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## 9. Comparing performance management across contexts

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### INTRODUCTION

Performance management (PM) is one of the key human resource management (HRM) issues facing contemporary organizations, picked up by both private sector and public sector organizations (Moynihan & Pandey, 2010). The process of measuring and subsequently actively managing organization and employee performance in order to improve effectiveness is critical to organizations' development and survival (Den Hartog et al., 2004), but is also linked to employee outcomes such as employee engagement (Gruman & Saks, 2011), trust, and perceived justice (Farndale et al., 2011). Performance management today encompasses a whole range of HRM activities beyond what we might traditionally assume to have been limited to annual performance appraisals, such as goal setting, feedback, consequences for training and development, and remuneration. Having said this it is relevant to notice two developments. First, the importance of PM is emphasized in the academic literature as possibly affecting the HRM and PM rhetoric at the board room level of large organizations in both the private and public sector. We are not sure whether this is affecting small and medium-sized organizations. And we know little about the actual implementation of PM in organizations, linking this issue in a way to Legge's (1995) classic 'rhetorics and realities' debate on HRM. Second, lately several large multinational companies such as Deloitte, Accenture, Microsoft, and GE have explicitly abandoned the more classic performance management system (in particular, the annual performance appraisal) and have instead started looking for alternatives, among which are emphasizing the importance of a continuous dialogue between direct supervisor and employee on employee motivation, targets, and support.

The attention to performance management over the last decades is clear for all to see. A special issue of the *European Journal of International Management* (2008) emphasized this. The discussions presented suggest that performance management issues include:

- a global tendency towards performance management through culture management;
- aligning corporate goals with individual employee goals;
- using PM for talent management and leadership development;
- using PM as a mechanism for distinguishing good performers from bad performers;
- linking PM and 360-degree feedback systems;
- integrating PM and information technology systems;
- emphasizing self-appraisal and appraisals by peers;
- linking PM to specific employee outcomes such as engagement, trust, perceived justice (both distributive and procedural), and job performance;
- performance management in the public sector as part of an increasing efficiency

focus, and new public management developments in these specific contexts (for example in local governments, schools, and health care organizations); and

- PM as a tool for general employee development purposes.

Performance management is seen as the key to maximizing the return on investment in human capital and hence creating corporate competitive advantage. These are some of the findings of the Global Human Resource Research Alliance (GHRRA), based on extensive case study research within leading multinational corporations (MNCs) including Shell, Unilever, IKEA, Siemens, Procter & Gamble, and IBM. Another particularly informative piece of research which explores international developments in HRM practices is the Cranet survey. Such quantitative data are a rich source of information on how the use of different performance management systems in different countries has changed (or remained the same) over the last decade. We will return to these studies shortly, as they provide us with a unique opportunity to study contemporary performance management in different organizations and in different countries around the world.

The aim of this chapter is to define performance management, giving an overview of the most important developments over time, and comparing performance management in different contexts using both case study data from large multinationals and country survey data. We start by exploring what performance management means, especially in an international context.

## DEFINITIONS OF PERFORMANCE MANAGEMENT

Performance management can be seen as a broad range of activities which creates a bridge between managing employee performance and enhancing overall firm performance. Performance management thus ‘deals with the challenge organisations face in defining, measuring, and stimulating employee performance with the ultimate goal of improving organisational performance’ (Den Hartog et al., 2004: 556). This view is upheld by DeNisi (2000), who maintains that performance management refers to the range of activities engaged in by an organization to enhance the performance of a target person or group, with the ultimate purpose of improving organizational effectiveness.

Baron and Armstrong (1998: 38), examining the position in the United Kingdom (UK), emphasize the strategic and integrated nature of performance management, which in their view focuses on ‘increasing the effectiveness of organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors’. However, they go further and start to describe more about the process and characteristics of performance management. They see it as a continuous process involving performance reviews focusing on the future rather than the past. In their empirical research among British practitioners they find that the key characteristics of performance management (those identified by more than half of the respondents) are goal setting and evaluation (85 per cent of respondents), annual appraisal (83 per cent), and personal development programmes (68 per cent). Less frequently mentioned items include self-evaluation (45 per cent of respondents), pay for performance (43 per cent), coaching and mentorship (39 per cent), career management (32 per cent), competence management (24 per cent), and 180-degree feedback systems (20 per cent). In summary, goal setting, employee monitoring, and

modification through employee development are the central characteristics. However, these data are more than a decade old and changes might have taken place in the performance management arena. The empirical results of more recent studies (GHRRA and Cranet) will shed light on performance management characteristics in contemporary settings.

One core part of the performance management process is undoubtedly the (annual) appraisal meeting. This is ‘the system whereby an organization assigns some “score” to indicate the level of performance of a target person or group’ (DeNisi, 2000: 121). This may or may not then be linked to an employee’s rewards. Performance appraisal (PA) is often considered to be performance management, and the other way around; while in our definition of PM, building on PM literature, annual performance appraisal is just one part of performance management. A second core feature is the focus on competence development (through training, coaching, and feedback) and individual career planning (Fletcher, 2001; Roberts, 2001). Thirdly, there is the important task of goal setting: the setting of corporate, departmental, team, and individual objectives (sometimes labelled ‘policy deployment’; the cascading down of strategic objectives to a meaningful set of targets for every individual involved) (Roberts, 2001). The line manager or direct supervisor plays an important role as the enactor of performance management in practice. Thus, performance management involves day-to-day management, as well as the support and development of people.

