How context impacts the management of performance

by

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Abstract

This paper reports a recent investigation into performance management practices within 14 large international organisations. Analysis of interview data reveals four groupings, which may be seen to be influenced by context. We adapt the earlier work of Murphy and DeNisi (2008) to capture the differences in terms of contextual, organisational and HRM factors which serve to shape the performance management process including its outcomes and consequences. Context emerges as a key factor in shaping performance management practices in the organisations under consideration here, but the impact of the more controllable organisational and HRM factors cannot be ignored and we suggest this be an area for future on-going research.

Key words:
Performance management, performance appraisal, HRM, context.
How context impacts the management of performance

‘The literature on performance management is eclectic, diffuse and confused. The definitive “general theory” of performance management remains elusive, and is unlikely ever to emerge. Important contributions can be found in fields as diverse as strategy, organisational behaviour, operations management, industrial economics and accountancy.’ --(Smith and Goddard, 2002, p.253). Commentators such as Smith and Goddard (2002) and Thorpe and Holloway (2008) have emphasised the complexity and the multi-disciplinary nature of the field of managing performance. In this paper we are concerned with the processes that would be recognised by most multinational enterprises as the (usually yearly) cycle that has its origins in performance appraisal mechanisms, but is now often depicted as having ‘grown up’ beyond that to become performance management.

Sparrow and Hiltrop (1994) suggest that within the sphere of human resource management policy and practice, performance management is one of the key areas necessary to implement successful global HRM. This is due to the fact that it is the HRM sub-system that links corporate goals with rewards and connects firm performance with employee performance and development. Despite its role as one of the strategic and business performance-enhancing elements of a bundle of human research management practices (Delery and Doty, 1996; Takeuchi, Lepak, Wang, and Takeuchi, 2007), performance management still remains an area where research has revealed inconsistent results concerning effectiveness (Biron, Farndale and Paauwe, 2011). According to Bach (2000) this is in part due to the fact that the terms appraisal and performance management have tended to be used interchangeably; in this paper we suggest that this is also due to the fact that the influence of context is often ignored or underestimated.

Performance appraisal, according to Erdogan (2002) and Fletcher (2001) is the basic process involving a line manager completing an annual report on a subordinate’s performance and discussing it with the employee in an appraisal interview. It has its origins in the first formal monitoring systems drawing on the work of Frederick Taylor and others who emphasised the importance of defining standards for performance. Such approaches were pioneered in the United States of America, and thus the origins of performance management should be recognised as culturally embedded in the strongly individualist nature of the US culture (Pulakos et al, 2008).

Writing in 1992, Bretz, Malkovich and Read reported a major focus in the rhetoric of the practitioner literature of the day on transforming performance appraisal from an event to a process. Advice for how to do this, they say, is ‘typically discussed under the rubric of “performance management”.’ (Bretz et al 1992, p 329). Performance management has been defined as a variety of HRM activities through which organisations seek to assess and develop their total competence, enhance organisational performance and distribute rewards (DeNisi 2000; Fletcher 2001; Fletcher and Williams 1996). It is presented, in theory at least, as a strategic and integrated process, incorporating goal setting, performance appraisal and development into a unified and coherent framework with the specific aim of aligning individual and group performance goals with the organisation’s wider objectives (Armstrong & Baron, 1998; DiNisi, 2000; Den Hartog, Boselie & Paauwe, 2004; Williams 2002). Boselie, Farndale and Paauwe (2011), suggest that performance management has developed since Guest & Conway’s (1998) observations [what were they?] with a stronger strategic linkage to areas of culture management, talent management, leadership development, competency management and technology.

As a result, performance management is often portrayed as a microcosm of HRM, transferring the broader debate around the added value of human resource management to the performance management arena (Bach, 2000; Den Hartog et al., 2004: Dewittinck, 2008). In such a form performance management has been ‘sold’ to employees in terms of its ability to serve their individual needs for development and self-actualisation (Festing, Knappert, Dowling, and Engle (2010), as well as delivering the organisational requirements which Claus and Briscoe (2009, page 176) describe as being organisational competitiveness and control.
In this paper we are concerned primarily with performance management, but also the appraisal element of the more holistic process as described by DeNisi and Pritchard, 2006:

‘Performance management is a broad set of activities aimed at improving employee performance. Although performance appraisal information provides input for the performance management process, performance management focuses on ways to motivate employees to improve their performance.’

