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# Performance management to enhance employee engagement for corporate sustainability

## 1. Introduction

The notion of employee engagement is a relatively new one. It is not clear where the idea came from. The concept has received growing interest from HR consulting firms and HR practitioners within the past two decades (Shuck and Wollard, 2010). In the 1990s, the Gallup consulting firm reported from its research that the most important factor in helping companies grow is employee engagement. The firm then developed its popular 12 actionable element survey (Gallup, 2015). Top executives around the world have given attention to this concept because employee engagement is believed to be a potential factor in an organization's ability to become effective, innovative, competitive, and sustainable (Welch, 2011). On the academic side, an article about engagement at work was published by William Kahn as early as 1990 (Kahn, 1990). A study by Sonnentag (2003) found that engagement predicted in-role behaviors, extra-role behaviors, and proactive behaviors. Moreover, Cheese and Cantrell (2005) reported that organizations with engaged staff can develop cultures of motivation, commitment, and passion for work. Research has also shown that engaged employees engender customer satisfaction and loyalty (Harter *et al.*, 2002). In addition, employee engagement enhances productivity, profit, safety, and reduction of turnover (Buchanan, 2004; Wagner and Harter, 2006). However, it has also been reported that employee engagement is on the decline. According to the Gallup consulting firm, around one-third of workers are engaged in US firms (Amabile and Kramer, 2011). Gallup estimated that disengaged employees account for more than \$300 billion annually in lost productivity in the U.S. alone. The Aon Hewitt consulting firm reported that four out of every ten employees they surveyed were not engaged, and two out of ten were actively engaged (Hewitt, 2013).

Employee engagement is considered an element that potentially influences sustainability in enterprises. There are many definitions of what sustainability means. A definition of sustainability was put forward by the World Commission on Environment and Development (WCED) in 1987 as development that meets the needs of the present citizens and future generations (UN, 1987). Roger, Jalal and Boyd (2008) define sustainability based on the triple bottom line framework, consisting of social equity, environmental, and economic factors. Corporate sustainability is defined by Kantabutra and Avery (2011) as an enterprise demonstrating a capacity to deliver strong financial performance, endure economic and social difficulties over time, and maintain a leadership position. Avery and Bergsteiner (2010) argue that a sustainable organization has a fast and resilient operation which is competitive and appealing to stakeholders.

Corporate sustainability is an umbrella term that includes many other terms such as Corporate Social Responsibility (CSR) and Corporate Governance (CG). While the latter terms highlight 'added-on' policies and practices, the term 'corporate sustainability' integrates all dimensions of how an organization operates in the economic, social, cultural, and natural environments. Furthermore, strategies that focus on fairness, transparency, and proper employee management are also important in corporate sustainability.

Around the world, there are increased efforts to drive enterprises towards becoming more sustainable. Employee engagement is regarded as an important part of the 'holistic' approach of

corporate sustainability. Research by Hewitt Associates (2009) highlighted an increased interest by Canadian organizations in the role of employee engagement successfully addressing the challenging economic environment, especially when turnover increases post recession. Staff engagement is also one of the three key performance drivers of the 'Honeybee sustainable leadership' model developed by Avery and Bergsteiner (2010) that builds on the Rhineland sustainable leadership practices that Avery (2005) identified earlier. In their evidence-based model, sustainable enterprises successfully engage their workforce intellectually and emotionally with the organization. Together with quality and strategic and systematic innovation as other key performance drivers, employee engagement delivers performance outcomes of customer satisfaction, brand and reputation, financial performance, long-term shareholder/stakeholder value and, thus sustainability.

Employee engagement is often influenced by work environments and 'touchpoint' experiences created by the combination of many elements. One of the important touchpoints is the Performance Management (PM) process. Performance management is one of the major trends of development in Human Resource Management (HRM). Globalization, increased competition, and higher expectations from stakeholders have propelled performance management practices as a way to increase productivity (Compton, 2005). Many organizations have become more 'strategic' and 'performance-driven' in their people management through PM. The performance management initiative can be used as one of the main tools supporting other practices in a corporate culture change program (Kessler and Purcell, 1992). However, in spite of its increased importance, performance management still creates frustration and dissatisfaction among management and workforce (Deming, 1986; Belschak and Den Hartog, 2009).

Given the above background, the distinctive contribution of this paper is that it aims to examine how performance management can be conducted in order to achieve employee engagement, which is an important element of corporate sustainability. Employee engagement is often overlooked in the performance management literature, which tends to focus on performance outcomes or validity of performance evaluation. The paper starts with a literature review on employee engagement. Then performance management overview and performance management to engage employees are discussed accordingly, followed by a review of the literature on performance management and sustainable organizations. Finally, future research suggestions are provided.