Alongside the variation in content of a PM system, according to Baron & Kreps (1999), performance management can also have different purposes, including:

- an extensive evaluation to improve job matching;
- communication of corporate values and objectives;
- providing information for self-improvement, training, and development, and career development;
- linking pay to individual and/or team performance;
- collecting information for hiring strategies;
- validating HRM practices including appraisal and rewards, retention, and reductions in the workforce; and
- input for legal defences (for example, when an organization is trying to fire an employee because of poor job performance).

However, how does an organization know what elements to include in a PM system in order to achieve the desired outcomes? Baron and Kreps (1999) summarize the important and relevant aspects of different performance evaluation systems that need to be taken into account when designing a performance management system:

1. Who or what is to be evaluated? One can look at an individual’s attitudes, behaviours or cognitive abilities, but one can also look at team performance or subunit outcomes.
2. Who performs the evaluation? Traditionally, the direct supervisor plays an important role in being the evaluator. However, more recently we have seen developments towards self-evaluations, evaluations by peers, and even including evaluations by customers.
3. What is the time frame? Traditionally, appraisals took place on an annual basis. Nowadays we can see illustrations in practice of employee monitoring on a monthly, weekly, and even daily basis.
4. Should we be using objective or subjective evaluations? Objective evaluations include

hard data, for example productivity and service quality outcomes; while subjective data are mainly collected using questionnaires ranking the candidate on the basis of multiple criteria, for example with respect to the candidate's individual job performance, employee development, and general attitude towards the job and colleagues.

5. Do we apply relative or absolute performance indicators? Relative performance indicators represent an individual's score in comparison to another person or the general average score. Absolute performance indicators focus on the real score.
6. Should we use a forced distribution? In a forced distribution approach, individual employees are ranked and the evaluator is forced to classify the candidates into different groups ranging from poor performers to high performers. Forced distribution is often introduced to create variance in scores, otherwise the organization runs the risk of ending up with 80 per cent relatively good performers, 10 per cent excellent performers and only 10 per cent poor performers.
7. How many performance indicators should be used? The evaluation might include multiple outcome variables rather than a single one. However, using multiple performance indicators raises questions about the weights of the indicators and the technique for calculating the overall score.

In addition, Biron et al. (2011) propose a framework, based on input from 16 world-leading firms, including four performance management system facilitators, which cover: (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.

There is thus a considerable range of considerations regarding the design and implementation of performance management systems, especially when, in addition to the points raised above, we start to add the complexity of multiple country contexts. First, however, we start our comparative assessment by considering how performance management has developed over time.

## PERFORMANCE MANAGEMENT DEVELOPMENTS OVER TIME

Performance management has its roots in the early 1900s with special attention for this practice in the US and British military for evaluating officers (Den Hartog et al., 2004). Drucker's (1954) concept of 'management by objectives', being part of a new school of thought (business administration and management), played an important role in linking appraisal to goal setting and people management. Bach (2000) argues that 'assessment of performance has become a pervasive feature of modern life', identifying three main reasons for the growing popularity of performance management in the 1980s:

1. Globalization resulted in increased competition and therefore a growing performance focus and more attention to achieving organizational goals by good people management.
2. Everybody, including HRM professionals, line managers, and employees, was dissatisfied with the administrative nature of the classic performance appraisals, mainly perceived as annual administrative obligations.

3. HRM professionals saw in PM an instrument for showing the added value of HRM in an organization.

Guest and Conway (1998) argued that performance management before 1990 was focused primarily on the content and the system, with an emphasis on the direct supervisor as the evaluator. They also point out that performance management before 1990 was typically top-down, being the property of the HRM department, and with a strong link to performance-related pay. After 1990, performance management changed fundamentally to include more attention to the underlying process, a joint evaluation (employee and supervisor), 360-degree feedback instead of top-down evaluation, performance management being the property of line management, and finally, a strong focus on employee development instead of performance-related pay (Guest & Conway, 1998).

More recently, performance management has attracted a lot of attention within public sector organizations, given governmental budget constraints, new public management (NPM) trends, and general cost cutting as a direct result of the global financial crisis (van Dooren et al., 2015). Ter Bogt and Scapens (2012), for example, claim the increased measurement of research and teaching performance in higher education is driven by the rise of NPM. This is supported by the study of Decramer et al. (2012), who note that the budgets for higher education and research have come under pressure since 2008.

In summary, in recent times there has been quite a marked shift in performance management from content to process, from supervisor evaluation to joint evaluation, from top-down to 360-degree, from performance-related pay to development, and from performance management being the property of the HRM department to it being owned by line management (see Figure 9.1). In addition, PM has received significant attention within