(DeNisi and Pritchard, 2006, p.254)

We seek to develop further the theory of how context impacts performance management practice. We do so by reporting on a recent study into performance management across fourteen large ‘household name’ organisations. What emerges is a picture of different practices clustering into four distinct groupings. We suggest that context, an often neglected factor when considering performance management implementation, may be the key to understanding the differences. We consider the literature of comparative HRM to highlight elements relevant to performance management practice and combine this with the work of Murphy and DeNisi (2008, p92) which both provides a framework for the analysis of performance management in context as well as establishing an agenda for future research to produce:

‘a generalisable taxonomy of situational factors in order to determine exactly why a certain type of system is more successful in one country than in another, and whether there are lessons to be learned from cross-country comparisons’.

This paper makes two contributions: firstly it demonstrates an application of the framework of Murphy and DeNisi (2008) to the empirical evidence from our research. The findings also highlight in more detail how contextual factors impact performance management practice, thus supporting the development of a taxonomy as Murphy and DeNisi (2008) have called for.

Comparative Literatures and Performance Management

It seems that a kind of assumed ‘best practice’ system has emerged in relation to performance management (Brewster, 1995). According to (Rose 1991) this may be described as ‘false universalism’ with international organisations striving to ‘mimic’ western best practice. The purposes and practices of appraisal derive from and are considered effective in the USA, but may not be entirely transferable (Chiang and Birtch, 2010). Although management practices generally are the subject of considerable intercultural empirical research, the area of performance management remains neglected (Fletcher and Perry, 2001; Milliman, Nason, Zhu and De Cieri 2002). However too much reliance on national culture alone is an oversimplification that fails to recognise that: ‘a range of organizational, institutional and economic factors may also influence appraisal’ (Chiang and Birtch, 2010 pp. 1387)

Certainly, from its US origins, performance management appears to have been embraced by large multinationals around the world to become a common element of HRM practice. Bai and Bennington (2005; p 276) suggest that the appraisal element of performance management remains a key tenet of the process and one that also underpins notions of organisational improvement in western countries. However, they note that its emphasis may vary, although the purposes generally include individual development, legal risk management, compensation, promotion and two-way communication (see also Nakane, 1972; Ouchi, 1982; Staw,1980).

Moving beyond western countries, Milliman et al (2002) acknowledge the influence of culture but suggest that there appears to be a convergence in this area. Festing et al, (2010) suggest that in the case of global performance management many multi-national enterprises (MNEs) seek, to varying degrees, to standardise their systems (see also Björkman, Barner-Rasmussen, Ehnrooth, and Mäkelä, 2009; Sparrow, Brewster and Harris, 2004), but also emphasise the literature which reveals local customs and specifications concerning performance appraisal and performance management cannot be neglected (see also Cascio, 2006; Festing and Barzantny, 2008).
Context and performance management

DeNisi and Pritchard (2006) have commended the trend in recent literature on appraisals, which has focused on the contextual factors. Claus and Briscoe (2009) have also highlighted the fact that no one model provides a comprehensive view as to how the design, development and implementation of performance management across borders works in practice, whether from the perspective of an MNC or the application of the western notion of performance management in a non-western culture. Similarly Varma, Budhwar and DeNisi (2008) highlight the lack of reliable literature detailing the kind of HRM and performance management systems relevant to firms operating in different national contexts. However, their book makes a useful contribution, including a framework by Murphy and DeNisi (2008). In their work Murphy and DeNisi (2008) advance two models to capture their framework. In the first they deal with performance appraisal and the contextual factors that influence appraisal decisions at various levels of analysis, in the second (which they describe as a model of performance management) they begin with the performance feedback which results from the appraisal and link this to resulting performance interventions as well as considering cognitive and motivational factors at the individual level.