## 2. Employee Engagement

There have been more than 50 definitions of engagement and many different ways to measure it offered by both academics and practitioners (MacLeod and Clarke, 2009). Employee engagement is different from the concept of job satisfaction, which has a rich history of research (Locke, 1976). Engagement is not just being cognitively attentive to the job, or feeling and expressing pleasurable emotions on the job. Instead, many authors seem to agree that engagement reflects the investment of cognitive commitment, emotional attachment, and behavioral energies in such a way that one invests

holistic aspects of oneself in the performance of a role (Gibbons, 2006; Shuck and Wollard, 2010; Kahn, 1990). Schaufeli, Salanova, Gonzalez-Roma and Bakker (2002) argued that rather than being brief, momentary states of engagement that can fluctuate even on a single working day, engagement is a more overall pervasive and persistent emotional and cognitive state as well as showing behavioral readiness.

There are also many terms relating to employee engagement. The terms ‘job engagement’, ‘work engagement’, and ‘employee engagement’ are often used interchangeably (Schaufeli, 2012; Vijayanthi *et al.*, 2011). Nevertheless, the terms ‘job engagement’ and ‘work engagement’ are more specific, referring to only the relationship of the employee with his or her work. One of the well-known definitions of job engagement is defined by Schaufeli, Bakker, and Salanova (2006) as a positive, fulfilling work-related state of mind that is characterized by vigor (ie. high level of physical and mental energy and enthusiasm), dedication, and absorption (ie. being engrossed in work that one felt difficult to detach oneself from).

Another emerging term is organization engagement (Saks, 2006). Organization engagement recognizes the firm as a social entity, a source of identification beyond the job (Purcell, 2012). The focus of the majority of research on employee engagement has been on engagement in relation to a job (Saks, 2011). This has implications for the extent to which engagement will extend beyond one’s immediate job. Scholars (Saks, 2006; Welch, 2011) have begun to consider engagement to an organization as well as to a job. According to Pratt and Ashforth (2003), organization engagement is important because meaningfulness in a job alone is not likely to lead to engagement maintenance, especially when the jobs of employees change. Engagement also has to do with whom one surrounds oneself with as part of organizational membership, and/or in the goals, beliefs, and values of the organization (Pratt and Ashforth, 2003).

There is a need to understand which aspect of the work context employees engage. Findings from Saks’s study (2006), which differentiated employee engagement into job engagement and organizational engagement, showed that although job and organization engagement constructs were related, they were distinguishable, given the antecedents and outcomes of job and organizational engagement differences. Hutchinson and Purcell’s (2010) study in National Health Service (NHS) hospitals in the UK found that the majority of ward managers had high engagement toward their work and co-workers, yet they had a low opinion of senior managers and the organization.

Given the background above, the term ‘employee engagement’ is used in this paper as a broad term that also includes the relationship of the employee with his or her work, work associates, and the organization.

The sustainable leadership pyramid framework proposed by Avery and Bergsteiner (2010) have identified staff engagement as one of the 23 ‘Honeybee leadership’ practices that enhance the performance of a business and drive sustainability. In their framework, engagement is one of the three key performance drivers which depend on the presence of some or all of the foundation and higher-level practices. Avery and Bergsteiner (2010) suggested that sustainable ‘Honeybee’ enterprises value

intellectually and emotionally engaged staff. High engagement levels are regarded to be an important contributor to sustainable performance outcomes. In contrast to Honeybee leadership, Locust leadership regards financial rewards to be sufficient as motivators and requires only that employees relate at a rational and cognitive level to the organization.

Previous studies showed that employee engagement can be influenced by several factors (Sharma and Raina, 2013; Saks, 2006; Purcell, 2012). It is important to tailor organizational practices, particularly human resources practices, in order to engage employees. According to the earlier studies, three groups of elements can be classified to have an impact on engagement, that is, *task elements*, comprising of physical job resources (May *et al.*, 2004) and job characteristics comprising skill variety, task identity, task significance, autonomy, and feedback (Moussa, 2013; Seibert *et al.*, 2004); *relationship elements*, consisting of leadership such as visionary (transformational and charismatic) and organic (distributive) leadership style (Zhang *et al.*, 2014) and peer support (Bakker *et al.*, 2006; May *et al.*, 2004; Schaufeli and Bakker, 2004); while organization support (Saks, 2006), reward and recognition (Koyuncu *et al.*, 2006; Moussa, 2013), and procedural justice (Saks, 2006) fall into the category of *organization elements*. In Kahn's study (1990), personal engagement was found to be a function of the experience of three psychological conditions; psychological meaningfulness, psychological availability, and psychological safety. May, Gilson, and Harter (2004) found that meaningfulness was the strongest predictor of engagement among the three conditions.