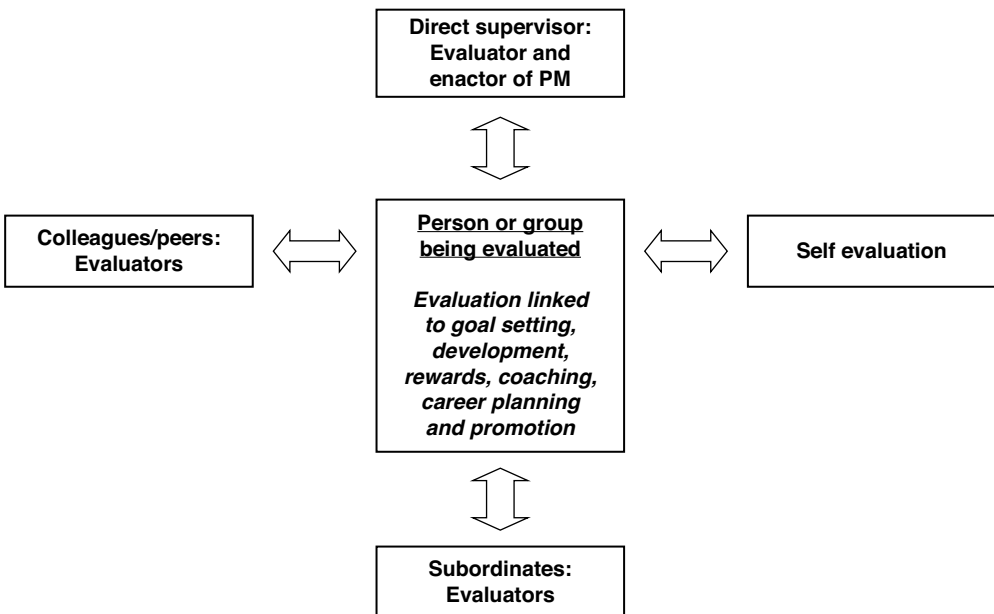


Figure 9.1 Performance management

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the public sector context. As performance management has been expanding in these new directions, what does this mean for its linkage with other aspects of the HRM system?

## PERFORMANCE MANAGEMENT AND HRM

Performance management is often seen as a microcosm of HRM, transferring the broader debate around the added value of human resource management to the performance management arena (Bach, 2000; Dewettinck, 2008). Special attention in both areas (HRM and performance management) is paid to alignment with the overall business strategy (strategic fit), alignment of practices towards a high-performance work system (horizontal or internal fit), line management involvement in the enactment of the practices, soft versus hard approaches (stressing the employee developmental side versus the individual performance side), and special attention to the search for interventions to increase firm performance. An ideal performance management system of practices is actually a sort of mini high-performance work system focused on goal setting, monitoring, appraising, developing, and rewarding employees in order to increase employee performance and to achieve organizational goals.

However, this performance management system can take on many guises. Several authors emphasize the relevance of different contextual factors that affect the ideal system for an organization (Dewettinck, 2008; Haines III & St-Onge, 2012; van Dooren et al., 2015). These contextual factors may include industry characteristics, firm size, degree of unionization, the history of the organization, and private versus public sector organization factors. Most importantly here, they may also include potential country and national institutional and cultural differences affecting performance management in an organization in a specific geographical location.

Claus and Briscoe (2008) present an overview of 64 articles published between 1985 and 2005 on employee performance management from an international perspective. The authors conclude that the academic literature on cross-border performance management is relatively atheoretical and exploratory in nature. They also conclude that the design and the substance of the empirical studies are weak. The majority of the empirical articles identified are focused upon or based upon performance management in multinational companies (e.g., Lam et al., 2002). Overall, Claus and Briscoe (2008) summarize the following major themes and findings from their literature review:

- Performance ratings of expatriates are influenced by the nationality of raters and ratees; the type of rater (self-evaluation, front line manager, or peer); personality characteristics of the raters and ratees; and by contextual factors including company size, international nature of the company, organizational structure, position and task of the expatriate, and geographical location.
- Context is important in performance management. Contextual factors that affect performance management include cultural factors affecting leadership styles and communication.
- The international literature focuses almost exclusively on the performance appraisal process rather than on the broader issue of the performance management system. In other words, it is important to understand more about the full system, rather than purely the evaluation process, for us to extend our international understanding.

- The convergence/divergence of performance management practices debate is mainly focused on the transferability of Western performance management practices to Asian countries, in particular China. Most empirical studies indicated a trend towards convergence. The convergence in this context refers to the tendency of applying universalistic performance management practices or best practices, such as 360-degree feedback mechanisms, irrespective of the country.

We observe an increasing number of empirical studies on performance management

Building on this work by Claus and Briscoe (2008), we now have an opportunity to study performance management in an international comparative setting using two distinct datasets: (1) comparative interview data from large, high-performing multinational companies (Global HR Research Alliance); and (2) comparative survey data from a range of organization in different countries (Cranet). The following sections describe how the data were gathered and the findings which emerged.

## METHODS

### Global HR Research Alliance

This study was designed to explore what MNCs themselves described as HRM excellence, and was carried out as part of a collaborative project together with Cambridge University (UK), Cornell University (USA), Insead (Singapore), and Erasmus University Rotterdam/Tilburg University (The Netherlands). Companies were selected for inclusion based on superior business performance and reputation as an employer based on 2004 Fortune and similar listings. Results from 16 companies (ABB, BAE Systems, BT, EDF, IBM, IKEA, Infosys, Matsushita, Oracle, Procter & Gamble, Rolls-Royce, Samsung Electronics, Shell, Siemens, TCL, Unilever) are discussed here.

In 2004–05, interviews were held with 248 interviewees (153 HRM professionals and 95 representatives of senior management, line managers, and employee representatives) in the 16 multinationals based in 19 countries (Belgium, Brazil, China, Dubai, France, Germany, India, Italy, Japan, Korea, Malaysia, Netherlands, Norway, Singapore, Spain, Switzerland, Sweden, UK, USA). These interviews were carried out at corporate headquarters, regional or country-level offices, or at division or site level within a specific business. The questions asked covered the whole range of HRM practices in these MNCs to try to uncover what they considered to be examples of best practice.