The focus of this paper is upon the more ‘holistic’ larger construct of performance management rather than only the appraisal component of the process. However we have found the initial model of Murphy and DeNisi (2008) around the appraisal process a useful starting place, see figure 1).

<<Figure 1 here: Murphy and DeNisi’s Model of Performance Management in Context>>

In brief, the model of Murphy and DeNisi (2008) includes Macro or Distal factors that operate at the level of the nation or region, but can still influence the appraisal process. These factors are best thought of as fixed antecedents that act as parameters for the actions an organisation might take. Given their macro nature, they also include organisational factors such as firm performance and strategy. Other contextual ‘distal’ factors include the legal framework of the country of operation, for example the degree of protection that is provided to employees. For example, in the case of many Western European countries these two Americans argue that the
degree of protection is so strong that it is virtually impossible to use appraisal as a basis for dismissal. Other nations have laws which allow discrimination against some groups, but not others (on the grounds of race or gender). Finally technology can influence the type of performance management information that is collected and how it is used. The last of the distal factors is norms of behaviour at country, industry and organisation level.

**Micro or Proximal factors**, according to Murphy and DeNisi (2008), concern the purpose of performance management as well as organisational norms and the acceptance of the process. They suggest that in many organisations the purpose is primarily for decision making (about rewards or sanctions for employees), whilst in others the aim is rather more around the associated development practices. Although some organisations purport to do both, this is difficult to achieve in practice (Rotchford, 2002). The USA is cited as an example where decision making is the most common purpose. Depending on the purpose adopted within an organisation, this positions the manager as either judge or coach. Murphy and DeNisi (2008) suggest that in the ‘judge’ category a concern with measuring targets is more likely to be the norm, whereas in ‘coach’ mode the emphasis is rather more upon finding ways to motivate employees. Other proximal factors include the organisational norms such as whether it is acceptable to rate anyone as ‘not satisfactory’ and the degree of acceptance of the appraisal process, by both employees as well as managers. If employees do not accept the appraisal system as legitimate then they are less likely to see the ratings it generates as fair (see Folger, Konovsky and Cropanzano, 1992) and rather than try to improve their performance will instead resent low ratings and reduce their efforts at work. Having an awareness of the employees’ acceptance, or not, of the process is also likely to influence raters’ willingness to give low ratings.

**Intervening factors** outlined by Murphy and DeNisi (2008) exist as mediator variables, that is to say, the factors listed as proximal and distal impact on the performance management process via these intervening factors. These intervening factors include the nature of the rater-ratee relationship, the culture and norms which affect the processes through their effects on factors such as the frequency of appraisal, and the reward structures in place. These in turn will have a strong relationship with the ratings that are given as part of the PM process.

A final set of factors, **judgment & distortion factors** distinguish between ratings and judgements. The first is a public statement of that judgement or evaluation which is made for the record and is shared with others. However there is a set of research (Murphy and Cleveland, 1995; Longenecker, Sims and Gioia, 1987) that suggests that the rating individuals receive do not always correspond with the rater’s private judgements about the performance levels of individual subordinates. Ratings may be distorted from judgements as a result of the reward system within an organisation or as a result of the consequences of appraisal (Murphy and Cleveland, 1995).

**Performance management in context**

The work of Murphy and DeNisi(2008) provided a backdrop for us as we designed the data collection. We believed the case for a contextual approach to performance management to be persuasive and although our study was not around specific country or cross-country comparisons, it did provide us with an opportunity to trial the model of Murphy and DeNisi against the performance management policies and practices in a number of high-technology, internationally operating businesses.