As seen from the above, employee engagement has recently found several applications in human resource practices. However, the majority of literature in the field of engagement has still given less attention to an integrated set of performance management activities together, but more as individual ones among many management elements. Next, an overview of performance management is discussed.

### 3. Performance Management

Performance management can be used as an umbrella term covering a variety of approaches in managing employee performance and an HRM-based definition in which performance management is a distinctive set of methods. Within the HRM perspective, performance management is a way to link micro activities of managing individuals and groups to the macro issue of corporate objectives in three steps: setting of clear targets and behavioral standards for individual employees derived from an organization's strategy and goals; regular monitoring and a systematic review of progress and feedback; appraisal or performance evaluation in order to reinforce desired behaviors through differential rewards and/or to identify training and developmental needs (Beardwell and Claydon, 2007). This definition of performance management is used in this paper. Many studies find that not all of these performance management steps are used. Appraisal is still the main activity, while on-going feedback is still lacking (Income Data Service, 2005). There is a variety of performance management methods utilized by organizations. One popular approach, especially for white-collar

workers, is the management and evaluation of performance against key performance indicators (KPIs) and behavioral standards or competencies (Bach, 2000).

Alvesson (2002) and Currie and Kerrin (2003) suggest that organizations should also develop a strong culture or informal control (through recruitment programs and organizational socialization programs that seek to align members' interest to the organization's corporate goals) or normative control (professional standard and personal pride), especially in order to manage and obtain engagement from knowledge workers. However, research has found that this form of informal control serves to complement but not to replace more formal PM techniques of control (Robertson and Swan, 2003).

As the global competition intensifies, there is an increase in the importance of performance management practices as a way to enhance organizational performance. Despite this increased emphasis, performance management remains one of the most problematic areas of human resource management (Deming, 1986; Belschak and Den Hartog, 2009; Morgan, 2006). Haines and St-Onge (2012) found in their study of 312 organizations in Canada that the organizations that focused on employee engagement also had performance management systems that delivered more effective outcomes. The next section discusses ways that performance management can enhance employee engagement.

#### **4. Performance Management to engage Employees**

Changes in today's workplace, such as an increasing proportion of knowledge workers, enlarged spans of control, and a lack of direct experience, make it more difficult for managers to manage the performance of subordinates (Gruman and Saks, 2011). Furthermore, as contemporary jobs become increasingly fluid, varied, and subtle, and as more generation Y people enter employment, a new approach to performance management is required. This new type of performance management means less management and direct control of performance, but more engaging of employees through facilitating and providing supportive conditions and context for performance to happen (Breevaart *et al.*, 2014).

Performance management is reviewed here in terms of its relationship to employee engagement. The review entails three PM processes, including performance agreement, on-going feedback, and performance appraisal. The factors found to enhance employee engagement under each of the three processes are discussed first, and later on, the application of these factors to each process is reviewed.

Throughout the three processes, the following should be applied to foster engagement: employee development orientation, employee involvement, and justice and trust. These are a few key ways to use performance management to enhance employee engagement. First and foremost, future-oriented developmental feedback, actions, and support should be the aim of all three processes rather than employee evaluation. May *et al.* (2004) conducted an empirical study in an insurance firm and reported that resource availability was found to positively predict psychological availability, and indirectly predict job engagement. From a case study at the British School of Osteopathy, Winstanley

and Stuart-Smith (1996) emphasize the need to move away from measurement towards developing and building up trust to allow a genuine dialogue to take place. Development orientation is potentially a very useful way for PM to engage employees.

Secondly, employee involvement, which includes two-way communication between managers and subordinates and employee self-management, should be emphasized during the performance management process. Enabling employees to willingly voice suggestions, ideas, and concerns to bring about improvement and change is in line with Kahn's (1990) conceptualization of engagement. Employees who experience psychological safety and engagement are willing to fully invest and express themselves in their job roles. Generally, speaking out is one of the self-initiated work behaviors that will be most predominant among employees who are involved in their work, have high energy, and strive to make their organization successful (Tims *et al.*, 2013). Bowles and Coates (1993) found in their UK survey study of 48 organizations that the active involvement of employees in performance management potentially allows a constructive dialogue with management to determine the conditions that foster performance.

