CHAPTER 18

Managing Individual Performance: A Strategic Perspective

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SUMMARY

Designing and implementing an approach to managing employees that ensures they are a source of sustainable competitive advantage is the objective of "strategic human resource management". A strategic human resource management system reflects the concerns of multiple stakeholders, is linked to the organization's specific business strategy, represents an integrated and coherent set of HR practices, and it is continuously monitored, evaluated and revised. This chapter describes the implications of these four features of strategic human resource management (HRM) systems, focusing on organizations pursuing strategies that require innovation. We show how an integrated HRM system addresses four major tasks: managing behaviors, managing motivation, managing competencies, and managing opportunities. After illustrating how these tasks are shaped by a strategy of innovation, we consider some of the key challenges that arise when applying this framework. Finally, we note that the performance management system should be monitored and evaluated to assess how effectively it (a) sends a clear, consistent message to employees and (b) represents the concerns of multiple stakeholders. Taking corrective action based on performance against these goals is essential for the organization's continuous learning and improvement.

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INTRODUCTION

A firm has a competitive advantage when all or part of the market prefers the firm's products and/or services. Because competition is the name of the game, companies seek ways to compete that can last a long time and cannot easily be imitated by competitors. That is, they seek to gain a sustainable competitive advantage (Barney, 1991; Porter, 1985; Schuler, Jackson, & Storey, 2001).

Some firms use their human resource management systems to gain a sustainable competitive advantage. Several conditions must be met if an organization is to gain a sustainable competitive advantage through human resource management. Perhaps the most obvious condition needed is that the firm's human resources—employees—must be a source of added value. Employees can add value in a variety ways: through their interactions with customers, by attracting other talent to the firm, by adapting quickly to changing conditions and so on. A human resource management system that encourages employee behaviors such as these can therefore be a source of competitive advantage.

If the employees in competing firms add similar value, no advantage is gained. Thus, rarity is another condition required in order for human resources to be a source of competitive advantage. One way in which employees might be rare is that they have unusually high levels of skill or knowledge. Employees who are unusually committed to the organization and its goals could help the organization to gain competitive advantage by keeping down the costs associated with high turnover. Employees with unusually high levels of organization-specific knowledge may be less likely to repeat past mistakes and be better able to recommend changes that will improve the operation of the total system. By helping an organization acquire, develop and retain employees such as these, a firm's human resource management system contributes to its competitive advantage.

Finally, in order for a firm's human resources to be a source of sustainable competitive advantage, they must be difficult to copy and there must be no other substitutable resources that competitors can rely on. The most difficult human resource to imitate is a corporate culture that has evolved over a period to suit the specific needs of the organization. Thus, a human resource management system plays a strategic role when it supports the development and continuous evolution of a unique corporate culture that is tailored to the needs of the organization.

Designing and implementing an approach to managing employees that ensures they are a source of sustainable competitive advantage is the objective of "strategic human resource management". To be strategic, a human resource management system must

- reflect the concerns of multiple stakeholders,
- be linked to the organization's specific business strategy,
- represent an integrated and coherent set of HR practices, and
- be continuously monitored, evaluated and revised.

By implication, a strategic approach to managing individual performance requires that these same issues be addressed. In the remainder of this chapter, we discuss the implications of these four features of strategic human resource management (HRM) systems, focusing specifically on the implications for managing individual performance. Throughout this chapter, we use the term *performance management system* to refer to those human resource practices that together can affect employee performance. As will be described in more detail later, several HR practices that can be considered to be part of a performance management system, including aspects of the selection process, socialization and training, performance measurement, as well as rewards and recognition programs. To the extent that any particular HR practice can have a meaningful impact on employee performance, we consider the practice to be part of an organization's performance management system.

Although managing individual performance is one of the primary goals of most HRM systems, it is not the only goal. For example, another important objective of an HRM system is to manage the flow of employees into and through the organization. Recruitment, career planning, terminations and retirement planning are examples of practices that are particularly relevant to managing employee flows. As another example, in some organizations, the goal of managing labor costs is particularly important. In such organizations, reducing the costs of employee benefits may be especially important.

ADDRESSING THE CONCERNS OF MULTIPLE STAKEHOLDERS

Stakeholders are individuals or groups that have interests, rights, or ownership in an organization and its activities. Stakeholders who have similar interests and rights are said to belong to the same stakeholder group. Customers, suppliers, employees, and strategic partners are all examples of stakeholder groups (Clarkson, 1995; Freeman, 1994; Jones, 1995).

Customers

Customers may be seeking goods and services that are low in cost, high in quality, or simply unique. Their concerns can be addressed by performance management systems that incorporate customers' perspectives into performance definitions and employee evaluation measures. For example, customers' views can be used when developing job descriptions, designing training programs, and appraising individual employees.

Employees

Most employees are concerned about being treated fairly and paid well. These concerns can be addressed by transparent and fair performance management systems that allow all employees to translate their efforts into rewards that they value. Increasingly, organizations are finding that employees also are concerned about balancing their work and nonwork roles. Designing policies and practices that make it easier for employees to perform well in all of their life roles is one way that performance management practices can address the concerns of employees. For example, a performance management system that emphasizes the specific number of hours and the schedule of work can create time conflicts that make it difficult to perform nonwork roles. In contrast, a system that emphasizes performance results and accepts variation among employees regarding workload and scheduling may improve employees' ability to successfully juggle multiple roles.

