoteco has implemented a set of structured employee recognition approaches (e.g. annual excellence awards), which seek to motivate employees to perform at their best and emphasise the importance of goal attainment. Column 3 of Table 2 summarises these findings.

Rater training

In the final stage of analysis, we collated data indicating whether people who are involved in the performance management process are subject to rater training. Interviewees in 6 out of the 16 case companies mentioned providing such training. For example,

> We have a performance management workshop which all the managers have to go on which is not about how do I fill the forms in but is all about how do I actually hold discussions and conversations and give feedback to people. [. . .] So we've been trying to drive the *quality* concept with them and giving them the support to actually help them *raise* their quality (*Amanda*, Turboco).

> Every line manager and HR manager can go into the intranet today and all this material [about appraisal] is available to them; he can take it out and start to use it immediately. And it's more than guidelines actually, it's really down to the questionnaires and everything (HR Manager, Corporate, Retailco).

Given that only six companies explicitly stated that they carry out rater training, alternative methods for preventing single rater bias were explored in the data. In eight of the participating firms, the issue of rater bias was handled by means of multiple raters (i.e. evaluation is based on a number of assessors whose scores are aggregated to reflect the individual's performance) and/or balanced scorecards (i.e. evaluation is based on a number of dimensions reflecting the organisational overview of performance). For example, interviewees in Digico and Infoteco emphasised the importance of a multi-rater's approach for performance appraisals: taking into account self, supervisor and subordinates' evaluations to enhance the accuracy of the programme. Similarly in Engineerco, management evaluation is described as taking a 360°perspective:

> We have like a kind of 360 degrees focus on management development. So we have those global competencies that we are assessing every one of our managers against. Then we have a human capital questionnaire: when you send it out to all the employees, once a year we can ask questions about the organisation, the management, their thoughts on how well do they think they fit in, and are they feeling good at work as well. So that is one part of it, then we have the individual interviews with employees as well and interviews with the union as well (HR Manager, Business Division, Sweden, Engineerco).

In Electronico, there are four fields of business excellence defined in the company literature: these are used for balanced scorecard assessment of leadership capabilities in terms of financial targets, customer satisfaction, process quality and employee cooperation. The complete results are summarised in columns 4a and 4b of Table 2.

Discussion

On the basis of data drawn from 248 interviews held in 16 world-leading firms, the current study has sought to enrich the literature on the effectiveness of performance management systems. Using signalling theory (Spence 1973) as our conceptual framework, we examined four organisational practices which may serve as structural signals to facilitate the effectiveness of performance management. In line with previous research (Rousseau 1995; Boxall and Purcell 2003), we proposed that clear organisational signals may provide rich information for employees to build their own understanding of their relationship with the organisation. Perhaps, more importantly, the specific focus of organisational practices (in our case, performance management) signals the required behaviours and attitudes of employees.

First, regarding the *focus on strategic and tactical goals*, the current paper builds upon the distinction between performance measurement (tactical focus) and the more comprehensive concept of performance management which also includes strategic goals (Aguinis 2007). Our results reflect a progression in management focus in these world-leading companies beyond tactical and strategic objectives. The data indicate that, in addition to the more tactical targets related to employee evaluation, performance management in such firms manifests a more strategic approach by linking daily operations to the firm's overarching strategy. In signalling theory's terms, both targets can be viewed as having a signalling function by sending messages that employees use to define and make sense of their work situation (Rousseau 1995). While strategic goals signal how personal actions might be linked with, and thus contribute to achieving the organisation's strategy, tactical goals provide employees with signals regarding which performance-related efforts are to be appreciated and rewarded.

These findings may be explained further on the basis of Sadler's (1995) model of advanced performance management as the prominent characteristic of the new HR agenda. In this model, performance management encompasses all those aspects of HRM that are designed to improve the efficiency and effectiveness of both the individual and the organisation. More recently, studies have suggested that performance management should emphasise and promote the link between individual interests and firm's strategy (e.g. Den Hartog, Boselie and Paauwe 2004); an alignment which may also enhance organisational performance (Huselid 1995; Delery and Doty 1996).

