Industrial and Organizational Psychology, **4** (2011), 165–168.

COMMENTARIES

A Macro Perspective to Micro Issues

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Every decade or so, industrial–organizational (I–O) psychologists interested in performance management question fundamental issues in this domain (Banks & Murphy, 1985; Feldman, 1981; Ilgen, Barnes-Farrell, & McKellin, 1993; Landy & Farr, 1980). Pulakos and O'Leary (2011) are continuing this interesting tradition by arguing that bringing the focus on the relationship between the manager and the employee will mend performance management. We concur with the broad assessment that an excessive focus on technical improvements in performance management systems is misplaced and that implementation issues plague performance management. But we believe that poor implementation is an operational challenge not because of the practice itself but rather on account of misalignment—misalignment with (a) the overall organizational strategy and (b) other human resource (HR) practices.

Discussions of strategy are often neglected in the adoption and implementation of various HR practices, and performance management is a particular culprit. In highlighting that the adoption of performance management practices fails to consider their fit with organizational culture, Pulakos and O'Leary also allude to a consideration of alignment. But they do not go far enough in clearly outlining the role of alignment in the recommendations they offer. Therefore, in this commentary we first highlight the relevance of both external (with organizational strategy) and internal (across other HR practice) alignment, using the issue of ''rating competencies'' as an example to support our point. Second, we explicitly discuss the issue of internal alignment across HR practices, using the issue of ''multisource assessment'' as an example. Finally, we outline the implications of such a macro perspective for performance management research and practice.

Performance Management: Considerations of External and Internal Alignment

Over the past 3 decades, practitioners and academics have highlighted the importance of aligning HR strategy with the firm's competitive strategy (external alignment) and also aligning an individual HR practice (e.g., performance management) with other HR practices (internal alignment). Consider, for instance, a seminal study that compared manufacturing organizations that adopted distinct competitive strategies: cost leadership versus quality and flexibility (also referred to as a differentiation strategy; Youndt, Snell, Dean, & Lepak, 1996). Results indicated that manufacturers who focused primarily on cost reduction (i.e., cost leadership strategy) emphasized *administrative HR systems* that aimed to increase employee productivity.

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https://doi.org/10.1111/j.1754-9434.2011.01316.x Published online by Cambridge University Press

Performance management processes in such organizations focused on error reduction and process standardization. Performance appraisals were results based—there was little emphasis on employee development and enhancing employees' skills because employees in such manufacturing organizations were unlikely to have much autonomy in performing their jobs. In contrast, manufacturers who adopted quality or flexibility (differentiation) strategies emphasized *human-capital enhancing HR systems* that aimed to enhance employee skill acquisition and development. Performance appraisal methods were behavior based, and there was a greater emphasis on processes where employees received continuous feedback and developmental opportunities. The results of this study provided evidence that organizational performance was maximized when the HR system (administrative or human-capital enhancing) was aligned with the corresponding competitive business strategy (cost leadership or differentiation).

How would a strategic HR approach help address the concerns outlined by Pulakos and O'Leary? Consider the organizational application of one performance management practice embedded in their concern about rating competencies: the use of forced distribution rating systems (FDRS). General Electric (GE) is often cited as an exemplar of an organization implementing FDRS. Of note, it consistently appears in annual rankings as of one of the most admired companies (e.g., *Fortune* magazine annual rankings). From a strategic HR perspective, the use of FDRS is an appropriate performance management practice at GE on two counts. First, it is consistent with GE's organizational strategy of differentiation in many businesses wherein it endeavors to offer innovative products and services to its customers (Jones & Butler, 1988; Porter, 1985). Such a business strategy necessitates an HR strategy wherein GE needs to make appropriate distinctions between high- and low-performing employees through FDRS. Second, GE has implemented compensation, training, and development processes that complement this performance management approach.

But the use of FDRS has failed at other large organizations (e.g., Ford Motor Company), generated much criticism, and resulted in lawsuits (Scullen, Bergey, & Aiman-Smith, 2005). Certainly, issues such as the time frame of application of FDRS (Scullen et al., 2005), rater and ratee reports of difficulty and fairness (Schleicher, Bull, & Green, 2009), and severity of consequences for low performers (Blume, Baldwin, & Rubin, 2009), among other issues, would influence the effectiveness of FDRS. Beyond these elements, strategic HR research highlights that implementation of FDRS at a particular organization should be guided by its overall organizational strategy as well as the fit of FDRS with other HR practices—failing to do so may explain the poor adoption of FDRS.