Our assumptions at the outset of the research were that the factors impacting performance management practice would include:

- Organisational context (geographical and also sector and size)
- Organisational ‘history’ in the sense of private/public ownership
- Espoused and actual purpose of performance management
- Ratings focus and whether anything actually happens as a result of the rating
- Constraints/enablers including line management capability and degree of trade union power and influence
METHODOLOGY

Data collection was via a semi-structured interview carried out within fourteen large international organisations. The interviewees were HRM professionals, either senior HRM professionals (or HR director) or the performance management ‘owner’ within the organisation. The organisations include six from telecommunications; (BT, Deutsche Telecom, France Telecom, Orange, T Mobile, Virgin Media; three from the utilities sector, (Centrica, EDF, National Grid); three professional service firms (Deloittes, KPMG and PWC) and one each from I.T (Logica) and airlines (BA). As well as contextual information around the demographics of the workforce the study aimed to collect information around the purpose of the performance management process and perceived links to organisational performance. Data was also collected around the main phases of performance management; planning, managing, reviewing and rewarding; as articulated by Armstrong and Baron (1998) and others within the practitioner literature. The themes covered therefore included objective setting, links to strategy and development planning as well as rewards and sanctions. Whilst on site the interviewers reviewed company performance management literature and examined the online system and competency framework, and development planning and career management systems (where these existed).

FINDINGS

Performance Management was regarded as a key business process by all of the organisations interviewed. The traditional phases of performance management i.e. an annual cycle of objective setting, performance development and performance review (with rating attached) was in use in various guises in all the participating organisations (as articulated by Armstrong and Baron 1998). Variations in practice were most likely to be seen in ‘who’ the process was applied to (see next section) and in the details of wording and performance expectations. Only one organisation indicated that they weren’t using competencies or behaviours as part of their process. There were a range of descriptions as to the purpose of the process, but maximising performance and growth was the most common response.

In terms of the link to business performance none of the organisations interviewed had in place a mechanism to quantify the performance management contribution to these objectives, although two reported that they were currently looking for ways of doing this more effectively.

“We believe it works”

“We have no metrics to identify business benefit of PM. We are currently discussing this with [consultants] to see if they can be identified and tracked – so far we’ve found little evidence that this can be done in practice”

“In fact we are struggling with hard metrics that will prove the business link”

Two organisations indicated that they were using/ changing their process to support a required culture change and only one indicated that they had a focus on managing exits.

“Our main focus is on maximising performance, which has meant taking a longer term view of what skills and capability, whether to buy or develop depending on the clarity of the top team and being more focussed on business results at the individual making it work level”

“It is about making individuals more responsible for their own performance and managers for the team, it is about accountability”.

Specific findings by sector

A number of these organisations have separate performance management processes for their call centre operation and where this was reported it was recorded and analysed separately. Once the analysis was underway it became apparent that it was possible to discern four distinct clusters of organisations which could be interpreted roughly along sectoral lines (although not all organisations belonged exactly to their anticipated sectoral groupings).
The four groupings were:

- Professional services
- Call centres
- Telecommunications
- Utilities

**Professional Services** The first category consists of a group from the professional services sector representing both audit and consultancy. Here the dominant national culture was UK or US with performance management an accepted part of the managing and development process, reinforced by a meritocratic culture (with the possible exception of some of the support areas). Here the interviewees described a wide pyramid, with many young employees joining at the bottom with the mutual expectation that a large number would leave in the process of gaining qualification or soon after, and only a few would remain with the organisation ‘for the duration’. These organisations also have a clear framework (usually referred to as ‘billing’) for measuring professional employee’s contribution to the business’s financial results. In the performance-culture driven Professional Services arena, talent management was largely through sponsorship and mentoring by a senior manager/partner: an individual with ‘talent’ (or someone identified, usually through informal personal contacts, as having potential for higher level work) was encouraged and given opportunities to develop. This then enhanced their ability to gain reward and promotion.

“They may simply keep being expected to do more – they tend to get placed on high profile clients and possibly ‘challenging’ roles or projects. However this is not overly formalised and it relies on the partner taking on and supporting those with obvious high potential”

Within Call centre operations - a similar metric driven approach was apparent. In most cases the participating organisations reported having either a different performance management process or an obviously different ‘performance culture’ with their Call centres and had clear and simple metrics within these environment upon which to judge performance.