Case studies of each company describing their best practices in HRM were then drawn up and are analysed further here. The first step in the analysis was to group the companies at a regional level to try to observe patterns in performance management activities. This resulted in six Anglo-American MNCs, six continental European MNCs, and four Asian MNCs.

### Cranet Survey

The Cranet data are collected through a standardized questionnaire that is sent to HRM directors at organizational level, and on average around 70 per cent of respondents fit this description. It covers the major areas of HRM. The survey gathers figures or requests

Table 9.1 Number of responses per country per survey round

Country	1999/2000	2004/05	2009/10
Austria	230	270	203
Belgium	282	230	240
Bulgaria	150	157	267
Czech Republic	188	72	54
Denmark	520	516	362
Finland	290	293	136
France	400	140	157
Germany	743	347	420
Greece	136	180	214
Italy	79	117	157
Netherlands	234	397	116
Norway	391	303	98
United Kingdom	1091	1101	218

'yes/no' answers to factual questions rather than asking for opinions. Only organizations with at least 200 employees are included in the study presented here. Data are used here from survey rounds in 1999/2000, 2004/05 and 2009/10 to show how HRM practice use might have changed over this decade. Due to slight changes in questions posed per data collection round, not all years can be reported for each question analysed. Although this is not intended to be a detailed trend analysis, it is indicative of some of the patterns we see in the use of the appraisal practices. Twelve countries from across Europe were selected from the full dataset for discussion (see Table 9.1).

The three core questions included in the survey that relate to performance management are analysed further here:

- Who is appraised: management, professional, clerical, manual staff?
- Who contributes to the appraisal: next-level manager, the employee themselves, subordinate?
- What are the outcomes of the appraisal system: training, HRM planning, career development, pay decisions?

## RESULTS

In this section, we describe the findings from the two studies in turn, starting with the GHRRA study.

### Comparative Analysis I: Performance Management in High-Performing Multinationals (GHRRA Study)

The first stage of the analysis was to look at what was common across this group of high-performing MNCs in terms of performance management. The findings can be divided into multiple dimensions, such as content, aims, and design criteria as described above.



However, more nuanced thinking behind the performance management systems also emerged.

First, these MNCs were talking about the strategic aims of performance management. More specifically, the emphasis was on creating alignment within the company, for example to create a high-performance culture, and performance management was seen as a tool to achieve this. In addition to alignment, another strategic goal was the development of individuals for the future, linked to talent management and succession planning processes. Thus, performance management is being used as a tool to support forward thinking and planning in these firms.

Second, interviewees talked about the performance management process in terms of the actual outcomes. Three key foci emerged here:

1. Career planning: facilitating succession planning, identifying high potentials and promotion opportunities.
2. Development: creating personal development plans.
3. Reward: determining performance-related pay, employee benefits and bonuses.

The third issue that interviewees raised was the criteria used in performance evaluation. Here there was a clear dichotomy between a desire to assess current performance at an individual or team level. The focus on technical skills and behavioural aspects was another issue raised by the interviewees. Firms were also using performance management as a means to assess potential performance (future performance). For this, they were taking capability or competency approaches, considering a person's current skill set against desired competency models of different job profiles.

The actual performance management tools and processes themselves can be divided into two categories. A first set contains tools designed to provide feedback, such as twice-annual appraisal meetings, two-way feedback, 360-degree appraisals, and benchmarking. The second set of tools were designed more as supporting frameworks: defining competency frameworks for specific roles in the organization, producing scorecards to enable discussion about performance, applying forced ranking or distribution systems, and clear goal setting.

One striking finding from the case studies is the extent to which information technologies (ITs) are playing a leading role in these performance management developments. IT enables standardization of systems. This means that it is easier to have a single performance management system for all employees across the globe, and to benchmark internally on employee performance. The IT systems also enable online support and resources, creating a broader toolkit for managers undertaking the performance evaluation and recording process.

Having reached these broad conclusions about what these high-performing MNCs from across the world have in common regarding PM, the case study data was then, as a next step, explored for any differences between MNCs in Anglo-American contexts (the United States of America and the United Kingdom), continental European contexts (Sweden, Switzerland, France, Germany, and the Netherlands) and Asian contexts (China and Singapore). This part of the analysis, perhaps surprisingly, raised very few results. Perhaps the nature of these globally operating firms means that they are benchmarking against each other, and hence are adopting very similar practices. Indeed, true

Table 9.2 Percentage of firms with an appraisal system in operation for management, professional, clerical, manual staff grades (1999/2000 and 2009/10)