Owners and Shareholders

Most owners and shareholders invest their money in companies for financial reasons. Their concerns are addressed when a firm evaluates the cost-effectiveness of its performance management practices. This implies that organizations should evaluate their performance management systems to assess their economic utility. Owners and shareholders may also be interested in the long-term survival of the firm, however. This implies that short-term cost considerations and short-term performance gains should not be the primary drivers of performance management practices. Effective practices produce high levels of *sustainable* individual performance. They also minimize negative behavioral side-effects (e.g., absenteeism and turnover) that contribute to higher labor costs in the longer term.

COMMUNITIES AND SOCIETY

Local communities and society as a whole are concerned that business organizations comply with laws and regulations, contribute to the well-being of their communities, and protect and preserve the natural environment. Legal compliance and socially responsible behavior establish legitimacy and help businesses to gain acceptance and support from the community. Ultimately, this increases their chances for long-term survival (Meyer & Rowan, 1977; Scott, 1987; Zucker, 1987). Societal concerns can be addressed by performance management systems that reward employees for advancing the interests of society and punish employees who ignore these interests. For example, employee recognition programs can be used to reward employees for using their work-related expertise to help charitable or public service organizations to achieve their goals. Administering swift and severe sanctions to employees who engage in unethical or illegal behavior is another means through which organizations can use their performance management practices to address societal concerns.

The concerns of stakeholders define the social context within which strategic human resource management occurs. A strategic approach to performance management asserts that effective performance management systems are responsive to this social context. Sometimes the concerns of different stakeholders seem to conflict with each other. In that case, the management challenge is to find creative approaches to resolving these conflicts. Some evidence suggests that this is indeed possible. For example, satisfying employees also appears to contribute to satisfying shareholders and investors (e.g., see Fryzell & Wang, 1994; Richard, 2000; Welbourne & Andrews, 1996).

Responding to stakeholders' concerns is just one aspect of the strategic approach. As the term implies, the strategic approach also involves designing a performance management system that is linked to the organization's competitive strategy. We discuss this linkage next.

LINKING PERFORMANCE MANAGEMENT PRACTICES TO BUSINESS STRATEGY

A corporate level strategy describes how the corporation will select and manage a portfolio of businesses to ensure that the whole is greater than the sum of its parts (Porter, 1987). The central issue addressed is usually how much diversification (low, high) and what type of diversification (related, unrelated) to pursue. Corporate level strategies often have implications for how the human resources function is structured. More relevant to the development of specific performance management practices is the business strategy. A business strategy is specific to a particular company or business division. Business strategies describe how a company competes against other direct rivals offering the same products and services.

Basic Types of Strategies

Firms describe their business strategies using a variety of terms, but basically these strategies reflect two decisions: Who are the customers? What is the *relative* importance attached to innovation, quality, and cost? (Miller, 1992; Campbell-Hunt, 2000). By specifying their target customers, firms clarify their primary stakeholders. By prioritizing the relative importance attached to innovation, quality and cost, they begin to clarify the behaviors needed from employees. Understanding the answer to the second question is essential to the design of effective practices for managing individual performance.

Innovation

Innovation is a strategy that involves differentiating the firm's products and services from those of competitors by having something new that competitors cannot offer, usually because the new product or service is protected by trademarks, copyrights or patents. When a desirable new product or service is created, its uniqueness and limited availability mean that a company can charge a premium price and a sufficiently large number of customers will be willing to pay it.

Quality

Offering excellent quality is another basic way to differentiate one's products and services from those of others. In the international arena, the standards of quality keep going up; an acceptable quality yesterday may be unacceptable today. Thus, organizations that compete on the basis of quality pursue continuous improvement with a vengeance. Delivering total quality depends on all parts of the organization working together based on feedback from customers, because quality is in the eyes, ears, hands and taste buds of customers.

Cost

A cost leadership strategy involves offering no-frills, standardized products and services with acceptable features at the lowest price. The most common approach to pursing a low-cost strategy is to generate a high volume of sales to make up for the low margin associated with each sale. To achieve high volume, companies competing on cost usually seek the broadest possible customer base. Efficient production systems, tight cost monitoring and controls, low investment in R&D, and a minimal salesforce are characteristic of this strategy.

Strategy Implementation

To be successful, an organization's competitive strategy must be effectively implemented. Effective strategy implementation is a complex, dynamic and never-ending process that touches all aspects of organizational life. Perhaps most important for managing performance, competitive strategies partly determine the structure of work, the objectives to be achieved, and the behaviors that are needed and considered acceptable means for achieving those objectives. Here we illustrate some of the implications for performance management practices of a strategy that gives high priority to innovation.

The structure of work

Innovation occurs when people juxtapose existing ideas and information in new ways. Thus, effective performance management practices increase the chances of information coming together. These practices must also be embedded within an appropriate organization structure. Functional structures, which are common in bureaucratic organizations, tend to prevent the flow of information across boundaries. By segmenting the workforce into groups with domain-specific knowledge and skills, functional structures create barriers to the juxtaposing of ideas in new ways. Even when new ways of doing things are discovered, rigid functional structures make adopting these new ways difficult because they give employees little autonomy to change the way they perform their individual jobs.