Now contrast GE's performance management practice with Walmart, one of the world's largest and most successful business organizations. Walmart follows a business strategy that emphasizes cost leadership where its goal is to be the industry leader in reducing costs and to offer the benefits of this cost reduction to its consumers (Jones & Butler, 1988; Porter, 1985). Consistent with this organizational strategy, its HR strategy does not focus on making relative distinctions between employees. Consequently, its performance management system focuses on comparing its employees with respect to an absolute standard or benchmark. Does the use of such an absolute rating system indicate that performance management practices at Walmart are less effective than those at GE? Insights from strategic HR research indicate otherwise. Performance management practices at Walmart are aligned with its HR and business strategies—making relative distinctions between employees will be time consuming and costly for Walmart and incongruent with its primary focus on cost reduction. Thus, Walmart's and GE's approach parallels that of the manufacturing organizations in the Youndt et al. (1996) study. Consistent with its cost leadership strategy, Walmart emphasizes an administrative HR system, whereas GE's human-capital enhancing HR system reflects its differentiation strategy—it is this external alignment that maximizes performance.

Taking a Closer Look at Internal Alignment

Pulakos and O'Leary's article also glosses over the issue of internal alignment or the fact that the effectiveness of individual performance management practices are contingent upon their alignment with other HR practices. For the sake of parsimony, we chose to highlight this point by focusing on one of the processes targeted by Pulakos and O'Leary: multisource assessment.

Pulakos and O'Leary express uncertainty "whether or not their [multisource feedback processes] cost and complexity provide a sufficient return to justify their use." This is an empirical question that certainly deserves to be investigated. Clearly, feedback processes can potentially lead to detrimental effects of performance (Kluger & DeNisi, 1996), and multisource feedback can be quite costly in terms of development, implementation, and rater involvement (e.g., London & Beatty, 1993). However, evidence gathered so far does point to a positive impact on employee performance when these feedback processes are structured and supported appropriately. Research on the topic, which is based on realistic field experiments and robust longitudinal designs, outlines the boundary conditions under which feedback systems work. These conditions include the complementarity of other development processes such as coaching (Luthans & Peterson, 2003) and the use of training (Seifert, Yukl, & McDonald, 2003). Furthermore, research highlights the importance of enhancing accountability mechanisms—a sense of accountability (toward raters or the organizations) was one of the best predictors of development as a result of multisource feedback (Atwater & Brett, 2005; London, Smither, & Adsit, 1997). In summary, feedback processes have to be packaged with appropriate training, development, and compensation components in order to be effective. The recipe is clear, and the crux of the matter remains in ensuring that this packaging (or internal alignment) occurs.

Incorporating Strategic Perspectives in Performance Management

Note that we have considered the implementation challenges of FDRS and multisource feedback only as examples. Our larger point of focusing on alignment equally applies for the implementation issues plaguing other performance management practices highlighted by Pulakos and O'Leary (i.e., cascading organizational goals to employees, setting SMART goals). Incorporating a strategic perspective in performance management would spur researchers to shift their focus from technical improvements in performance management practices to identifying strategic performance management configurations. That is, it will direct research attention toward determining unique bundles of performance management practices that reinforce other HR practices and are aligned with the organization's strategy.

For practitioners, a strategic view of performance management will help in crafting customized performance management solutions that enable their organizations to maximize performance. Practitioners could frame nuanced performance management systems that are appropriate based on the organization's context and strategy. Some organizations could have highly complex systems, whereas others may implement the "straightforward and simple formal appraisal systems" that Pulakos and O'Leary recommend.

In conclusion, Pulakos and O'Leary's cautions of moving beyond formal systems in performance management and focusing on informal ones such as the manager–employee relationship are well-intentioned. But merely focusing on informal processes would continue the tradition of pursuing technical enhancements in performance management without valuing the role of context (Johns, 1993). Rather, I–O psychologists would benefit from incorporating strategic HR perspectives, which will enable them to design robust performance management architecture.

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