	Management		Professional		Clerical		Manual	
	1999/2000	2009/10	1999/2000	2009/10	1999/2000	2009/10	1999/2000	2009/10
Austria	66.5	58.6	60.4	50.5	55.6	41.0	47.8	27.2
Belgium	79.5	83.8	86.0	82.9	78.4	82.9	71.4	42.5
Bulgaria	40.0	34.1	58.3	44.1	52.2	40.6	62.8	40.7
Czech Republic	59.0	80.4	60.0	79.6	48.6	79.6	38.6	52.3
Denmark	51.7	59.6	46.4	42.4	44.7	41.8	31.2	30.9
Finland	47.8	52.0	52.3	60.2	50.7	62.5	42.2	59.2
France	86.8	68.6	84.7	60.3	76.5	55.8	68.9	34.6
Germany	55.8	78.9	59.7	77.7	54.2	74.7	46.6	58.2
Greece	76.2	80.0	65.8	80.0	66.7	81.1	54.6	59.4
Netherlands	84.1	62.9	82.9	75.9	83.6	76.7	83.0	61.2
Norway	49.1	53.7	36.4	44.0	27.4	40.9	27.5	42.0
United Kingdom	91.2	85.5	90.1	84.9	85.5	83.1	68.5	63.1

patterns of difference in the data hardly emerged; however, some underlying trends were discernable. For example, there appeared to be the strongest talk of linking performance management to corporate-level activity (goal setting and culture) within the Anglo-American firms. In the Asian firms, there appeared to be slightly more focus on measuring current performance rather than potential performance (which perhaps is surprising, given the traditionally longer-term approach to the employment relationship within such firms). The continental Europe sample could be said to be paying the most attention to employee development issues emerging from the performance management process, with a clear separation (for example, in the Netherlands) between assessment for the purpose of determining reward, and assessment for development purposes. The survey data in the following analysis may shed further light on potential differences at country level.

### Comparative Analysis II: Comparing Performance Management in Different Countries using Cranet Data

Because the data are collected from a range of different types of organizations (with a dominance of domestic organizations rather than the purely MNC sample presented above), we can gain a clearer picture at country level of performance management practices. Tables 9.2, 9.3 and 9.4 demonstrate different patterns of performance management practices, and how they change over time in multiple countries.

Table 9.2 shows a somewhat mixed result over time (1999/2000 compared to 2009/10), with organizations in seven countries reporting an increase in the use of appraisal systems for management, but five countries reporting a decrease in use. The opposite figures are true for appraisal systems for professional and manual grades. For clerical grades, there are six countries reporting an increase, and six reporting a decrease. In short, levels of appraisal use appear to be shifting, but not evenly across countries. The general pattern

Table 9.3 *Percentage of firms where the following people contribute formally to the appraisal process*

	Next level manager		Employee self		Subordinate	
	1999/2000	2004/05	1999/2000	2004/05	1999/2000	2004/05
Austria	48.3	64.7	37.2	76.3	12.2	23.1
Belgium	66.3	75.6	80.6	85.9	7.0	14.5
Bulgaria	67.0	81.2	24.5	43.5	13.2	21.1
Czech Republic	40.3	53.2	36.3	75.9	7.3	13.2
Denmark	36.0	59.4	76.3	96.2	16.3	19.6
Finland	40.7	62.9	79.1	90.5	26.0	35.9
France	38.2	62.4	71.9	92.7	5.3	11.0
Germany	56.7	68.7	32.2	68.9	7.1	19.5
Greece	83.2	90.7	51.4	75.5	9.3	17.9
Netherlands	62.9	62.0	83.4	82.9	8.8	16.3
Norway	42.3	42.6	65.3	66.7	13.1	13.5
United Kingdom	60.4	80.2	93.9	98.6	11.9	22.1

within countries is that the more senior you are, the more likely you are to be appraised. Exceptions to this include the Netherlands and Finland, where organizations are more likely to use appraisal for professional and clerical grades than they are for managerial grades. Bulgarian and Greek organizations report similar levels of use of appraisal for management, professional, and clerical grades. What is consistent across a large majority of countries is that appraisal is used least for manual staff.

Table 9.3 presents who contributes to evaluating employees as part of the appraisal process, comparing 1999/2000 with 2004/05 data. Here, we can see almost all increases in the contribution of managers who are the next level above direct supervisors, employees themselves, and subordinates who are being given the opportunity to contribute to the appraisal process. This 360-degree approach of asking for feedback from multiple stakeholders linked to the employee appears to be increasing in popularity across countries in Europe. The results are consistent in showing that subordinates are still by far the least likely group to be consulted.

Finland stands out here as the country in which organizations are most likely to involve subordinates in the appraisal process. Similarly, in the GHRRA research reported here, one company is already using an HRM 'dashboard' with information about the leadership capabilities of all the front-line managers from their subordinates. Red 'warning lights' against a front-line manager indicate poor evaluations by subordinates and a reason to take action. These actions might involve developmental interventions, but can also result in the replacement of the manager.

The final aspect of performance management considered here is the purpose of the appraisal process. Four options were given to respondents: identification of training needs, HRM planning (for example, promotion), career development, and pay determination. On average, identification of training needs remains the most popular outcome of the appraisal process (particularly in the Nordic countries of Norway, Finland, and Denmark, as well as Belgium). However, career planning and pay determination have increased in

popularity as an outcome of the appraisal process over this ten-year period (1999/2000 to 2004/05 to 2009/10). HRM planning as an outcome is used least, on average, although many organizations in France and the Czech Republic continue to rely on this practice. If we look more closely at Table 9.4 there appears to be an interesting pattern for identification of training needs and career development. For these two themes a majority of countries in the dataset first show an increase when comparing the 1999/2000 data with the 2004/05 data, and then a decrease in the 2009/10 dataset. Given the nature of training and career development (long-term HRM investment related) this might be a direct result of the global financial crisis (GFC) that started in 2008. Participating organizations might have been confronted with economic crisis and forced to focus on short-term issues and decrease long-term efforts such as employee training and development. Unfortunately we do not have additional data to support these findings, and additional research is required. These findings might also have different causes, given the fact that the impact of external developments such as the GFC might take more than two years to observe in the empirical data (lag effects).