Thirdly, perceptions of justice and trust are important for enhancing engagement. Procedural justice is found to precede organization engagement (Saks, 2006) and job engagement (He *et al.*, 2014). One essential aspect of fairness is that the organization's practices are perceived as being fair by employees themselves (DeNisi and Smith, 2014). Cawley, Keeping, and Levy (1998) found that employee involvement in the performance management process was positively related to higher fairness, satisfaction, and motivation to improve. Evidence-based approaches should also be used in all three PM processes to enhance employees' perceptions of fairness.

Practices such as development-based performance management, employee involvement, and an emphasis upon fairness and trust are designed to address the 'psychological contract' between management and employees and gain their engagement (Edwards, 2009). They signal a developmental purpose and high employee participation, reflecting 'soft' HRM, which is an approach that managers must attempt to engage with in order to mobilize worker consent and cooperation (D'art and Turner, 2003). Interestingly, these practices are also in line with many of Avery and Bergsteiner's (2010) higher-level practices in their sustainable leadership framework such as devolved and consensual decision making, self management, enabling culture, and trust.

Having consistent approaches of performance management carried out through the year, via the three processes of performance agreement, on-going feedback, and evaluation, creates true alignment of principles and sends clear messages to successfully engage employees. Next, each of the three processes is discussed in detail.

#### 4.1 Performance Agreement (PA)

In a performance agreement, managers should consider both organizational and individual goals, values, competencies, and interests to promote meaningfulness and employee ownership and well-being (Schaufeli and Salanova, 2007). Meaningfulness can be achieved through incorporating an employee's true self by providing a linkage between the individual's life aspiration and work goals. It can be increased through the broader discussion of outputs, outcomes, and impact of employee performance upon team and organization performance, and benefits to external stakeholders. Empirical research has demonstrated that engagement occurs naturally when leaders are inspiring (Wallace and Trinko, 2009). Visionary leaders (also known as transformational or charismatic leaders) foster the emotional involvement of staff through a greater purpose that appeals to the followers' needs and motives (Avery, 2004). Visionary leaders involve employees in identifying an appealing and clear vision of the future, producing a road map together for the work ahead, and emphasizing and showing confidence in their followers' ability to contribute to this vision and goals beyond normal expectations (Seibert *et al.*, 2011).

Furthermore, in a performance agreement, employees should be architects of their jobs rather than being handcuffed with a fixed job description (Gruman and Saks, 2011). The 2011 UK Workplace Employment Relations Study (WERS) national survey showed the connection between employee involvement in job design and engagement (Dix, 2013). Employee participation in their job design also allows employees to bring their 'true' self to their jobs and thus delivers creative and extra-role performance. Jobs that are integrated with self and pursued because of felt ownership promote well-being and will in turn, create engagement (Hyvönen *et al.*, 2009; Sheldon and Kasser, 1998). Furthermore, employee involvement in 'crafting' their job boundaries is expected to increase meaning in their jobs and enhance person-job fit (Wrzesniewski and Dutton, 2001), as well as lead to increased job resources availability (Demerouti and Bakker, 2014), and as a consequence, lead to enhanced work engagement.

In terms of 'crafted' job characteristics, Hackman and Oldham (1980) found that job characteristics (skill variety, task identity, task significance, autonomy, and feedback) have predictive power over job engagement. This is in line with Moussa's study (2013) of employees in healthcare and information technology industries and Sak's study (2006) of 102 employees working various jobs in different organizations in Canada. These job characteristics have a positive relationship with job meaningfulness and engagement (Bakker *et al.*, 2004; May *et al.*, 2004; Schaufeli and Bakker, 2004). Furthermore, the performance agreement should be used by managers to discuss the engagement behaviors (e.g., role expansion, proactivity, adaptability, and persistence) and their engagement behavior goals with employees (Gruman and Saks, 2011).

After the job and performance expectations are agreed upon, performance development and facilitation should be discussed in order to foster employee engagement. Performance facilitation includes setting plans and resource and development support to achieve performance expectation. This



entails physical resources, coaching, training, and supervisor and co-worker feedback and support. Empirical studies have demonstrated that job resources have a positive relationship with work engagement (Crawford *et al.*, 2010; Halbesleben, 2010). May *et al.*'s study (2004) found available job resources to positively predict psychological availability, which, in turn, had significant predictive power on engagement.

Another type of resource that can increase employee engagement is personal resources: an individual's sense of their ability to control and have an impact upon their environment successfully (Xanthopoulou *et al.*, 2007). The promotion of these personal resources, which include psychological capital methods (self-efficacy, hope, resilience, and optimism) (Luthans *et al.*, 2006), can be planned in the performance agreement stage. Preliminary results suggested that psychological capital may be positively related to engagement (Sweetman and Luthans, 2010). In addition, Demerouti, Van Eeuwijk, Snelder, and Wild (2011) found in their study that 'personal effectiveness' training, which aimed at helping employees cope with their changing work environments, resulted in increased personal resources. Salanova, Schaufeli, Xanthopoulou, and Bakker (2010) and Gruman and Saks (2011) argued that training programs that help employees optimize their personal resources, in turn, foster engagement through psychological availability and meaningfulness. These personal resource training programs can also be discussed and planned at the performance agreement stage.

