Achim Krauser

Performance Management for Different Employee Groups

A Contribution to Employment Systems Theory

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A Contribution to Employment Systems Theory

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Preface

This work contributes to a strand of research which is referred to as employment systems theory and which is concerned with configurations or systems of employment practices for different employee groups. Various explanations are offered for the existence of different employment practice configurations. While earlier approaches have focused on single considerations, such as institutional rules or transaction costs, more recent approaches have been seeking to integrate various theoretical bases and to extend employment practice configurations to include management practices associated with various human resource management (HRM) functional areas.

The present work builds on such approaches to derive an employment systems model with workforce functions in the organizational value-adding process as *independent variable* and configurations of employment and management practices as *dependent variable*. The explanatory link between workforce functions and employment configurations is based on human capital theory, transaction cost analysis, and control theory.[1] The economic analysis is complemented by an institutional perspective to explain the existence of a limited number of employment configurations. Thus, one central contribution of the present work to the literature on employment systems is an employment systems model that integrates economic and institutional theories in a way that explains the existence of six archetypal staffing arrangements better than previous models. In the process, the differentiated staffing arrangements are elaborated upon and enriched through the integration of relevant sociological theories on managerialism, professionalism, socialization, networks, commitment, the collective organization of industrial workers, and contingent work, adding further to the understanding of the functioning of different employment modes.[2]

A second contribution of this work lies in the exploration of the gap between so-called macro and micro research on HRM. Macro or (strategic HRM) research is

[1] Cf. Sect. 2.1.

[2] Cf. Chap. 2.

concerned with constellations of HRM practices and various context factors. Employment systems theory may be regarded an example for a macro approach to HRM research. Micro approaches are concerned with the detailed design of HRM practices. Research by behaviorists or occupational psychologists which examines the impact of particular HRM practice designs on employee behavior represents an example for such approaches. Various publications in the strategic HRM literature have criticized the compartmentalization of macro and micro approaches and have emphasized how valuable an integration of both research strands would be. Thus, the present work extends and refines the somewhat sketchy HRM practice configurations described in the extant employment systems literature by resorting to theoretical and empirical insights of the micro literature.

In refining the HRM practice configurations, the current work focuses primarily on those aspects of HRM that relate to performance management and appraisal. The incidence of performance appraisal has been increasing over the past decade and it is now being applied to various employee groups from industrial workers to executive managers. There is also a greater number of techniques for conducting performance appraisal, including, for instance, management by objectives, behaviorally based rating scales, competency frameworks, multisource appraisal, and forced ranking. While such techniques are developed to the finest grain of detail, they are typically researched in isolation. It is not clear under which circumstances the multitude of different techniques should be used. At the same time, performance appraisal assumes a central role in the HRM system, as ratings or assessments of performance represent prerequisites for decisions related to compensation, development, and staffing processes.

A chain of analysis is developed through Chaps. 2–5. The chain begins in Chap. 2, with the derivation of employment configurations for six types of workforce functions, including those of managers, professional/occupational employees, industrial/clerical workers, team workers, casual workers, and professional/occupational contractors (cf. summary tables at the end of Chap. 2). Each of the six employment systems is expanded upon in Chap. 3, examining the requirements and HRM subsystems for control, staffing, and development. These subsystems represent performance management configurations, which are summarized in the tables at the end of Chap. 3. Demands for performance appraisal in terms of control/monitoring performance, staffing/predicting performance, and development are determined and included as performance appraisal purposes in the tables. The *performance appraisal purpose* is a central variable. Depending on the purpose of conducting appraisals, the appraisal processes and dimensions need to be designed differently. Thus, in the chain of analysis of the present work, the appraisal purpose constitutes a logical link between the employment and performance management configurations on the one hand (Chaps. 2 and 3) and performance appraisal dimensions and processes on the other (Chaps. 4 and 5).

Performance dimensions and methods for defining them are derived for each of the six workforce functions in Chap. 4 (with summary tables provided at the end of the chapter). Function-specific appraisal processes are defined in Chap. 5, including mechanisms of performance observation, performance rating, feedback provision,

accountability and problem resolution, as well as appraisal training. Appraisal objectives are specified at the beginning of Chap. 5, which help to link conceptually performance appraisal purposes and appraisal process configurations for the different workforce functions. The appraisal process configurations are summarized in the tables at the end of Chap. 5. Various theoretical and empirical approaches by occupational psychologists (such as feedback intervention theory and associated systems theory) are referred to in Chaps. 4 and 5 to define causal links among appraisal purposes, performance dimensions, and process configurations.

Thus, a chain of analysis is proposed and explored from Chaps. 2–5. It starts with the functions of six types of staff in the organizational value-adding process. For each type, an employment relationship is defined, including the variables *generic competency requirements*, *extent of organization-specific development*, *object of allegiance*, *nature of the exchange relationship*, and *control system.* The six employment systems are subsequently associated with six performance management systems, specifying HRM practices related to the control, staffing, and development of each employee category. Appraisal purposes are derived and these provide the basis for the derivation of performance dimensions, appraisal objectives, and appraisal processes. To establish the links between the various steps in this chain of analysis, this research draws upon economic and psychological theories as well as empirical insights. Institutional theory plays a role in the explanation of the existence of six archetypal employment and management systems. Employment systems theory is, as an open systems approach, an amalgam of theories. The theoretical contribution does not lie at the level of each individual theory but at the level at which the theories are integrated to yield and explain configurations of employment and management practices. In that respect, the present work follows in the tradition of previous contributions to this strand of research.

Additionally, the psychological–behavioral literature on performance and appraising is reviewed, structured, and developed further as necessary to meet the goals of this work. In several instances, this requires more than just a compilation and integration of theories into the employment systems framework. For example, in Chap. 3, a contribution is made to a strand of research on the purposes of performance appraisal in the form of a proposed classification of appraisal purposes, thus advancing the existing descriptive classifications and adding a prescriptive dimension by integrating them into the employment systems model.