### So What Do All These Empirical Data Tell Us?

Looking first at the case study data, these suggest that Guest and Conway's (1998) observed shift from content to process attention, from appraisal by the direct supervisor to joint evaluation (including employees' direct supervisors, peers, and clients), from top-down evaluation to 360-degree feedback mechanisms, from a strong emphasis on performance-related pay to a strong focus on employee development, and from performance management being the property of the HRM department to being the property of line management, is still relevant and being confirmed by our case studies in contemporary multinational companies. However, based on the results, we observe an extension of Guest and Conway's (1998) observations within the MNCs:

- First, there is a global tendency to use performance management to support corporate values and to align the corporate goals with individual employee goals. Performance management has become a vehicle for culture management in many multinational companies, which may explain why we are witnessing a great degree of similarity in this area of practice.
- Second, there is an increasing tendency among MNCs to apply performance management for identifying, developing, and rewarding talent (high potential). Performance management is often integrated with or part of the talent management programmes of an organization.
- Third, performance management is used for leadership development; for example, reflected in performance management as part of succession planning or the search and development of the future leaders of an organization.
- Fourth, there is increasing attention to applying performance management to distinguish good performers and bad performers.
- Fifth, the criteria used in the evaluation are linked to past performance, present performance, and potential performance, the last of these often measured through competency frameworks. Competency management and performance management often go hand in hand in the MNCs in this study.

Table 9.4 Percentage of firms where the appraisal system is used to determine the following outcomes

	1999/2000			2004/05			2009/10					
	Training	HR planning	Career	Pay	Training	HR planning	Career	Pay	Training	HR planning	Career	Pay
Austria	72.7	44.8	45.3	43.0	89.3	52.8	89.6	73.7	82.0	54.8	78.9	76.3
Belgium	87.6	68.2	63.2	66.7	92.5	52.7	87.2	78.5	83.3	35.8	78.8	70.8
Bulgaria	34.9	31.1	23.6	53.8	89.7	70.0	64.5	94.6	71.3	45.5	54.3	88.1
Czech Republic	66.1	63.7	53.2	71.0	97.0	78.1	93.9	77.8	89.6	78.3	86.4	76.6
Denmark	85.1	46.8	51.3	41.5	85.6	54.5	70.6	61.9	90.2	62.3	88.4	77.2
Finland	83.1	23.7	29.9	46.9	85.5	65.4	68.6	83.7	69.4	60.4	53.1	82.2
France	94.4	74.9	74.9	61.6	97.6	57.0	93.5	65.8	87.0	79.5	89.2	65.6
Germany	61.5	58.6	43.1	58.2	85.5	45.8	86.6	72.6	88.1	40.4	78.8	67.9
Greece	69.2	83.2	66.4	69.2	87.4	72.4	83.0	81.6	83.4	59.9	88.2	69.5
Netherlands	72.8	49.8	54.9	54.5	53.4	29.3	56.1	63.8	73.3	37.1	72.4	66.4
Norway	98.2	48.4	53.7	41.5	79.3	50.6	66.1	86.5	88.1	49.1	76.4	84.7
United Kingdom	72.7	44.8	45.3	43.0	89.3	52.8	89.6	73.7	84.6	53.3	73.7	55.8

- Sixth, performance management and 360-degree feedback mechanisms are often quite time-consuming and expensive. However, when applied, the outcomes can serve as input for benchmarks and scorecards reflecting the relative position of an individual employee, a specific department, a business unit, and/or an organization.
- Finally, performance management and new technology in terms of hardware, software, and networks are interwoven. There is a strong tendency towards corporate standardization and central control using new technology (for example, embedded in information and communication technology systems and used through shared service centres) affecting how performance is managed in MNCs.

In summary, performance management has developed further since Guest and Conway's (1998) observations, with a stronger strategic linkage to areas of culture management, talent management, leadership development, competency management, and technology.

The results of the Cranet survey support some of these case study findings, as well as expanding our understanding of how appraisal systems are implemented in multiple countries. First, the data show that organizations in different countries might be increasing or decreasing the use of appraisal systems, with little consistency in the pattern observed. Manual staff, however, remain least likely to be included in an appraisal system.

Second, the data show an increase in appraisal participation by people other than the direct supervisor. Other evaluators can be next-level managers, the individual employees themselves, and subordinates, although the use of subordinates in the evaluation system remains least used. These results are in line with the case study findings, supporting the notion that including multiple raters in the appraisal system increases the validity and reliability of the actual evaluation (Den Hartog et al., 2004). For example, including the next-level manager or other raters in the appraisal process potentially helps to eliminate bias that may occur if only the direct supervisor is involved.

The reported Cranet data focus on the 'use' or 'application' of performance appraisal. Wright et al. (2008) present survey data on appraisal practices that highlight both the use of a practice and its effectiveness. Their findings suggest that simply reporting that a practice is present is not the full picture: the effectiveness of these practices is regularly rated low, indicating the importance of the actual implementation process.