Furthermore, implicit expectations or psychological contracts that involve mutual obligations and expectation between employees and an organization (Rousseau, 1990) should also be discussed, reviewed and agreed upon during the performance agreement stage. Once mutual understanding of both performance and facilitation expectations is agreed upon, perception of justice and trust will increase. According to the 2004 UK Workplace Employment Relations Study (WERS) national survey data, trust in management was the single most influential factor linked to employee engagement, which applied to all occupational groups (Purcell *et al.*, 2009). In addition, trust in management will enhance employee engagement as Kahn's (1990) psychological condition of safety also centers around each employee's need to reasonably understand what is expected of them.

Research by Stiles, Gratton, Truss, and Hope-Hailey (1997) and Lewis's study (1998) found that a genuine two-way discussion in identifying the performance objectives was limited. Employees had the perception that objectives were imposed from the centre with the number of key targets that they were expected to meet. In some unavoidable circumstances when employee involvement is limited in determining some targets, performance development, facilitation, and support and psychological capital could possibly be the focus of a performance agreement discussion.

#### 4.2 On-going performance management

It is necessary to monitor the agreement and performance progress periodically, starting with the employee's self-monitoring. Employee involvement in monitoring themselves and having discussions with managers regarding readjusting any performance agreement elements (both performance expectations and support/facilitation resources) ensure continuing alignment with any changing

personal needs, organization goals and contexts. This is very important nowadays, considering the fast pace and high frequency of changes in many organizations, their environments, and employee situations. On-going performance checks should focus on development, emphasizing the growth of the individual and the company together. Boyd (2004) argued that managers should allow and encourage employees to take ownership of the performance management process and self-monitoring of their performance, instead of being reported on by management. In this way, the performance management system is effectively ‘constructed’ by employees themselves. In a study of the performance management of public accounting interns, Beard (1997) reported that the interns developed their own ways of getting informal feedback outside of the performance management process.

On-going performance feedback is very important as it also includes informal ways to engage in indirect regular dialogue between managers and subordinates, rather than relying solely on the formal performance appraisal, which can be perceived as too transactional and so prevent genuine dialogue. Deming (1986) believed that formal appraisal reinforced the significance of the hierarchical supervisor-subordinate relationship, which is exactly the opposite of what is required. Also, Taylor (2002) suggests that when a supervisor has an open relationship with his or her subordinates the formality implicit in performance discussion may serve to create a greater distance between employees and managers. In particular, when performance is substandard, managers may prefer to discuss performance issues using subtler approaches. Managers in some cultures (i.e. those demonstrating a high power distance) may need support and time to practice skills in developing an open relationship with subordinates.

On-going performance management should focus on improving manager-employee relationships and communication regarding work and employee development. A diary study of forty-two Dutch employees reported that daily transformational leadership was positively associated with employees’ daily engagement (Tims *et al.*, 2011). Transformative leaders (visionary and charismatic), who motivate, offer intellectual challenges, and show interest in the needs of the employees, are successful in fostering engagement (Densten, 2005; Zhang *et al.*, 2014). They emphasize and show confidence in their followers’ daily ability to contribute to the realization of their vision (Seibert *et al.*, 2011). Furthermore, visionary leadership is also enhanced by a positive relationship between leaders and followers (Zhu *et al.*, 2009). May *et al.* (2004) found that supervisor relations positively predict psychological safety, which, in turn, predicts job engagement. The supervisor relations used by May *et al.* included encouraging employees to develop new skills, to participate in important decisions, and to speak up when employees disagree with a decision, as well as praising employees and keeping them informed. Furthermore, from the findings of their study, supervisor behaviors, such as being true to their words, treating employees fairly, and protecting their interests, create mutual trust during the on-going performance feedback.

During the year, the four constructs of psychological capital (Luthans *et al.*, 2006), comprising self-efficacy, hope, optimism and resilience, can also be developed. Preliminary research results have suggested that psychological capital may be positively related to engagement (Sweetman and Luthans,

2010). Self-efficacy can be developed through several mechanisms including the following: observation of others' success, verbal persuasion, and creating a positive mood (Stajkovic and Luthans, 1998). Hope can be fostered through goal-setting training, breaking goals down into manageable units (Albrecht *et al.*, 2015), and mental and visualization rehearsal (Lopez *et al.*, 2000; Luthans and Jensen, 2002; Luthans, 2002). Methods for developing optimism include cognitive-behavioral techniques (e.g., identifying automatic thoughts; testing accuracy of thoughts) (Carver *et al.*, 2009). Sutcliffe and Vogus (2003) suggest that resilience can be fostered via observing good role models, training, and creating additional specialized knowledge and skills.