This clarity around what makes for effective performance was less prevalent in the Telecoms and Utility+ groupings. Both Call Centre and Professional Service organisations had a culture where it was ‘OK to be ruthless’

*We have a very strong culture. People don’t join us if they’re not comfortable with that*’ (Professional service organisation)

*‘We recruit to very clear expectations & some will decide it’s just not for them’*. (Professional service organisation)

*“In call centres we are much more geared to monitoring performance weekly and will ‘exit’ people who don’t meet targets. We have much higher turnover in this part of the business”* (Call centre operation)

Both Call Centre and Professional Service organisations appeared to rely on their culture as much as the process to drive performance management.

**Telecoms** The largest grouping of organisations in the study was derived from the telecommunications sector. There were some commonalities within this grouping with respondents reporting an awareness of the need to improve margins and innovate given that the profitability from traditional fixed line and mobile businesses is decreasing. There were also some shared organisational factors associated with origins in state ownership, either of the organisation itself or of the staff they had recruited, and the impact of this upon an organisational culture which was to a large extent inherited from the former state-owned enterprise. Here the typical demographic profile (apart from call centres and more innovative areas) was of a long-serving workforce:

*“We have a legacy of civil servants in our traditional areas with a high average age. As a result we have a key HR/business need to get in younger fresher people and renew our genes……”*
Although all the organisations were international in operation, there were differences in their country of origin. The impact of national context, both in terms of culture and legal framework, was prevalent here. For example, differences in labour law meant that:

“In some countries there are forced distributions and in others not – this is partly cultural. In the UK we had some forced distributions prior to the economic downturn but currently we don’t feel that they need to use full forced distribution at the moment”.

Utilities plus Here the pattern is similar to that of the Telecoms grouping, but lacks the shared focus of that group. Again different national cultures play a role, but the organisations all share a legacy of having been state owned and having a unionised workforce. Employment is typically longer-term with many employees being retrained when their expertise became redundant (although there was evidence that this may vary with location).

“In France we have a higher turnover of staff and a younger workforce, but walk into our UK office and what strikes you is a sea of grey hair”.

From the data collected from this grouping the performance culture was less well developed than in both the professional service/call centre grouping and the telecommunications group. Differentiation of individual performance seemed particularly problematical, for example bonuses might be team based and so were likely to be paid to an individual who had not received a ‘good’ performance rating.

In these less performance-driven cultures, one of the barriers to identifying poor performers appears to be persuading managers to have the ‘difficult’ conversation and to rate interviewees according to their real performance. In this context it was reported that, given the ‘job for life’ culture, these organisations were more likely to use redeployment and regular restructuring (especially during the recession) as the most usual resolution to underperformance:

“During the recession PM has changed and become less focussed on the bottom line than it was when we were in growth. Recession gives us the opportunity to sort the wheat from the chaff”

“People are not hanging on to their jobs; they are waiting for severance and the associated payments”
DISCUSSION

Analysis of interview data reveals that the organisations fall into four groups as summarised in table 1 below.

**Table 1. Four groupings emerging from analysis of the interviews**

<table>
<thead>
<tr>
<th>Company cluster</th>
<th>Contextual factors:</th>
<th>Organisational variables:</th>
<th>PM outcomes and consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Professional services</strong></td>
<td>Partnership firms</td>
<td>Espoused development focus, but in reality achieving financial targets dominates. Meritocracy; people chose to leave before it becomes an issue ; forced distribution</td>
<td>Meritocracy, people accept pyramid</td>
</tr>
<tr>
<td>Deloitte</td>
<td>No-unionised</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KPMG</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PWC</td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Call Centres</strong></td>
<td>Separate operation in many of participating organisations, although operating within same macro context. Often a different PM process or the same but within different performance ‘culture’</td>
<td>Metric based providing almost instant feedback on performance; younger workforce; expectation of high staff turnover;</td>
<td></td>
</tr>
<tr>
<td><strong>Telecoms</strong></td>
<td>Many ex-state-owned; shared pressure on traditional revenue areas; different geographical and national cultures; differing degrees of union power</td>
<td>Typically long serving, ex-state or partial state ownership, varying unionisation</td>
<td>Aspiring to measure and reward contribution; local labour law shapes practice</td>
</tr>
<tr>
<td>BT, Deutsch Telecom, France Telecom, Orange, T-Mobile and Virgin Telecom</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Utilities plus</strong></td>
<td>Ex-State owned, long serving staff, unionised</td>
<td>‘Grey-hair’, ‘job for life’ mind set, unionised and long-serving</td>
<td></td>
</tr>
<tr>
<td>BA; Centrica; EFT; National Grid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Logica?</td>
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</table>
Professional Service firms and Call Centres appear to have metric based, uncontested approaches to the management of performance. This is an interesting finding as it suggests that something about their context facilitates a simpler more accepted approach to performance management than in the other organisational clusters. Moving on in terms of complexity, the next cluster includes the Telecoms organisations for whom practice is somewhat mixed. None of these organisations appear to have such a ‘clear cut’ approach to the management of performance and as a result the processes are more complicated and ‘over-engineered’. The situation is more complicated still in those organisations that are not of ‘Anglo-Saxon’ origin, given the added variable of greater union input. Finally in terms of complexity and possibly effectiveness of the process are those organisations in the Utilities+ grouping with their legacy of state ownership and a job for life. Interestingly in both Telecommunications and Utility+ organisations there was evidence of a simpler process, but only under the ‘separate’ context of the Call Centres.

