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The **Enhancing the relevance of organizational**  
Incubator **behavior by embracing performance**  
**management research**

HERMAN AGUINIS<sup>1\*</sup> AND CHARLES A. PIERCE<sup>2</sup>

<sup>1</sup>*The Business School, University of Colorado at Denver and Health Sciences Center, Denver, Colorado, U.S.A.*

<sup>2</sup>*Department of Management, Fogelman College of Business and Economics, University of Memphis, Memphis, Tennessee, U.S.A.*

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**Summary** There is a science-practice gap in organizational behavior (OB) whereby entire bodies of scholarly knowledge are ignored by practitioners. We identify research needed to improve performance management practices that is likely to enhance the relevance of OB in the eyes of practitioners and thus help reduce the science-practice gap. Copyright © 2007 John Wiley & Sons, Ltd.

## Introduction

Several authors have documented the science-practice gap in organizational behavior (OB) and other management sub-disciplines (Priem & Rosenstein, 2000; Rynes, Bartunek, & Daft, 2001). The general conclusion is that entire bodies of research remain ignored by managers and other organizational decision makers. One reason for the lack of knowledge transfer from the scholarly to the practitioner world is that many managers and other organizational decision makers view academic research as abstract rather than practical, useful, and readily applicable to their jobs and needs (Bailey & Eastman, 1996). In other words, scholarly research is often seen as lacking in relevance. In this paper, we argue that OB scholars should engage in a systematic program of research on the topic of performance management. Although traditionally considered a human resource management (HRM) topic, we argue that performance management practices would benefit from research emanating from the field of OB. Because performance management is a prevalent organizational practice, new scholarly knowledge on performance management is likely to be relevant and readily applicable in organizations, which would in turn help bridge the existing science-practice gap.

### *Performance management*

Performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the

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\*Correspondence to: Herman Aguinis, The Business School, University of Colorado at Denver and Health Sciences Center, Campus Box 165, P.O. Box 173364, Denver, CO 80217-3364, U.S.A. E-mail: Herman.Aguinis@cudenver.edu

organization (Aguinis, 2009, chapter 1). Performance management systems can be based on a consideration of behaviors (i.e., how work is completed), results (i.e., outcomes produced), or both. For example, management by objectives (MBO) can be part of a performance management system that is based on measuring results. There are other types of performance management systems that place an emphasis on processes and not results (e.g., competencies- and skills-based systems).

There are many important differences between performance management and performance appraisal, which is the systematic description of an employee's strengths and weaknesses. First, in contrast to performance management, performance appraisal does not usually include strategic business considerations. Second, also in contrast to performance management, performance appraisal systems usually do not include extensive and ongoing feedback that an employee can use to improve his or her performance in the future. Third, performance appraisal is typically a once-a-year event that is often driven by the HRM department, whereas performance management is a year-round way of managing business that is driven by managers. In short, performance appraisal is often seen as an HRM department requirement and does not typically include business and strategic considerations, whereas performance management (because of its emphasis on strategic alignment) can be a tool that helps management improve organizational performance. Because of its emphasis on measurement, performance appraisal has traditionally been the research domain of HRM scholars. However, we argue that performance management, because it is intrinsically related to interpersonal relationships embedded in broader organizational contexts, would benefit from research emanating from the field of OB.

Performance management, when implemented well, can lead to important benefits for organizations. For example, organizations with formal and systematic performance management systems are 51% more likely to outperform others regarding financial outcomes and 41% more likely to outperform others regarding additional outcomes including customer satisfaction, employee retention, and other important metrics (Cascio, 2006). A good illustration is Merrill Lynch, which transitioned from a performance appraisal system to a performance management system (Fandray, 2001). First, Merrill Lynch moved away from giving employees one performance appraisal per year to focusing on one of the important principles of performance management: the ongoing conversation regarding performance between managers and employees in which feedback is exchanged and coaching is given if needed. During a mid-year meeting, managers give employees feedback regarding what progress has been made toward the goals and how personal development plans are faring. In addition, an end-of-the-year review incorporates feedback from several sources, evaluates progress toward objectives, and identifies areas that need improvement. This feedback also includes information on the relationship between employee performance and its alignment with the strategic goals of his or her unit. To be able to be effective in implementing the system, managers also get extensive training on how to set objectives and conduct reviews. In addition, there is a website that managers can access with information on all aspects of the performance management system. Merrill Lynch's goal for its performance management system is worded as follows: "This is what is expected of you, this is how we are going to help you in your development, and this is how you will be judged relative to compensation."