Innovative organizations eschew bureaucratic designs. Instead, they are structured to support the proliferation of teams that can be formed and disbanded as needed. Rather than grouping people together primarily on the basis of similar functional expertise, innovative organizations bring employees with dissimilar expertise together to form multi-disciplinary teams. Team members have considerable autonomy to make key decisions, and can take action without waiting for requests to crawl through a bureaucratic decision-making process (Burns & Stalker, 1995; Quinn, Anderson, & Finkelstein, 1996). Compared to functional structures, team-based structures are more flexible and fluid. Knowledge flows more easily among members of the organization, which contributes to learning and creates opportunities for innovation (Bontis & Crossan, 1999). Thus, the way work is structured is an essential aspect of strategic performance management.

Just as innovative organizations tend to have fuzzy internal boundaries, they have a fuzzy external boundary. Just as they use teams to bring together dissimilar expertise located internally, they use teams to bring together expertise located in other organizations. Strategic alliances and network forms of organization support innovation by encouraging knowledge flows between companies. Prevalent in high-tech industries, strategic alliances and network structures allow older, established firms to gain access to new discoveries made by scientists in universities and in small, creative organizations (Liebeskind, Oliver, Zucker, & Brewer, 1996). Thus, for innovative firms, a key strategic task is managing the performance of employees who cross organizational boundaries.

Prioritization of objectives

Companies whose managers set specific objectives and then aggressively pursue actions calculated to achieve their performance targets typically outperform companies whose managers have good intentions, try hard, and hope for success (Brews & Hunt, 1999). This relationship is captured in the old adage, "you cannot manage what you cannot measure". When success is defined as effectively serving the interests of stakeholders, their needs define a firm's fundamental objectives. These objectives, in turn, drive approaches to managing employee performance.

Profit-oriented businesses are often criticized for focusing too much on objectives that reflect the concerns of owners and shareholders and paying too little attention to objectives that reflect the concerns of other stakeholders, such as employees. If performance management practices are used simply as tools to achieve short-term business goals, they are likely to give undue weight to economic concerns at the expense of other stakeholders' concerns. Unfortunately, the strategic human resource management perspective is sometimes misconstrued as simply using human resource management practices to ensure that business objectives are met. In our view, considering only business success when designing performance management practices does not constitute a strategic approach. A truly strategic approach presumes that the concerns of employees and other key stakeholders also are addressed by the performance management system.

Establishing norms for employee behavior

In the strategic HRM literature, several alternative models have been proposed for explaining the means through which human resource management systems contribute to a firm's competitive advantage (e.g., see Arthur, 1994; Becker & Huselid, 1998; Jackson & Schuler, 1995). One such model is referred to as the behavioral perspective (Schuler & Jackson, 1987). According to the behavioral perspective, human resource management practices are an organization's primary means for energizing and directing employee behaviors. This perspective recognizes that many external forces, which are beyond the control of individual employees, have significant consequences for the ultimate success and survival of the firm. But having stated that caveat, it asserts that the aggregated effects of individual employee behaviors are primary determinants of organizational effectiveness. Specifically, performance management practices communicate the expectations that members of the organization have for how people should behave; they shape the aspirations of organizational members and also facilitate the achievement of those aspirations through formal and informal rewards and punishment.

DESIGNING AN INTEGRATED AND COHERENT HUMAN RESOURCE MANAGEMENT SYSTEM

A strategic perspective assumes that an organization's approach to managing performance includes a complex array of many elements. As already explained, these elements should be aligned with the organization's unique conditions, especially conditions created by the concerns of major stakeholders. Equally important are the degree of integration and internal alignment among all of the elements that comprise the total HR system. For example, an international study of 62 automobile plants found that flexible production systems enhanced production speed and quality the most when they were part of an integrated set of HR practices (MacDuffie & Krafcik, 1992).

During the past decade, researchers have attempted to identify a small number of unique bundles of HR practices that comprise integrated and coherent HR systems (Becker & Huselid, 1998). Implicit in such research is the assumption that the many varieties of HR systems being used in organizations can be reduced to a small number of archetypes. These efforts have been of limited success. One potential problem with this structural approach to assessing HR systems is that it underestimates the complex effects of the external and internal environments of organizations (see Jackson & Schuler, 1995).

For example, in looking for bundles that fit particular business strategies, researchers (and we include ourselves) tended to ignore concrete differences among firms regarding employees' concerns or the technologies in use.

A process-based approach to the design of integrated HR systems represents an alternative perspective. A process-based approach does not attempt to specify the practices that fit specific organizational conditions; instead, it presumes that the process through which an HR system evolves determines the degree of coherence and integration among specific practices. Some processes are very likely to yield integrated HR systems. The process we describe in this chapter is one that we believe would be relatively more likely to yield an integrated system. Other processes for creating HR systems may be less likely to result in coherence and integration. For example, if a firm chooses to outsource the design and/or implementation of its staffing to one external vendor and outsource the design and implementation of its training programs to another vendor, there is likely to be little integration between these aspects of the HR system. Another popular approach to developing HR systems is to conduct "benchmarking" studies to learn what other firms are doing, and then imitate the so-called "best practices". Relying on the benchmarking approach, a firm might imitate the staffing practices in one organization, the training practices in another, and the pay practices in a third. The degree of integration and coherence among these practices would most likely be quite low.