Turning to the second practice, contrary to the common beliefs that performance management is a process owned and driven by HR and line mangers (e.g. Armstrong 2000), our findings suggest that while these functions often carry out the process (in terms of the tactical elements), *senior managers* in high-performance firms take an active role in the process, mainly by defining its objectives. This appears to enable better alignment with the firm's strategy, and also create a sense of urgency, converging employee efforts. Consistent with previous research (e.g. Taylor and Wright 2003), the failure of senior management to be actively engaged on a frequent basis in the development of HRM practices, delegating responsibility for these issues to managers at lower levels or HR experts, may signal – to the rest of the organisation – that these issues are unimportant. Therefore, senior management involvement in HRM practices (e.g. performance management) appears to be critical for their successful implementation.

With respect to the third practice examined in our study, the participating firms appear to *communicate* regularly about the performance expectations, keeping staff aware of the company situation and direction. Communicating organisation-wide objectives as a means to motivate employees to achieve them remains a challenging task for management (Prasad and Steffes 2002). Unlike a limited approach whereby employees are merely appraised against rating scales, having limited knowledge of how these scales are linked to broader objectives, a more holistic approach involves signalling to employees what needs to be achieved, and also managing them in a way that enables this (with performance rating being but one of the system's outcomes). Communication in this context operated on three levels, the first being about employees receiving feedback from their supervisor. Second, the practice of socialisation came across as crucial in these high-performance firms, linking goals with individual skill development in formal socialisation programmes, and third using open communication tools (e.g. intranet and bulletin boards) to keep employees continuously updated. Such an approach shows the importance of a strategic 'big-picture' approach of the performance management system. It may thus contribute to firm performance by enhancing employee cooperation and engagement and creating a stronger sense of accountability (Varey and Lewis 1999; Prasad and Steffes 2002; Whittaker and Marchington 2003).

Finally, with respect to *rater training*, our findings offer limited support for the literature which advocates its usage (e.g. Kanin and Bevan 1992), with only six of the firms providing managers with such training and eight using alternative solutions (e.g. multiple raters) to minimise potential errors in appraisal processes. These efforts are said to increase the amount of data available as well as the accuracy and perceived legitimacy of the appraisal process (Smith 1986). Although this seemed to be of importance in our case companies (performance scores generated on the basis of these appraisals appeared to be regularly attached to other mechanisms, including rewards and development), it was only infrequently mentioned by interviewees. One possible explanation for this may be that many of our case companies use diverse horizontal as well as top-bottom communication channels (in the form of open-door policies, grievance procedures, extensive team work, etc.) which may – informally – enhance the transparency of performance-related data available to those involved in the appraisal processes (Kurtzberg, Naquin and Belkin 2005), resulting in less-biased processes. However, it may also be that this area is not being given the level of attention it deserves to ensure the accuracy of achieving performance measurement objectives.

Taken together, our findings contribute to extant research seeking to understand the effectiveness of performance management systems in high-performance firms, by empirically demonstrating how (a) strategic and tactical objectives are integrally embedded in the process; (b) senior managers are actively involved in the design and implementation; (c) employees are kept informed about the targets and deliverables of the process and (d) at least some attempt is made to reduce bias in the performance rating process, albeit not very often through providing rater training as we had expected, but making use of alternative solutions in which more raters are involved.

These four formal organisational practices are seen as communicating mechanisms or vehicles (Guest and Conway 2002), signalling the expectations of the organisation regarding required behaviours of employees and communicating its current and future intentions and aspirations. When specific practices are implemented and advertised, employees are expected to develop a shared interpretation of the situation (Bowen and Ostroff 2004). The results of this study suggest that, in line with signalling theory (Spence 1973), organisations can send unambiguous signals in the form of organisational practices related to performance management that facilitate employees to appropriately interpret and respond to the information conveyed in the practices. This may ultimately facilitate the effectiveness of an organisation's performance management system.

Limitations and suggestions for future research

The findings of our study should be considered in light of its limitations, which may also offer several research opportunities. One limitation results from the qualitative nature of the study. The study is based on data drawn from 16 firms. A sample size of 16 is in this sense difficult to generalise from. Nevertheless, the qualitative data may also be the strength of the study. The case study approach was adopted for its ability to cover detailed contextual conditions (Yin 1994, p. 13). It is primarily applied in a descriptive manner, exploring the facilitating practices, rather than being theory-testing or theory-building (Eisenhardt 1989; Yin 1994).