Organizations are aware of the benefits that can be produced by a good performance management system and, consequently, performance management has become popular worldwide. For example, a survey of 278 organizations, about two-thirds of which are multinational corporations, from 15 different countries, indicated that about 91% of organizations implement a formal performance management system (Cascio, 2006). A separate survey of almost 1000 HRM professionals in Australia revealed that 96% of Australian companies currently implement some type of performance management system (Nankervis & Compton, 2006). In spite of its popularity, however, performance management systems are not always successful and do not always lead to the intended results. For

example, a survey of employees in Australia found that fewer than 20% of employees reported that their performance reviews helped them improve their performance. Overall, the majority of respondents reported being dissatisfied with the level of feedback and frequency of performance reviews from managers (Moullakis, 2005).

Another reason why performance management has become so popular is that it provides useful information needed for decision making in other HRM and development activities. For example, consider the relationship between performance management and training. Performance management provides information on developmental needs for employees. In the absence of a good performance management system, it is not clear that organizations will use their training resources efficiently (i.e., to train those who most need it in the most critical areas). Similarly, performance management systems are the source of information used in making decisions about rewards and the allocation of resources (i.e., by linking performance to rewards), succession planning (i.e., performance in the past is used as a predictor of performance in the future), and staffing strategies (i.e., performance management systems allow organizations to create talent inventories and identify talent gaps that are targeted with subsequent recruiting efforts).

### *Performance management process*

As described in detail by Aguinis (2009), performance management is an ongoing process that involves the following stages: prerequisites, performance planning, performance execution, performance assessment, performance review, and performance renewal and re-contracting. These stages take place in a cyclical and ongoing manner. The first stage, prerequisites, refers to having knowledge of the organization's mission and strategic goals and knowledge of the job in question. Performance planning involves a discussion and agreement between the supervisor and the employee regarding what needs to be done and how it should be done (i.e., a consideration of both results and behaviors), as well as a developmental plan. During the third, performance execution, stage the employee strives to produce results and display behaviors agreed upon earlier as well as to work on developmental needs. Performance assessment involves both the employee and the supervisor and the evaluation of the extent to which the desired behaviors have been displayed, and whether the desired results have been achieved. Although many sources can be used to collect performance information (e.g., peers, subordinates), in most cases the direct supervisor provides the information. This also includes an evaluation of the extent to which the goals stated in the development plan have been achieved. The performance review stage involves the meeting between the employee and the supervisor to review their assessments. This meeting is usually called the appraisal meeting or discussion. The appraisal meeting is important because it provides a formal setting in which the employee receives feedback on his or her performance. The final stage in the performance process is renewal and re-contracting. Essentially, this is identical to the performance planning component. The main difference is that the renewal and re-contracting stage uses the insights and information gained from the other phases. For example, some of the goals may have been set unrealistically high, given an unexpected economic downturn. This would lead to setting less ambitious goals for the upcoming review period.

### *OB research needed to maximize the effectiveness of performance management*

There are several topical areas and theories in the field of OB that have the potential to produce knowledge that would be directly applicable and relevant to how performance management systems are designed and implemented. Due to space constraints, we can only mention a few. Consider the

following admittedly selected issues, which we discuss taking into account the performance management process just described:

- *Social power, influence, and leadership.* A supervisor's social power refers to his or her ability, as perceived by others, to influence behaviors and outcomes (Farmer & Aguinis, 2005). If an employee believes that his or her supervisor has the ability to influence important tangible and intangible outcomes (e.g., financial rewards, recognition), then the performance management system is likely to be more meaningful. Thus, a fruitful area of future research could involve understanding conditions under which supervisors are likely to be perceived as more powerful and the impact of these power perceptions on the meaningfulness and effectiveness of performance management systems (cf. Fiol, O'Connor, & Aguinis, 2001). For example, will employees take feedback more seriously if it comes from a supervisor perceived to be powerful as compared to another supervisor who may be seen as less powerful? Related to power and influence is the topic of leadership because leaders need power (i.e., ability to influence) to be effective. Some leaders, including former General Electric CEO Jack Welch, are legendary for their endorsement of particular types of performance management systems (Aguinis, 2009, chapter 9). Welch was also personally involved in the design and implementation of GE's now famous "vitality curve" (i.e., forced distribution) system. A less well-known aspect of Welch's involvement is that he was a true champion of GE's performance management system and led by example. For example, Welch had heard customer complaints about a specific product so he charged the manager of the division with improving the productivity of that product fourfold. The manager sent Welch detailed weekly reports over the course of the next 4 years. Welch would send the reports back every 3 or 4 weeks with comments congratulating successes or pointing out areas in which the manager needed to improve. The manager stated that the fact that the CEO took the time to read his reports each week and send back comments motivated him to reach the lofty goal that Welch had set for him (Byrne, 1998). Thus, future research regarding the relationship between how leaders think and behave regarding performance management and subsequent impact on the effectiveness of performance management systems is certainly warranted. For example, what type(s) of leadership behaviors are likely to enhance the benefits of a performance management system?
- *Trust.* The "collective trust" of all stakeholders in the performance management process is crucial for the system to be effective (Farr & Jacobs, 2006). Given the current business reality of downsizing and re-structuring efforts, how can trust be created so that organizations can implement successful performance management systems? In other words, future research could attempt to understand conditions under which dyadic, group, and organizational factors are likely to enhance trust and, consequently, enhance the effectiveness of performance management systems. For example, how long do employees take to psychologically recover from a downsizing event? What are the factors that affect this length of time? What type of performance management system is best in this situation (e.g., developmental vs. administrative vs. both combined)?
- *Social exchange.* The relationship between individuals (and groups) and organizations can be conceptualized within a social exchange framework. Specifically, individuals and groups display behaviors and produce results that are valued by the organization, which in turn provides tangible and intangible outcomes in exchange for those behaviors and results. Research using a social exchange framework could inform the design of performance management systems by providing a better understanding of the perceived fairness of various types of exchange relationships and the conditions under which the same types of relationships are likely to be perceived as being more or less fair. For example, what are the factors that affect the responses to the "what is in it for me" question for both supervisors and employees? If supervisors believe that they will accrue more benefits from producing upwardly biased ratings than accurate ratings (e.g., "I won't have to