The development of an integrated and coherent HR system is more likely to occur when an organization begins by stating this as an objective. Having stated the objective, the organization also must have a method for achieving it. In the remainder of this section, we argue that the development of an integrated HR system requires an understanding of the major HR tasks to be achieved, and the use of HR practices in creative ways to achieve these tasks. Figure 18.1 illustrates this general framework.

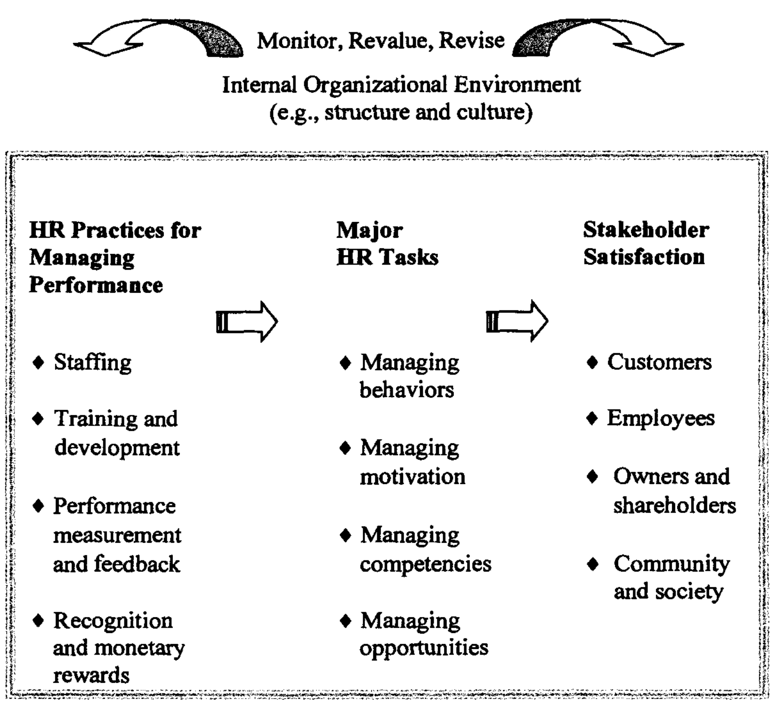

FIGURE 18.1 Framework for Managing Human Resources for Learning and Innovation (adapted from Jackson & Schuler, 2000b)

In general, the four major tasks of any HR system involve: managing behaviors, managing motivation, managing competencies, and managing opportunities.[1] After illustrating how these tasks are shaped by a strategy that emphasizes innovation, we illustrate some of the implications for developing internally consistent performance management practices.

THE MAJOR TASKS OF HUMAN RESOURCE MANAGEMENT

Effective individual and organizational performance occurs when the organization succeeds in generating the behaviors, motivation, competencies, and opportunities needed to implement the business strategy and satisfy the needs of the organization's primary stakeholders. Behaviors are the most proximal determinants of performance, and identifying the behaviors that are needed is perhaps the most fundamental challenge of effective performance management. The task of managing behaviors is supported by the remaining tasks: managing competencies, managing motivation, and managing opportunities.

Managing behaviors

In order to effectively manage employee performance to support innovation, it is necessary to first specify the behaviors needed for innovation to flourish. (Alternatively, effectively managing performance given a strategy based on customer service requires specifying the behaviors needed to meet and exceed the expectations of customers.) Behaviors that facilitate (or impede) innovation include sharing information, and finding and solving problems. Consequently, performance management involves more than simply directing and motivating individual employees working on individual tasks. It also involves managing social interactions (Murphy & Jackson, 1999).

By sharing information about the problems they face and the solutions they discover, employees minimize the number of times they reinvent the wheel. Information sharing speeds up the process of organizational learning. As Bontis and Crossan (1999) explain, sharing information can support two types of learning flows. Feed-forward learning can occur when the knowledge and experiences of individuals and work groups is used to inform strategic decisions. Feed-back learning occurs when organizational practices provide employees with information that is useful in doing their work. Communication of company goals, policies and procedures as well as feedback about individual performance all support feed-back learning flows. Traditionally, performance management systems have emphasized feed-back learning flows and ignored feed-forward learning flows.

Innovation and learning occur when employees actively engage in problem finding and creative problem solving. Sheremata's (2000) model of the problem-solving processes required for new product development describes the importance of centrifugal and centripetal behavior patterns. Centrifugal actions are those related to reaching for and gathering new and relevant information. Such actions locate problems that need solutions and they also locate information that can be used during problem solving. Centripetal behaviors facilitate the integration of information and ideas.

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[1] Elements of the process-based approach we describe here have also been presented in Jackson and Schuler (2000a) and Schuler, Jackson, and Storey (2001).

As described next, employees are most likely to engage in these behaviors when they are motivated to do so, when they have the competencies needed to do so, and when they have opportunities to do so.

Managing motivation

Motivational forces influence which behaviors employees choose to engage in as well as how much effort they put into those behaviors in the short–term and in the long–term. That is, the task of motivating employees involves influencing both the direction and persistence of behaviors.