Daily 'social' support from leaders is also another important predictor of engagement, as found in Breevaart *et al.*'s study (2014) of 61 naval cadets. Authentic leaders, whose interests are in the well-being of the cadets, take some time to mediate an argument between two cadets or privately talk to those who have personal problems. Nevertheless, according to studies by Saks (2006), Moussa (2013) and Menguc, Auh, Fisher, and Haddad (2013), no significant relationship was found between authentic leadership and engagement. However, at high levels of perceived autonomy, supervisory social support was related positively and significantly to job engagement. Employees may feel that simply being listened to and being taken care of in terms of work-related issues and employee welfare was not sufficient. They also needed to be reassured that they could control and implement decisions on their own without necessarily seeking supervisor approval and consent.

Breevaart *et al.* (2014) found that autonomy, self management, and empowerment directly contribute to staff engagement. Positive variance in engagement can be explained by the daily experience of autonomy. Self-management requires and creates trust, which, in turn, creates engagement. In addition, Zhang *et al.* (2014) found distributive or organic leadership to be positively associated with employee engagement. Therefore, leaders should continually encourage followers to actively increase their own resources by stimulating followers to think and make their own decisions. Tims and Bakker (2010) argue that employee control over work is an important condition for them to actively and continuously change their work environment to achieve goals. Future-oriented feedback and improvement opportunities, which are identified by employees when probed by supervisors, lead to self discovery and personal effectiveness that trigger self-set goals (Budworth *et al.*, 2014).

The on-going monitoring of employees' psychological contracts is also important (Albrecht *et al.*, 2015). Parzefall and Hakanen (2010) empirically showed that psychological contract fulfillment is positively related with engagement. Psychological contract fulfillment tends to result in enhanced job resource availability, which in turn leads to employee engagement (Albrecht *et al.*, 2015).

In addition to support from one's supervisor, support and trusting relationships with co-workers are also important. One can obtain emotional resources through interpersonal relationships with others. Co-worker relations have been found to be predictors of job engagement in previous empirical studies (Bakker *et al.*, 2006; May *et al.*, 2004; Schaufeli and Bakker, 2004). Furthermore, research has shown that job appreciation from peers is most predictive of job engagement under conditions of high job demands (e.g., emotionally demanding interactions with clients, high workload). Kahn (1990) and

May *et al.* (2004) found that supportive and trusting interpersonal relationships with co-workers promoted psychological safety, meaningfulness, and engagement.

#### 4.3 Performance evaluation

Saks's study (2006) showed that procedural justice preceded organization engagement. Empirical relationships were found between fairness and engagement (Maslach and Leiter, 2008) and between psychological safety and engagement (May *et al.*, 2004). Gruman and Saks (2011) suggest that engagement is likely to be enhanced by creating psychological safety and availability through fairness. Employees should be able to trust the organization and its managers that they will be treated fairly in appraisal. Predictable, consistent, clear and non-threatening situations promote trust. Folger, Konovsky, and Cropanzano (1992) suggest that fairness can be achieved through adequate notice, just hearing, and judgment based on evidence. Employee voice should also be taken into account. Employee perceptions of voice during performance appraisal were found to be associated with post-session justice judgments (Elicker *et al.*, 2006).

Furthermore, fairness is also enhanced through the way employee performance is rewarded. Employees should trust the organization and managers that employee investment in energy and time will be rewarded. Recognition and incentives should also be provided for employees who exhibit engagement behaviors. Reward and recognition were reported to precede job engagement in a study of bankers in Turkey by Koyuncu, Burke, and Fiksenbaum (2006) and predicted both job engagement and organization in a study in Saudi Arabia by Moussa (2013). However, Saks's study (2006) of 102 employees working at various jobs in different organizations in Canada found that reward and recognition had no significant relationship with job and organization engagement.