We attempted to interpret the outcomes from the study using the Murphy and DeNisi’s (2008) model. Although the model provided a clear template for organising our findings, in the light of company practice we felt that some amendments were necessary. The findings from this study have allowed us to revise the model along the lines presented in figure 2 below.

**Figure 2**

Revised model of PM PROCESS in Context

**CONTEXT**
Culture, legal, history, Sector unionisation

**ORGANISATION**
Purpose/ principles, Norms, Acceptance

**HRM ENABLERS**
Perception of process, Line manager capability, Design choices

**DISTORTION FACTORS**

**PM PROCESS**
Rating distribution, reward, talent & consequences of process

**ONGOING PM INTERVENTIONS**

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Our figure 2 adapts the initial appraisal model proposed by Murphy and DeNisi (2008) (figure 1) and also includes elements of their second model which focused on the performance management process. This integrated model is better able to capture the elements of Performance Management, both in theory and in the findings from this study. It includes contextual factors, akin to those they describe as ‘Macro or distal’. The study evidences how the context of the country of operation is a determining factor in shaping the legal frameworks within which performance management processes were operating. Examining the institutional environment is important for any analysis of implementation of performance management systems.
For example, from the telecommunication grouping we find evidence of the complexities of performance management in certain Western European countries as opposed to the UK, as a result of the greater level of employee protection.

“In some countries we have more freedom, here we are limited and have just negotiated to introduce the performance and potential review process for more junior staff. However in order to do so it must have a development and/or talent focus.” (Telecommunications company)

As well as geography and national culture there were other key contextual factors including business sector and associated norms of behaviour as well as history of state ownership.

“Have lots of excCivil servants – the late 70s and 80s they stayed in the company as we had good evolution for them. We trained them with the prized competencies we needed and so on, they have evolved with us and they stayed, so that is why turnover is very low.” (Telecommunications company)

Instead of the Micro or Proximal factors of the model depicted in figure 1, we adopt here the terminology of Organisational factors for the second element. Here we follow the earlier work of Murphy and DeNisi (2008) who interpret the purpose of the approach as a proximal factor. We argue that the purpose behind the process is one of the key design choices made by an organisation in relation to performance management, a choice which is primarily made within an HRM Centre of Expertise. We suggest the decision about purpose shapes the character of the process. So whether it is primarily about decision making (usually driven by reward, but also promotion) or primarily around development influences the nature of the system and the relevant processes.

Even within the ‘more performance-driven’ professional service environment the espoused focus of the process was not necessarily couched in hard terms for example:

“It’s all about development”

However there was also the report that line managers in the professional service companies are well aware that there is a separate process for rewarding people based on their billable work and try to ensure that the ratings reflect a similar result, even if the criteria on which they are meant to be judging the performance go much wider than just ‘billables’…

Elsewhere the purpose was flexed according to organisations requirements for example

“It’s all about fairness and transparency and we have a new social performance indicators including working conditions.” Telecommunications company.