Psychologists have long recognized that the direction and persistence of behaviors are influenced by both personal and situational factors. Typically, the task of performance management has been construed as shaping the situation. Research on creative organizational climates suggests that when innovation is the goal, motivation is enhanced by challenging work and freedom in how to carry out the work. Creativity is impeded by harsh criticism of ideas, internal competition, and protecting the status quo. Too much emphasis on productivity and excessive workloads also appear to reduce creativity (Amabile, Conti, Coon, Lazenby, & Herron, 1996). For firms that emphasize innovation, effective performance management does not take as its only goal creating these conditions, however. An effective approach also recognizes that some types of people—including those who are individual contributors and those who are managers—may enjoy and be motivated by working in the types of environments that support innovation and creativity. But others may be more motivated in an environment where the work is routine and predictable and where expectations and deadlines are specific and clear. The strategic approach to performance management is consistent with the psychological literature showing the importance of taking both situational and personal factors into account as explanations for motivation.

Managing competencies

Managing competencies involves ensuring that individual employees and the teams they work in have the skills, knowledge and attitudes that are required to carry out their work. A strategic approach to managing human resources recognizes two types of competencies that need to be managed: (a) competencies that support the behaviors *needed currently* and (b) competencies that ensure that the workforce is prepared to quickly begin performing new tasks as *needed in the future* (Wright & Snell, 1998). Some of the basic skills, knowledge and attitudes that an organization needs in the present will also likely be useful in the future. Some will become obsolete, and some will be transformed. Recent studies of knowledge-based organizations highlight the dynamic aspects of managing the competencies needed for innovation.

Bontis and Crossan (1999) use the term "knowledge stocks" to refer to the store of knowledge and information in organizations. As the level of a firm's knowledge stock increases, so does the firm's potential for creativity and innovation. Individual-level knowledge stocks refer to the knowledge and abilities of an employee. Group-level knowledge stocks develop when individuals interact to share knowledge and engage in creative problem solving (Levine & Moreland, 1999; Liebeskind et al., 1996).

Performance management practices that support the development and retention of knowledge stocks within the organization increase its capacity for innovation. Ultimately, the stock of any type of competency is determined by investments in competency development and by competency flows. Knowledge stocks can be increased by performance management practices that encourage employees to invest in continuously learning, e.g., providing incentives for training and professional development. By developing a reputation for being an employer of choice, an organization can more easily import the competencies it needs. In this way, competency flows into the organization. And by retaining that talent, the firm prevents competencies from flowing out to competitors.

Managing opportunities

If a workforce has both the motivation and the competencies needed to innovate, is it possible that they will fail to do so? Yes. They also need the right opportunities. Considerable research on creativity and innovation documents the importance of having contact with people who have information, perspectives and experiences that are dissimilar to one's own. As we have already noted, flat, team-based structures facilitate innovation by involving employees in a broad range of activities and exposing them to others from whom they can learn. But simply organizing around teams does not ensure that everyone will have opportunities to be creative or learn from others. The teams must be intentionally staffed to bring together diverse perspectives and talents (Jackson, 1996).

Furthermore, many opportunities for innovation and learning arise beyond the boundaries of work teams, and even beyond the boundaries of the organization. Many times employees in different parts of an organization are working on the same challenge, but are completely unaware of each other. They do not discuss common problems as they try to solve them, and they do not share solutions once they have been discovered because they have no opportunities to do so. Innovative organizations find ways to prevent this by creating opportunities for people to cross or span boundaries that might otherwise be barriers to information flow (Bouty, 2000).

Organizations create opportunities for innovation when they make it easy to share ideas, experiences and knowledge. Major innovations arise when people engage in meaningful dialogue and conversation. Electronic "knowledge management" systems can facilitate knowledge storage and distribution, but these systems appear to be less useful in stimulating the creative processes associated with innovation. When innovation is the objective, person-to-person exchanges appear to be more useful than document exchanges (Hansen, Nohria, & Tierney, 1999). Thus, performance management systems that create opportunities for person-to-person exchanges can facilitate innovation and learning.

Using HR Practices to Accomplish the Major HR Tasks: Key Challenges

Human resource management practices enable organizations to successfully carry out the four HR tasks of managing behaviors, managing motivation, managing competencies, and managing opportunities. The primary categories of practices are: staffing; training and development; performance measurement and feedback; and recognition and monetary reward systems. Under the traditional model of personnel management, each subset of practices was closely tied to, at most, two particular tasks. For example, staffing and training practices were viewed as relevant primarily for managing competencies.

Performance measurement and feedback were viewed as relevant primarily for managing behavior, and recognition and monetary reward systems were viewed as relevant primarily for managing motivation.

A strategic perspective assumes that all available HR practices can and should be used in unison to achieve the four major HR tasks. We are suggesting here that managing individual performance is also best understood as an objective that can be achieved through the systematic design of an *entire system* of human resource management practices. That is, successfully managing individual performance requires effectively using the entire set of available HR practices. Stakeholders' interests, in turn, should determine both the performance criteria of most importance and the acceptability of the organization's approach to achieving excellent individual performances.

Organizations that compete by offering low-cost, standardized services may use HR tools differently than organizations that compete by creating innovative solutions that address their customers' unique needs. A strategic perspective assumes that there is no "one best way". Rather, the available HR tools should be used creatively to achieve the four tasks of managing behavior, managing motivation, managing competencies, and managing opportunities in a given organizational context.

Years of research on how to develop performance measures has produced extensive technical knowledge that can be applied to measuring the performance of individual employees. Various employment laws and legal guidelines strongly encourage employers to use this knowledge in order to ensure that employees are treated "fairly". In US culture, "fair" treatment often translates into using performance information as the basis for making important employment decisions. Unfortunately, many of these technical and legal guidelines for performance measurement are grounded in an outdated bureaucratic model of organizations. As a result, they fail to address some of the more difficult issues faced by organizations that seek to continuously innovate. Here we discuss four of these issues: role instability, team-based work structures, involvement of multiple stakeholders, and balancing competing objectives.