Second, as we only explored high-performance firms, we cannot make strong comparative arguments (such as comparing performance management systems between high- and low-performance organisations). Furthermore, our data do not provide causal proof that performance management systems in fact contribute to the firms being high-performing. To further support our findings, future research may examine similar issues among low-performance firms.

Third, the paper is limited by its focus on intended and enacted performance management practices (i.e. the practices designed by the company and carried out by the management), as opposed to an observation of how the practices are then perceived by employees. Given the potential role attributed in our study to diverse communication mechanisms intended to enhance employee awareness of performance-related issues, further research is required to examine whether employee perceptions of such issues actually match the intentions of the firms.

Fourth, in the current study, we did not test directly for the mechanisms likely to explain the association between organisational practices (as signals) and enhanced effectiveness of performance management systems, a recent study may offer some initial support for such mechanisms. On the basis of data drawn from 286 full-time employees, Casper and Harris (2008) concluded that perceived organisational support mediated the effect of work–life balance practices and such performance-related outcomes increased affective commitment and decreased turnover intentions. Further research is required to explore the extent to which employee attitudes and behaviour are actually affected by these signalling mechanisms.

Fifth, we did not attempt to consider the possible influence of country-of-origin as well as sector on our findings. Our intention was to build on and extend previous research on performance management by considering practices likely to facilitate its effectiveness, rather than comparing groups or clusters of companies within the study's sample, for example, on a cultural basis. Future research may consider such variables from a comparative perspective.

And finally, this study is limited by the way in which the questions were posed during interviews: companies were not expressly asked about conditions potentially facilitating performance management effectiveness, but this was deduced by the researchers based on the information provided as noted above. Companies were also at liberty only to tell the researchers about what they thought were their own best performance management practices, as it was important for the study to understand the company perspective of what they believed worked well, rather than asking detailed questions about a pre-defined list of practices. Consequently, some gaps in knowledge may have been created by using this technique, which can be filled by further research. This could also, however, be seen as strength of the study – as we did not prompt our interviewees to confirm or acknowledge a pre-defined list of possible practices, data for our research questions were more spontaneous and hence more clearly reflect the priority given to these practices in the different organisational contexts.

Conclusions

Despite these limitations, our findings have several implications for research and practice. With regard to research, our findings shed light on several organisational signals likely to play an important role in shaping the effectiveness of performance management systems. Given the equivocal nature of findings regarding the impact of performance management, the findings reported above suggest that when constructed and implemented properly, performance management systems may offer many benefits. Moreover, while there are likely to be numerous other factors conditioning the impact of performance management on organisational outcomes, the current study is significant in that it demonstrates empirically the potential salience of organisational signals among a sample of high-performance firms. This study also extends our understanding of internal (i.e. intra-organisational) signalling processes. While we can point to a limited number of studies discussing the potential effects of signalling between employees (signal receivers) and their organisation (signaller), such a process is highly important for understanding the employment relationship.

In terms of practical implications, while past research tends to focus on certain elements that should be included in performance management systems in order to enhance their effectiveness, less emphasis has been put on how these systems are implemented and maintained as a whole. This may considerably boost the contribution of performance management. In particular, our findings stress the need to recognise the importance of senior management involvement in the performance management process. Firms should also try to extend the knowledge of employees regarding the current status of the firm, its future plans and how these are to be achieved. In light of the economically difficult times that many firms are currently facing, it may be wise for them to focus increasingly on understanding the signals they are sending out to their employees through the design and implementation of their performance management systems.

Note

1. Philip Stiles and Jonathon Trevor (Cambridge University, UK); Jaap Paauwe and Elaine Farndale (Erasmus University Rotterdam/Tilburg University, The Netherlands); Pat Wright (Cornell University, USA); Shad Morris (MIT, USA); Günther Stahl (Insead, Singapore).

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Appendix A: Core interview questions

- What are the most critical HRM practices for driving excellence and value?
- What are the practices that you would say are your best practices (where others would benchmark you)?
- Where are the areas where you continue to face challenges (and why)?
- What are the key skills and competencies needed to achieve excellence in these areas?
- How are these practices aligned internally (across practices) and externally (with business strategy, culture and external environment)?
- How is commitment gained from senior executives and line managers?