Organisational factors also include norms of behaviour. Organisational behaviour is partly related to rational economic models, but is also shaped by institutional factors (DiMaggio and Powell 1991; Greenwood and Hinings 1996; Meyer and Rowan 1977; Scott 2002). From a neo-institutionalism perspective, performance appraisal systems – like other formal organisational structures – are shaped by the institutionalised rules of the environment (Modell 2004) and these will include organizational rules of behavior. An example of norms of behaviour could be whether it is acceptable to rate anyone as ‘not satisfactory’ as well as the general level of acceptance of the appraisal process, by both employees as well as managers (Murphy and DeNisi, 2008). This will in turn be connected to the related element of distortion factors and consequences (see later).

The third element of the model is concerned with HRM factors. We have adopted this term rather than that of intervening variables. Here we find the HRM design choices around the performance management process as well as the ‘human’ aspects of support available to determine whether or not the process is a success. The first of these (and we argue most important) is line management capability. Biron et al (2010) states that performance appraisal is carried out usually by line managers based on the organisations procedures. There is therefore some potential for practices to be implemented by different managers in different ways, based on their personal predilections or capability or management style, and, hence, for this procedure to be experienced differently by each employee.
So for example from Telecommunications companies we had interviewees saying:

“Our PM system and policy is brilliant, but executed poorly and over-engineered.”

“Our managers have technical backgrounds so tend to be good at the technical and intellectual. They get it intellectually, but are not receiving it from their managers and so don’t tend to deliver it to their teams”.

Some of the problems stem from the fact that appraisal is after all “a social process” (Mabey et al 1998: 136). It has been argued that “appraisals carry a high potential for subjectivity, bias and prejudice” (McDonnell and Gunnigle, 2009). Rating inflation appears to be common (Kane, Bernardin, Villanova and Peyrefitte 1995; Murphy and Cleveland, 1995) – and one reason is that managers prefer to avoid the social problems created by low evaluations (Fried, Tiegs and Bellamy, 1992; Longnecker, and Sims 1987): “raters do not fail to yield accurate ratings because they cannot but rather because they are unwilling to rate accurately” (Murphy and Cleveland 1995: 265).

This along with norms of behaviour gives rise to what Murphy and DeNisi (2008) refer to as distortion factors, which we retain as a separate construct within our model. These distortion factors can influence the outcomes from the performance management process, whether these are the ratings and the links to related elements of the HRM architecture such as rewards, development etc. Murphy and DeNisi (2008) suggest that distortion can take place whereby a manager may give a rating that is different from the judgment he or she has formed. This may be caused by the reward systems in the organisation, in particular whether there are rewards for ratings which accurately reflect judgements and whether there are sanctions that might follow ratings which do not reflect judgements. They also suggest that raters often reach the conclusion that organisations do not value ratings that reflect accurate judgments, citing forced distribution as a classic example. Under such a system raters may be ‘punished’ if their ratings indicate that all their ratees are performing well and may be ‘rewarded’ or perceived as displaying good corporate citizenship if their ratings fit the required distributions. Murphy and DeNisi (2008).

In figure 2 we have included both some of the mechanics of the performance management process, particularly how ratings are distributed as well as the purpose of the process. A key process design choice includes the rating mechanism – that is to say the choices organisations make in relation to the existence of ratings and whether these are ‘forced’ or not. Bretz, Malkovich and Read, (1992) report that it is common for 60-70% of employees to be in the top two categories of performance. They conclude it to be rather more likely as a result of leniency of scoring rather than outstanding performance, reporting that in 1992 the norm in US industry ‘is to rate employees at the top of the scale.’

One of our telecommunication interviewees reflected this:

“Our performance distribution in theory is 5%, 10%, 20%, 30%, 20%, 10%, 5% but its seen as theoretical, complicated and not a differentiator.”