Role instability

Employees with broadly defined jobs and who participate as members of multiple project teams often find themselves taking on a diversity of roles and being subjected to shifting role expectations. On one project such a person may serve as team leader, while in another he or she may be called upon as an expert adviser in a narrowly defined area. One project may require frequent meetings and close working relationships. Another may require individuals to make significant progress working alone, with meetings occurring only occasionally in order to report on each person's progress. Within the span of a typical day or week, an employee may repeatedly move between these diverse sets of expectations, adapting to the demands of each with varying degrees of ease. To perform well in such environments requires role flexibility.

Increasingly, employees are expected to demonstrate role flexibility, either because they are managing multiple roles simultaneously or because their roles are shifting rapidly across time. Consequently, their willingness and ability to adapt to diverse and changing expectations is becoming an important aspect of performance (Hesketh & Neal, 1999; Murphy & Jackson, 1999). The inclusion of measures of adaptive performance as criteria for hiring, training and rewarding employees may be one approach toward developing a workforce of employees who easily learn new tasks, are confident in approaching new tasks, and have the capacity to cope with the changes that innovation inevitably demands.

Team-based work structures

When work is organized around teams, as required by innovation, the objective of performance management shifts from managing individual performance to managing team performance. What do effective teams look like? As Figure 18.2 shows, there are many aspects to team performance; effective functioning includes many things (Jackson & Schuler, 2000a). No team is likely to be outstanding on all of the performance dimensions that might be measured. In order to decide which aspects of team performance to measure, goals for the teams must first be established. These goals, in turn, should reflect strategic concerns. If reducing cost and speeding up order fulfillment are important to the strategy, one set of measures might be suggested. But if the strategy calls for teams that can develop creative solutions, a very different set of measures would be appropriate. Or, perhaps the vision is to become a learning organization, and teams are viewed as a vehicle to facilitate learning. Then goals that indicate learning at the organizational and/or individual level should be specified. Measures of learning might then be developed (e.g., product and customer knowledge) or the outcomes that learning should affect might be measured (e.g., speed of new product development or customer satisfaction). Because it is based in a systems view, the strategic approach to managing performance recognizes that individual performance measurement should be considered in the context of team performance measurement. Team performance measures, in turn, should be considered in the context of larger organizational units.

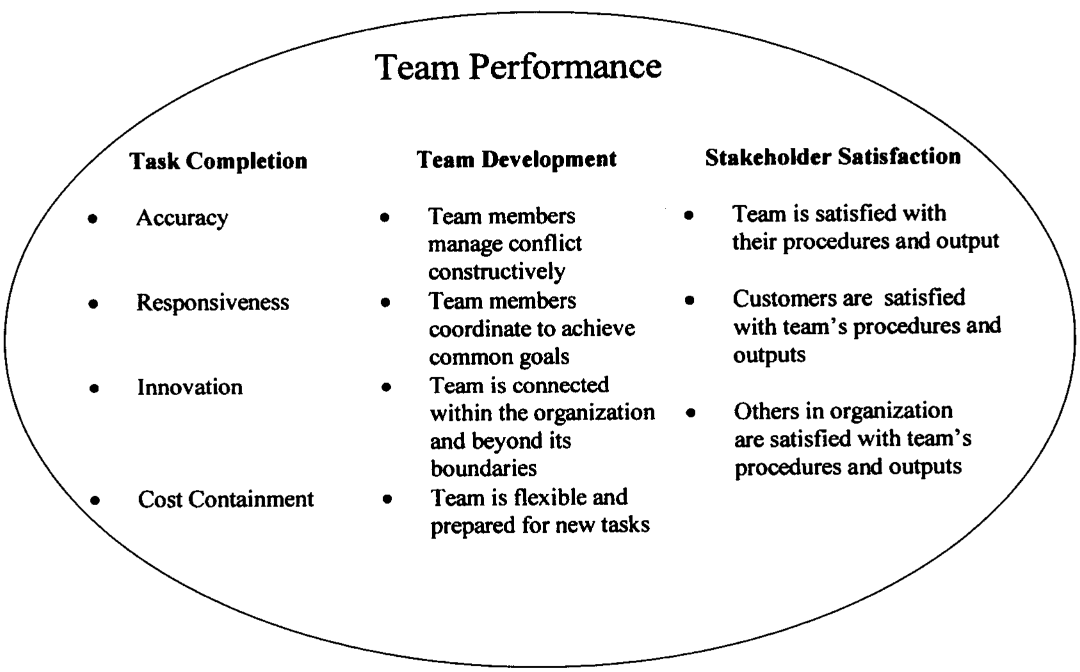

FIGURE 18.2 Possible performance indicators for work teams and team members (adapted from Jackson & Schuler, 2000a)

Involvement of multiple stakeholders

A strategic perspective suggests that performance measures at all levels of analysis (individuals, teams, business units, and so on) should reflect the perspectives of multiple stakeholders. In team-based and highly-networked organizational structures, definitions and measures of performance take into account the perspectives of many role partners. Consequently feedback processes become more complex. At a minimum, formal feedback is likely to reflect the views of a variety of different constituents.