Another issue regarding appraisal is tension between its evaluation and developmental purposes. The critics argued that performance appraisal is used as a tool to control and shape employee attitude and behaviors, while the development aim is often overlooked (Stiles *et al.*, 1997; Beard, 1997). Evaluation is often the sole focus of performance appraisal. In order to achieve employee engagement, development and future-oriented appraisal should be encouraged. An empirical positive association was found between supervisory feedback on performance and how to improve and employee engagement in a study of 482 service employees in 66 retail stores in Canada (Menguc *et al.*, 2013). Performance appraisal can be used in this development and future-oriented approach to gain employee motivation and commitment through the opportunity for a frank and open dialogue about performance, development opportunities and future actions between employees and their managers (McGregor, 1957). Pym (1973) suggests that performance management can fulfill worker demands of skill development and advancement opportunities by instilling belief in individual achievement and a career path. Pym's suggestion is supported by findings from the study by Swart and Kinnie (2003) on software engineers and the study by Grey (1994) of accountants in a consulting firm, which reported that the performance appraisal process focusing on personal and career development was accepted by employees.

## 5. Performance management and sustainable organizations

A broader context of whether the organization is operating in a sustainable way may also moderate or influence the impact of performance management on employee engagement (Beard, 1997; Stiles et al., 1997; Maley and Moeller, 2014). Many researchers reported that the short-term focus of the companies (particularly short-term financial targets) presented problems for the performance management process (Stiles et al., 1997; Maley and Moeller, 2014; Beard, 1997). Case study research by Stiles *et al.* (1997) in three UK organizations reported that business pressures prevented the utilization of a developmental role in performance management, and objectives were imposed from the centre with the number of key targets that employees were expected to meet, not jointly negotiated as they were supposed to be. Furthermore, a recent study of 24 multinational corporation country managers in Australia by Maley and Moeller (2014) found that a MNC's systematic and obsessive drive for short-term results, sales, and profit had negative consequences on relationships and trust between the country's managers and their supervisors, which influenced perceived effectiveness of performance management. An earlier study of public accounting interns by Beard (1997) reported that the culture of public sector accounting, which focused on outcomes, not employees' development, created dissatisfaction with the quality of performance appraisal information received among the interns.

These findings are in line with suggestions by Longenecker and Ludwig (1990) and Sherman, Bohlander, and Cherdren (1988) that managers may violate a development focus, collaboration, and objectivity in performance management in the interest of practicality because they work in organizational environments that put a high priority on getting results. This type of environment pressures managers to focus on their own self-interests and those of the organization when managing the performance of subordinates. Managers may often be intolerant of employee mistakes. They also have limited time to spend on coaching and providing feedback to staff. This type of management culture and context can negatively affect how the performance management system engages employees. Much of the empirical research on performance management continuously confirm differences between the rhetoric and reality of performance management (Deming, 1986; Belschak and Den Hartog, 2009). Many performance management systems are still not effective in engaging employees.

Therefore, if an organization's context and culture is not appropriate for PM to achieve employee engagement, it might be wise to improve the context first (Haines III and St-Onge, 2012; Avery and Bergsteiner, 2010; DeNisi and Pritchard, 2006). DeNisi and Smith (2006) believe that the organization context and the whole HR system need to be taken into consideration. Effective performance management cannot be concerned with improving the performance of individual employees and the PM system alone. Instead, it must be integrated with a bundle of HR activities, consistent with the firm's strategic goals, culture, and context, to serve as the 'enabling' factor to improve firm-level performance. Many scholars have highlighted the importance of contextual factor influence on PM

(DeNisi and Smith, 2014; Armstrong and Baron, 1998; Currie and Kerrin, 2003; Levy and Williams, 2004). More research should be done in this area (Levy and Williams, 2004).

In addition to the agreement among many authors regarding improvement of context surrounding PM, some authors (DeNisi and Smith, 2014; Avery and Bergsteiner, 2010) also advocate the orientation of context or having the right or ‘sustainable’ content of the corporate strategy, culture, and context that the PM system can align with. This is particularly important, if firms aim to achieve employee engagement and sustainability, rather than firm performance alone. DeNisi & Smith (2014) noted that only integrating PM with a bundle of HR activities, strategic goals and culture is not enough and will not necessarily result in employee engagement and firm sustainability as firms can still choose the wrong and unsustainable strategies, culture, and context. Adverse outcomes from effective PM systems under the wrong strategy and culture included unethical accounting and other practices in failed public corporations such as Enron. DeNisi & Smith (2014) started to suggest that the firm performance outcome definition should expand to include measures based on sustainability and ‘Triple-bottom-line’ approach.

In addition to sustainable performance outcomes, Avery and Bergsteiner’s (2010) sustainable leadership framework further identified the route to achieve the sustainable outcomes. These are sustainable context elements or what they called ‘foundation practices’, facilitating higher-level practices and key performance drivers, eventually leading to sustainable performance outcomes. The foundation practices include, for example, amicable labor relations, valuing people, long-term orientation, ethical behavior and stakeholder approach. PM can possibly be facilitated by these sustainable contextual elements in order to engage employees effectively. Furthermore, PM characteristics suggested to engage employees in this paper also resemble higher-level practices in their sustainable leadership framework such as knowledge sharing and retention, self management, trust, devolved and consensual decision making, and enabling culture. Avery and Bergsteiner (2010) argued that in order to achieve each of these higher-level practices, particular foundation practices have to be in place first.