Finally, the survey data show an increase in the application of appraisal systems aimed at determining the training and development needs of employees, career development, and pay determination. It is interesting to note that training and development purposes have the highest scores. In other words, employee development is one of the most important elements of contemporary performance management. The GFC that started in 2008, however, might have affected the training and career component negatively in 2009/10 as a result of, for example, cost-cutting and 'short-termism' (focus on short-term actions that lead to short-term results). This does not hold for all countries in the dataset, and not for the components planning and pay.

## Summary Conclusions

The Global HR Research Alliance case study data and the Cranet survey data show some interesting findings with respect to performance management in contemporary organizations. First, performance management is linked to or embedded in relevant areas of

interest in practice such as culture management, talent management, leadership development (succession planning), competency management, and new technology.

Second, appraisal systems continue to be popular, in particular for more senior employee grades. There is also a shift towards 360-degree feedback systems with an emphasis on self-evaluation and feedback from next-level supervisors. The appraisal system is in place to determine career development and pay; however, most emphasis is on training and development.

Third, although there are few differences between regions in the case studies (probably because of their multinational nature), the Cranet data did highlight both some general patterns of appraisal system features that were common across countries, but also differences between countries. In particular, the use of appraisal systems in general showed a mix of some countries increasing whilst others are decreasing their use. The data taken together may be considered indicative of increasing standardization of performance management practices across the globe. If we look in more detail, however, there are contextual differences that may affect performance management in different countries. The main driver of these differences between countries appears to be associated to cultural differences reflected in variance in leadership, communication, and self-evaluation. In other words, the leadership styles, the nature of communication and information sharing, and the role of the individual in the appraisal procedure, differ between countries when looking through the lens of performance management.

With these conclusions, we enter into the debate around the extent to which HRM practices can be standardized across different countries, or whether the national context has an overriding effect. Guest and Hoque (1996: 50) start with the premise that ‘even in an increasingly global economy, where transnationals compete in similar markets, we find persistent variations in the approaches to the management of human resources’. Indeed there is substantial evidence for this statement. For example, national-level characteristics (in this case, levels of spending on education and some aspects of national culture) have been found to affect the link between training and development practices and firm performance (Nikandrou et al., 2008). Equally, Parry et al. (2008) found evidence of certain HRM practices being more common within a specific type of market economy: firms in liberal market economies are more likely to use sophisticated selection techniques and have diversity programmes, whilst those in coordinated market economies are more likely to have trade union recognition and collective bargaining rights in place. This said, there is also some support for a more universalistic approach: Gooderham et al. (2008) argue that there is evidence of a link between calculative HRM practices (for example, individual performance-related pay and individual bonuses) and firm performance in multiple countries, but that these practices need to be embedded at organization level in a firm’s strategic processes. However, none of the studies reported here are specific to performance management practices, about which recent research is scarcer.

Perhaps the debate can be clarified somewhat if we consider the type of organization we are looking at. Focusing on the difference between MNCs and domestic firms, there is clear evidence that these two types of operations adopt different approaches to HRM within the same country setting (Farndale et al., 2008). This gives some support to our findings that, in the case of performance management, it may well be that multinational firms are managing to implement standardized practices in many different country contexts, whilst the activities of domestic firms are more country-specific. The distinction

between the 'best practices' and the 'best fit' schools of thought in the HRM field (Boxall & Purcell, 2008) can be applied to this MNC debate. Brewster et al. (2000) make a distinction between two paradigms: the universalist and the contextual. They argue that the universalist paradigm assumes the existence of best practices in HRM:

careful and extensive systems for recruitment, selection and training; formal systems for sharing information with the individuals who work in the organization; clear job design; local level participation procedures; monitoring of attitudes; performance appraisals; properly functioning grievance procedures; and promotion and compensation schemes that provide for the recognition and financial rewarding of high performing members of the workforce. (Brewster et al., 2000: 11)

And that these can be successfully applied by multinational companies worldwide. In Europe, in particular, the contextual paradigm is more widespread (Brewster et al., 2000), building on the notion that there might be some general best principles in HRM (Boxall & Purcell, 2008), but the organizational context in the end determines the nature of the specific human resource practice. An illustration of the contextual paradigm in an international HRM perspective is the typical recruitment and selection of employees in much of Southern Europe through networks of family and friends (Brewster et al., 2000). The debate may then shift to the level of implementation: the empirical field is still lacking in research which explores the extent to which a global HRM policy from headquarters is implemented as intended in all the different subsidiaries, or whether differences at national and individual manager levels mean that the practice is implemented substantially differently in each location. We explore this point further below.

Finally, even if we start to look at an even broader range of countries than presented here, we start to reach some similar conclusions. Performance management in the United States of America (USA) is based strongly on the individualist culture and focuses primarily on linking individual performance to rewards. Performance management processes are also seen as organizational tools to avoid legal problems such as those covered by equal opportunities legislation (Pulakos et al., 2008). This US model of performance management was adopted in Mexico in the 1970s; however, a different culture and a lack of training of managers to carry out the systems, led to little progress in the development of sophisticated systems: the problems of implementing systems means they remain in an 'infancy' stage of progress (Davilla & Elvira, 2008). Similar slow progress is being seen in Turkey: there is evidence of wide use of performance management systems, but also evidence of these systems still being highly ineffective (Aycaan & Yavuz, 2008).