One way to provide employees with feedback from many stakeholders is through the use of 360-degree feedback systems. In the traditional approach, feedback about performance emphasizes the views of a single person—usually a supervisor—to the exclusion of almost all other views. In contrast, 360-degree systems collect perceptions of an employee's performance from a set of colleagues and internal customers who form a circle around the employee.

Whereas traditional performance appraisals were developed for evaluating employees, 360-degree feedback was originally designed as a tool for employee development (Chappelow, 1998). Employees usually picked the people from whom they wanted to get feedback and the results were often completely confidential. The intent was to provide information to employees, who could then use it to improve their performance. Therefore, a feedback session would involve explaining how other people view the employee, comparing these perceptions to the employee's self-assessments, and developing action plans for how to improve in the future. Responsibility for communicating the feedback usually rests with supervisors, who are expected to help employees understand, integrate and act on the feedback.

Some organizations have begun using a variation of 360-degree assessments to conduct official performance appraisals. In those companies, the emphasis shifts from providing feedback for developmental purposes to making evaluations that can be used in personnel decisions related to promotion, compensation, and so on. The philosophy behind 360-degree feedback approaches fits well within the types of organizational cultures that are required for innovation and learning. In organizations where teamwork is the norm, feedback from multiple sources is perceived as more valid than single-source approaches because it involves a group of people who interact with the employee in many different ways.

Regardless of whether an organization uses a formal 360-degree feedback process, employees in innovative organizations are bombarded with feedback from a variety of sources, including teammates, customers and subordinates. This feedback is used continually in subtle negotiations about how one's role will be construed. Many of these other sources of feedback have neither the formal responsibility nor the resources needed to support and facilitate improvements in an employee's performance. Faced with potentially conflicting feedback information from different sources, employees may feel uncertain about the expectations they must meet in order to perform their roles satisfactorily. Practices such as 360-degree feedback and customer satisfaction surveys may confuse employees about the relative priority to be given to each member in their work role set. Multiple role senders, in turn, may be unaware of each other's conflicting expectations and hence unable to moderate their performance expectations. How do employees respond to this type of feedback environment? A typical response is to consider the reward system. If no recognition or rewards are tied to a source of available feedback, employees may conclude that the source and the feedback can safely be ignored.

Balancing competing objectives

Of all the HR tools available to support innovation and learning, recognition and rewards may be both the most powerful and the least understood. In particular, existing theories of motivation and performance do little to help organizations to design recognition and reward practices that effectively address the competing demands and paradoxes found within post-bureaucratic organizations, some of which are briefly noted below.

Short-term versus long-term considerations

The creative processes that result in significantly new innovations require that employees have cutting-edge knowledge in their fields. In addition, implementing innovation often requires employees to develop new skills. Maintaining cutting-edge skills, in turn, requires continuous learning. The need to motivate continuous learning requires that workers be rewarded today for developing the potential that may be needed in the future. As more and more companies consider paying for knowledge or skill acquisition, they come face-to-face with the question of how much value they should place on performance in the current job versus behaviors that prepare employees for future jobs.

Finding the appropriate balance between rewarding for current performance versus rewarding for long-term performance is a difficult balancing act. Many critics of performance-based incentive plans point to this as a common problem. Executive incentives that focus attention on short-term movements in the company's stock price, for example, may lead managers to make decisions that protect the stock price in the short–term but discourage the investments needed for longer-term innovation and learning. To address this problem, many executive pay packages include a mix of incentives that link pay to achieving both long- and short-term objectives. Although similar approaches may be useful at lower levels in the organization, they rarely are used.

Behaviors versus results

A large body of evidence shows that generally, organizations are more likely to achieve their stated goals when employees are rewarded for results that are consistent with those goals. Some authors have concluded that this general principle holds even when innovation is the stated goal. However, psychological research suggests that tying pay to results that require creativity and innovation may actually reduce employees' motivation to experiment and try new ideas (Amabile, 1979; Dweck & Leggett, 1988; Mumford & Gustafson, 1988). Experimentation is likely to involve some failure, especially in the short-run. When pay is linked to innovation results, it raises employees' concerns about the potential negative evaluations that may result from failure and thus actually reduces risk-taking and interferes with learning. Alternatively, it may send a message that any means to achieving results is acceptable, which is also problematic. These arguments suggest that it may be better to provide incentives for the *behaviors* thought to lead to innovation instead of paying for results, Of course, this approach works only if the organization can accurately specify and monitor those behaviors.

Individual versus team

If results form the basis for at least some recognition and rewards, a related issue is whether to reward and recognize individuals or teams or perhaps even larger work units. Currently, cultural norms rather than business objectives tend to drive this decision, with team recognition being more common in collectivist cultures and individual monetary rewards being more common in individualistic cultures. These cultural patterns may be breaking down, however, as companies around the world internationalize their workforces and join in the same race to develop innovative products and services. As US organizations restructure around teams to support innovation and adapt other HR practices to this new structure, interest in team-based recognition and rewards seems to be growing (Flannery, Hofrichter, & Patten, 1996). At the same time, as Japanese companies have begun competing in industries that require radical innovation rather than small engineering improvement, they have introduced elements of individual incentive pay. Matsushita was among the first to begin experimenting in this area. Their goal, it seems, is to encourage more of the risk taking and creativity that is needed to compete in industries such as software engineering and telecommunications (*The Economist*, 1999).