One of the few studies directly investigating the moderating influence of contextual variables in the association between PM and effectiveness is a quantitative survey study of 312 private and public sector organizations with 200 or more employee by Haines and St-Onge (2012). Their findings provided support to some foundation elements in the sustainable leadership framework by Avery and Bergsteiner (2010). The study findings seem to underline the need for a corporate culture that values employees. Only when personnel are valued, PM might reach its full potential. Otherwise, PM may be regarded as a bureaucratic routine of minimum value in terms of performance improvement or employee development. Haines and St-Onge (2012) noted that despite the fact that many organizations design and invest in the most sophisticated PM systems, they still fail to consider the organizational context in which the PM systems are implemented. Haines and St-Onge (2012) suggested that a diagnostic by a climate survey should be done before any actions are taken to improve performance management systems. If an organization’s social context is antagonistic, the

social climate of performance management should be improved first. Initiatives to improve performance management may then follow after the context becomes better.

Therefore, effective performance management systems should be supported by organizational contexts with certain sustainable characteristics. Another potential sustainable organizational contextual element is the shared organization purpose and vision. In terms of engagement culture, engaging the whole person (hands, head, and heart) also involves a strong sense of alignment between one's personal values and the organization's purpose and mission (Milliman *et al.*, 2003). According to Milliman *et al.* (2003), alignment means that managers and staff in their organization have similar appropriate values, have a strong conscience, and are part of a caring and supportive community. This also includes being part of an organization whose objectives include making a contribution to the welfare of its employees, customers, and society. When employees are part of something that serves a greater purpose beyond self-interest and profit, they are more likely to experience meaningfulness. Organization values such as benevolence, humanism, and integrity may also increase employees' sense of psychological safety (Jurkiewicz and Giacalone, 2004; Gruman and Saks, 2011), which leads to employee engagement.

In sum, in order to have a performance management system that successfully achieves employee engagement, the broader organization context and culture may have to change to be more sustainability-oriented. It is more likely that by providing the overall approach of sustainability within the organization, performance management to engage employees will flourish.

## 6. Conclusion and Research Suggestions

This paper examines literature on how performance management can be conducted in order to achieve employee engagement. As global competition intensifies, there is an increase in the importance of performance management practices as a way to enhance organizational performance. Despite this increased emphasis, much of the empirical research on performance management reveals that it remains one of the great paradoxes of human resource management. Many performance management systems have failed to realize their full potential contribution to organizational effectiveness and sustainability. This paper proposes that the objective of the performance management process should change from the focus on solely high -performance outcomes, to include employee engagement to contribute to corporate sustainability.

Even though performance management is heavily researched regarding how it should be conducted to achieve high productivity, there is much less research on the employee engagement objective of PM. The employee engagement objective of PM provides an additional way for practitioners and researchers to understand its roles within sustainable firms. The application of specific concepts of 'self' constructed PM and psychological capital could prove interesting and uncover useful research and practice venues. Possible associations between a set of integrated PM activities and the concept of three psychological conditions (meaningfulness, availability, and safety),

leading to engagement, and its link to sustainable corporate performance outcomes can also be explored and tested through research. Existing research did not often test an integrated set of PM activities together, but more as individual ones among many management elements.

More importantly, in order for future research on performance management to have an impact on organizational performance and sustainability, a holistic approach in the study of the performance management practices within sustainable organization's context and culture as argued by Haines and St-Onge (2012) and DeNisi and Smith (2014) should be conducted. Research only on a stand-alone PM and its influence on individual-level performance is not sufficient. Future research may test association between engagement and PM, and particular preceding sustainable context elements (e.g. foundation practices in the sustainable leadership framework by Avery and Bergsteiner (2010)). In line with McKenna, Richardson, and Manroop's (2011) suggestion, PM systems can also be studied in the perspective of the exercise of power in organizational contexts, where issues of ethics and power and abuse of power in organizations are more important than ever before. Research encouraging a deeper approach to the study of sustainable contexts in relations to PM processes can promote further debate over a more 'engaged' and 'sustained' body of PM practices, which remain underdeveloped in PM research. Hopefully, the discussions, issues, and ideas set forth in this paper will stimulate interest and research incorporating employee engagement in the field of performance management to achieve the ultimate goal of corporate sustainability.

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