face unhappy subordinates when I give them negative feedback”), then the system will not be successful.

- *Group dynamics and close interpersonal relationships.* It is virtually impossible to think of an organization that does not organize its functions at least in part based on teams. Consequently, many organizations include a team component in their performance management system (Aguinis, 2009, chapter 11). Such systems usually target individual performance and also an individual’s contribution to the performance of his or her team(s) and the performance of teams as a whole. Within the context of such performance management systems, how do group dynamics affect who measures performance and how performance is measured? How are team-level goals established? What mechanisms and processes could be implemented so that team-level performance is assessed accurately and fairly? These are just some of the many questions that could be investigated within the broad issue of the relationship between group dynamics and team-level performance management systems. Also related to group dynamics is the issue of close personal relationships such as supervisor–subordinate workplace romances (Pierce, Aguinis, & Adams, 2000; Pierce, Broberg, McClure, & Aguinis, 2004), which involve conflicts of interest that may affect the successful implementation of performance management systems. There is a need to generate research-based knowledge to guide performance management practices when the parties involved have a close interpersonal relationship and thus a potential conflict of interest exists. For example, what are the types of performance management systems that will monitor a workplace romance in a way that will not interfere with the employees’ privacy and personal relationship yet will be able to detect performance-related problems that need to be addressed?
- *Negotiation and communication.* Performance management systems include ongoing negotiations regarding the establishment of performance standards, which are the yardsticks to be used to assess success, the distribution of tangible and intangible rewards, and so forth. Similarly, issues about communication permeate all stages of performance management. Communication plays an important role not only at the dyadic and team level but also at the organizational level (i.e., communication plans including the description of the system’s goals and the processes involved in implementing the system). What types of communication practices are likely to lead to more effective systems? What types of communication practices are likely to minimize perceptual biases involving selective attention and selective perception? Research-based answers to these and other similar questions will be helpful in deciding how and what to communicate (and to whom) during the various stages of implementing a performance management system.
- *Mentorship.* As noted above, coaching and feedback are important aspects of performance management systems. Although most mentorship activities take place at the informal level, many organizations have formal systems. Mentorship relationships involve development and coaching, which are activities that may be incompatible with some of the administrative roles of performance management. How can formal and informal mentorship systems be integrated successfully within performance management? Research-based knowledge regarding the successful integration of mentorship and performance management is likely to improve the effectiveness of performance management systems.

In closing, we think it is time for the field of OB to embrace performance management research. Considering the central role that performance management plays in organizations worldwide, creating rigorous and actionable knowledge that informs performance management practices is likely to enhance the perceived relevance of the field. To be sure, and due to space limitations, in this paper we discussed an admittedly selected set of research topics and questions. However, this type of relevant research is likely to help reduce the widely documented science-practice gap in OB and the broader field of management.

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## Author biographies

**Herman Aguinis** is the Mehalchin Term Professor of Management in the Business School, University of Colorado at Denver & Health Sciences Center. He has published four books and more than 50 articles in AMJ, AMR, JAP, PPSych, OBHDP, and elsewhere. He conducts research on staffing, social power and influence, and organizational research methods.

**Charles A. Pierce** is an Associate Professor and a Suzanne D. Palmer Research Professor in the Department of Management, Fogelman College of Business and Economics, University of Memphis. He has published more than 25 articles in journals such as AMJ, JAP, OBHDP, JOM, and JOB. His research interests include workplace romance, sexual harassment, and organizational research methods.

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