Monetary rewards and recognition are powerful tools for motivating employees, directing their behavior, and developing their potential. Perhaps this explains why so many US firms have been experimenting with new forms of pay in recent years. Like other areas of experimentation, the consequences of new pay systems are often difficult to predict accurately. They depend not only on design details but also on how managers administer the system and how well the system is aligned with other HR practices. Careful monitoring of the effects of new pay plans alerts managers to unintended behavioral consequences and speeds the organization's learning about how best to use these powerful tools.

CONTINUOUS MONITORING, EVALUATION, AND REVISION

The design and implementation of effective HR practices is a dynamic process, which unfolds in a unique way in each organization. Due to the complex interdependencies among all elements of a dynamic organization, it is impossible to fully and accurately predict how the introduction of one or more new HR practices will affect employees' behaviors or the longer-term consequences of those behaviors. Consequently, the creation of an effective HR system proceeds in an iterative manner and requires continual monitoring and evaluation. At the same time as the organization is adjusting to ongoing changes, it must be prepared to make revisions that will enable it to better address the future.

CONTINUOUS MONITORING AND EVALUATION

To judge improvement, an organization needs to know where it was before and where it is now. That is, in must engage in continuous monitoring. Continuous monitoring ensures that the organization and its employees learn from their mistakes and successes. Like any body of knowledge, our understanding of how to manage people effectively is based on what has worked in the past. As conditions change, some of our knowledge becomes obsolete. Organizations experiment with their approaches to managing human resources in order to replace obsolete knowledge and thereby improve performance. A strategic approach to managing human resources suggests that the design of *both* performance management practices *and* monitoring and evaluation practices should be driven by the same considerations. Our discussion of the strategic approach to managing human resources suggests that an organization's approach to monitoring and evaluating a performance management system should focus on assessing how effectively the system achieves two key goals: sending a clear, consistent message and representing the concerns of multiple stakeholders.

Clear, consistent message

When designing a performance management system, the intent is to develop policies and practices that are consistent and coordinated with each other in order to communicate a clear message to employees. Thus, evaluation and monitoring activities should assess what messages employees are receiving. If the intended message is not being received, then further diagnosis may be needed to determine which practice(s) account for the apparent communication interference (e.g., a 360-degree feedback system? an incentive system? a training program?). A performance appraisal system that evaluates employees on the basis of the attainment of long-term goals, coupled with a compensation system that rewards employees on the same basis, sends a clear message to employees. On the other hand, a human resource policy that describes employees as the firm's most valuable resource, coupled with constant layoffs and little training, sends conflicting messages.

Multiple stakeholders

In firms that manage their employees strategically, managers know why they lead their people the way they do. Their entire set of HR practices has been explicitly developed to match the needs of their employees, customers, owners, and so on. Consequently, monitoring and evaluation practices should provide feedback that reflects these diverse perspectives. The objective of monitoring and evaluation is not simply to assess whether plans have been carried out on schedule and within budget. Much more important is whether the actions taken have achieved the desired results. Table 18.1 illustrates several key stakeholders and the concerns they are likely to have (Jackson & Schuler, 2000a).

Taking Corrective Action

The results of the evaluation process serve as input into decisions about how to revise existing performance management practices. Taking corrective action is essential for continuous learning and improvement. Where deficiencies are found, HR professionals must determine whether these are due to poor implementation of well-laid plans, or whether the system's design is itself flawed. Appropriate HR practices may be foiled by managers and subordinates who resist the changes needed. For example, managers may resist changing their leadership behaviors yet such changes may be essential to the successful implementation of new team-oriented HR practices and a culture of empowerment. Their subordinates may resist practices that require them to more actively evaluate and give feedback to their close colleagues and peers, fearing that this will disrupt friendships and create friction within the team.

TABLE 18.1 Examples of stakeholders' concerns for possible monitoring and evaluation

Stakeholder group	Examples of concerns
Owners, investors, or other financial supporters	Financial soundness Consistency in meeting shareholder expectations Sustained profitability Average return on assets over 5-year period Timely and accurate disclosure of financial information
Customers, clients, or patrons	Product/service quality, innovativeness, and availability Responsible management of defective or harmful products/services Safety records for products/services Pricing policies and practices Honest, accurate, and responsible advertising
Employees	Non-discriminatory, merit-based hiring and promotion Diversity of the workforce and quality of work life Wage and salary levels and equitable distribution Availability of training and development Workplace safety and privacy
Community	Environmental issues Environmental sensitivity in packaging and product design Recycling efforts and use of recycled materials Pollution prevention Global application of environmental standards Community involvement Monetary charitable contributions Innovation and creativity in philanthropic efforts Product donations Availability of facilities and other assets for community use Support for employee volunteer efforts

Besides considering whether unmet objectives are due to the design or implementation of the performance management system, decisions about whether to make revisions must be sensitive to the dynamic nature of human reactions to change. On the one hand, early and frequent review can alert the organization to unanticipated disruptive reactions and enable early corrective action. On the other hand, however, it also is important to recognize that some deterioration in behavior and performance is normal and to be expected immediately after major changes are implemented. Initial performance deterioriation may be followed by rapid performance improvement. Thus, it is incumbent upon evaluators to construct models that illustrate the changing consequences that can be expected over time in order to prevent incorrect evaluations and prevent premature revisions (Becker & Huselid, 1998).

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