Looking to Asia, in India there is substantial variation in the degree of sophistication of performance management practices between companies. The notion of performance evaluation is also difficult in this culture where the line manager often takes on a paternalistic role, raising issues of how objective feedback can be (Sharma et al., 2008). Finally, looking at China, this country has a long history of performance management, initially being a mechanism for monitoring attendance and skills. It has been harder to introduce a more Western approach to evaluation due to the values ascribed to age and seniority in this context (Cooke, 2008); nevertheless, there is evidence of merit-based performance appraisal systems emerging here too. In summary, this broader global picture still points to a certain degree of convergence in performance management practices, as concluded also by DeNisi et al. (2008: 258): 'as a country becomes more economically



mature, [performance management systems] tend to move more closely towards the type of systems we find in the US and Western Europe'. In addition we have identified patterns of decrease related to PM, training and careers that are potentially the result of the global financial crisis, highlighting the potential impact of external economic factors on the shaping of PM in organizations.

### **Implications for Future Research**

The findings in this chapter provide input for a future research agenda in performance management. First, there is little attention currently being paid to the enactment of performance management by line management, as suggested by Den Hartog et al. (2004). An exception is the study by Farndale and Kelliher (2013), which explores the important role that line managers play in creating employee experiences of the appraisal process. Other scholars emphasize the relevance of strategy implementation for creating organizational success (Becker & Huselid, 2006). One of the issues related to enactment is the role of the direct supervisor in the performance management process. HRM practices including internal promotion opportunities, employee development opportunities and pay increases are often closely linked to performance appraisal with a central role of the direct supervisor of the employee being evaluated. In general, the role of the front-line manager is neglected in HRM, and this is also the case in performance management.

Second, justice literature shows that part of the performance management success is a result of employee involvement in the design of a performance management system (Colquitt et al., 2001). Future research could focus on other potential critical success factors. These factors might include top management support, good communication, appropriate training, and the right IT infrastructure in terms of hardware and software available to support the performance management system.

Third, several authors have suggested that performance management and HRM show several commonalities (Bach, 2000; Dewettinck, 2008), including the alignment of individual practices (human resource practices or performance management practices) into coherent and consistent bundles. Future research could focus on ideal performance management bundles targeted at achieving internal fit within these bundles, and the linkage between the bundle as a whole to the organizational context (organizational fit).

Fourth, more attention could be paid in future research to the role of technology in controlling and standardizing performance management systems. Management information systems (MIS) and HR information systems (HRIS) play a crucial role in the underlying performance management processes, for example with respect to data collection, storage, access, analysis, and reporting. The development of the promising field of HRM analytics and Big Data approaches using advanced computer programs for analysing performance management data across a range of years is interesting and relevant.

Finally, our empirical findings showed very little variance in general between multinationals in their performance management practices, irrespective of their country of origin. It is possible that these MNCs pay more attention to their own organizational culture than to the impact of national cultures of local subsidiary operations. Future comparative research should therefore make a distinction between performance management practices in MNCs and performance management practices in domestic companies, the latter potentially being more subject to the national context than the MNCs

which impose their own organizational culture across national borders. The increased attention for PM in public sector organizations also opens a whole new range of research areas both local and global. Large international governmental organizations such as the United Nations and European Union have shown an increased interest in performance management practices in recent years, partly caused by the global financial crisis (Boselie et al., 2013).

### **Implications for Practitioners and Practice**

Contemporary performance management is a potentially powerful instrument that can be used to help solve organizational challenges including strategy implementation, talent management (attraction and retention of valuable employees), leadership development, and culture management aimed at creating a high-performance culture based on strong corporate values. Performance management has become a vehicle for culture management in many multinational companies by emphasizing the mission, goals, and values of the corporation in the competencies and criteria which are being used in the performance appraisal and management process. In this respect it is important to note that performance management includes (or should) all employees (clerical workers, manual workers, management, and professionals), and that it is a way to set organizational goals linked to individual goals.

It is also worthwhile noting that the alignment of individual practices (for example, appraisal, development, promotion, career development, and reward) into a coherent and consistent performance management system will be more likely to be successful than the application of single performance management practices without linking these together. A coherent and aligned performance management system will unequivocally send consistent messages to all employees concerning relevant and effective behaviours for realizing the stated goals at every level in the organization.

Some large and leading companies have recently decided to abandon (classic) performance appraisal and performance management systems, replacing them with a more continuous system of providing feedback and stimulating learning. This development will no doubt in the near future become more prominent due to the availability of digital data (HRM-Analytics) on a wide range of performance indicators on an almost continuous base.

Finally, it may be important to take into account international cultural differences (Brewster et al., 2004) that might affect the leadership style, the type of communication, the nature of rewards, and the use of self-evaluation in the performance management approach. The differences between Japan (large power distance, strong hierarchy) and Sweden (small power distance, emphasis upon employee empowerment and participation) are illustrative in this respect and determine the (im)possibilities for feedback vis-à-vis leaders and the involvement of employees in that process. However, due to the influence of so-called best practices, as being promoted by the large MNCs and management consultancy firms, we expect that for the years to come performance management will continue in the direction of increased inclusion of subordinates in the appraisal system. Mobilizing subordinates will then act as an important device for ensuring managers receive feedback on the different aspects of their leadership behaviour, which is indispensable for facilitating their learning process. In this respect it is interesting to note that line management's

focus on and involvement with employee development is one of the most important elements of contemporary performance appraisal and performance management.

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