Another telecommunication company said

“In practice it’s hard to get manager to rate at the extremes. The feeling seems to be if I give a 6, they take their foot of the peddle, so I’d rather give them a five to have something to aim to”

The consequences of the appraisal are probably the most influential distortion factor impacting the practice of performance management within an organisation. If the context is an organisation where performance ratings have a strong impact on desired outcomes (such as promotions, pay rises or dismissal) then raters may be strongly tempted to inflate their ratings so that their ratees will not suffer. Or in some contexts the rater, striving to avoid dissension and competition within the workforce, may distort ratings, so that each group member receives the same rating, even if the rater is aware this does not really reflect performance. (Murphy and DeNisi, 2008).

In the case of a Telecommunications company we learnt that:
“It appears that our higher salaried employees seem to get higher ratings (let's say we don't have senior managers getting lower ratings) which skews bonus distribution. People wonder why bother improving performance.”

As one of Utility+ companies said of underperformers:

“what tends to happen is that they are moved around the business to perhaps a lower or less visible role… what happens is that they are hidden”.

The final element of our figure 2 is ‘borrowed’ from the second model of Murphy and DeNisi (2008) in that it relates to performance management interventions that organisations put in place to support their performance aims. At least one of the organisations reported that it currently had in place an approach to better understand where underperformers were within the business and how it might effectively manage them out. Such approaches are not uncontroversial and their presence, or absence likely and any other ongoing performance initiatives are likely to impact the performance management process.

CONCLUSIONS

Our assumptions at the outset of the research were that the factors impacting performance management practice would include:

- Organisational context (geographical and also sector and size)
- Organisational ‘history’ in the sense of private/public ownership
- Espoused and actual purpose of performance management
- Constraints/enablers including line management capability and perceptions of the process
- Ratings focus and whether there are any consequences of this

The findings from this study with fourteen household name organisations reveal that context plays a key role in shaping performance management practice. We had expected to find differences in practice but had not envisaged that the categorisation down sector lines would be quite so apparent. This was a key finding for us from the research. Based on the organisations in our sample the key elements of context appear to be:

- 1) Business sector (with associated history and degree of unionisation) coupled with geographical context and national culture
- 2) Organisational factors around purpose and principles of performance management and its acceptance
- 3) The HRM enablers of performance management are shaped by both organisational and broader sector and cultural context. HRM factors include perceptions of the process, and in particular line manager capability and the design choices made by HRM about some of specifics of the process.
- 4) These three factors impact the PM process (its rating distribution, links with other elements of the HRM architecture) and its outcomes

This paper has focused on understanding how contextual factors play a role in shaping performance management practice. The findings from our study into performance management practice within fourteen internationally operation organisations leads us to conclude that context, particularly business sector (with associated history and degree of unionisation) along with geographical /cultural context are likely to be highly influential in terms of shaping the ensuing performance ‘culture’ within an organisation and hence its process and effectiveness. This supports the research agenda set by Murphy and DeNisi, 2008 when they called for more investigation into the contextual factors around performance management.
However, there is little organisations can do about business sector and geographical/cultural context. As Murphy and DeNisi (2008) point out, these are ‘Macro’ factors are largely beyond their control. However, they may, in the course of a few years, be able to impact organisational and HRM factors such as the design of the performance management process, how it is perceived and line management capability. A key finding from this research, requiring further investigation, is how the performance culture within call centres – even within more traditional larger organisations is less ambiguous and less contested.

Overall, our evidence and the amendments to the Murphy and DeNisi (2008) model provide us with a more comprehensive and we would argue more useful guide to understanding the range of elements that make for differences in performance management systems. And, as always, good analysis and clear understanding is the key to appropriate action.

In terms of practitioner impact we suggest that the paper makes a contribution both in terms of enabling organisations to understand their context and the likely impact of this in determining that performance management culture, whilst encouraging their HRM professionals to investigate how they might temper this through the HRM factors which are within their control.

Like all research, this has limitations. The data collected for this study was limited to interviews with HRM professionals within the 14 participating organisations. The views of line managers or the recipients of the performance management process are not reflected here and this is an avenue for future work.

In addition we have focused in this paper upon contextual factors. More work is also required into the HRM factors and the how this links to performance management consequences and outcomes.
REFERENCES