Furthermore, in order to provide a basis for the definition of performance dimensions, a conceptual analysis of performance and related constructs is conducted in Chap. 4. A general performance theory is proposed, which explains how various aspects of performance relate to each other and how they are relevant in the performance management process.

The appraisal purpose classification and the general performance theory are fundamental to the arguments made in Chaps. 3 and 4, and they represent contributions to the respective ‘micro’ strands of the literature. The arguments made in Chap. 5 can rely partly on existing theoretical frameworks, such as feedback intervention theory and associated systems theory. The contribution lies in the

way these theories are integrated with the employment systems framework to derive the appraisal process configurations. Additionally, the argumentation in Chap. 5 reveals gaps in the existing literature; that is, it was necessary to develop further conceptually some of the existing approaches in order to be able to integrate them into the employment systems framework and derive hypotheses about a function-specific design of the appraisal process. For example, an original classification of *performance appraisal objectives* is introduced in Sect. 5.1. Likewise, the discussion and proposition of accountability and problem-solving mechanisms in Sect. 5.5 are original as are some of the options proposed with regard to appraisal trainings in Sect. 5.6. Throughout the dissertation, any theory which is integrated is critically reviewed, assessed, and interpreted in ways which may be of interest not only to employment systems theorists but also to the respective researchers in behaviorism and occupational psychology, including the discussions on commitment (that is, commitment to organizations, professions, and the labor collective) in Chap. 2; on ways of overcoming appraisal purpose conflict in Chap. 3; and on cognitive ability and personality as well as the definition of scaling factors for performance dimensions in Chap. 4.

The present work is theoretical. It not only describes what works or what kind of performance management and appraisal configurations are used in practice but also explores causal links and explanatory factors throughout. Lingo, analytical style, and intended contributions of this work all seek to appeal primarily to an academic readership with an interest in employment systems theory and in performance appraisal. Nevertheless, this approach to employment systems theory will also be immediately relevant in a practical context. Since it extends employment systems to include the findings of micro research (which are generally less abstract and more immediately implementable than macro approaches), the insights of employment systems theory become more tangible and relevant. Hence, the present work may also be used as a guide in the design of function-specific performance management systems by practitioners.

Mannheim, December 2008 Achim Krausert

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AOC	attitudinal organizational commitment
BARS	behaviorally anchored rating scale
BetrVG	Betriebsverfassungsgesetz (German codified law of worker rights)
BOS	behavioral observation scale
BOT	behavioral observation training
BSC	balanced scorecard
CEO	chief executive officer
cf.	compare
CIPD	Chartered Institute of Personnel and Development
Corp.	corporation
FIT	feedback intervention theory
FOR	frame of reference
GMA	general mental ability
GNP	gross national product
HRM	human resource management
ILM	internal labor market
IPRP	individual performance-related pay
IT	information technology
MBA	master of business administration
MBTI	Myers-Briggs type indicator
NHS	National Health Service
NLRA	National Labor Relations Act
NLRB	National Labor Relations Board
PAQ	Position Analysis Questionnaire
PRP	performance-related pay
R&D	research and development
rep grid	repertory grid method
ROI	return on investment
SHRM	strategic human resource management
SKAs	skills, knowledge, and abilities

SMWT	self-managed work team
STS	socio-technical systems
THS	temporary help service

Chapter 1
Theoretical Perspective and Outline

Theoretically, this dissertation is situated within a strand of research which is concerned with how, why, and when organizational arrangements for employing and managing human capital differ. It will be argued, in particular, that configurations of employment and management practices should be contingent on the function of human capital in the organizational value-adding process, such as managing organizational systems, performing specialized technical functions, or carrying out physical work. The configuration of employment and management practices as dependent variable takes account of factors such as career paths, expectations regarding employment security, pay arrangements, selection and monitoring systems, and the performance appraisal process. The goal of this approach is not only to describe configurations contingent on some independent variable but also to explore and explain the link between the independent variable and the dependent configurations and to make recommendations with regard to the optimization of configurations for different workforce functions.

This strand of research can be traced back to the nineteenth century. Originally, the concern was to capture theoretically the emerging internal labor market (ILM) arrangements, which were contrasted with external labor market mechanisms. The earlier research, conducted by economists, focused on single factors to explain the different employment systems, such as transaction costs or institutions. In the tradition of the origins of this research strand, it is referred to as ILM theory. More recent contributions by organizational theorists focused on the elaboration of employment and human resource management practices for a greater number of different employment systems and also on the integration of different theoretical perspectives. These contributions have also been referred to as employment systems theory.

As employment systems theory has been seeking to define configurations of human resource management practices for different employment systems, it may be regarded as a strategic approach to human resource management. **Strategic human resource management** (SHRM) has been defined as "the pattern of planned human resource deployments and activities intended to enable an organization to achieve

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its goals."[1] It is a 'macro' view on HRM; that is, it is concerned less with differences in the design of particular HRM practices than with the context of and interconnections between HRM practices.[2]

The most recent approaches to employment systems theory have been integrating various theoretical perspectives, each of which explains an excerpt of the macrosystem they depict. One of the models, for example, builds on the resource-based view of the firm, human capital theory, and transaction cost economics.[3] Hence, the employment systems approach has been called "an amalgam of economic, sociological, and technical arguments."[4] As a theoretical perspective in its own right, employment systems theory may be classified as an open systems approach. Open or cybernetic systems theories of HRM are concerned with the links between HRM practices, behaviors of employees, and organizationally relevant outcomes. In that respect, they resemble behavioral approaches to SHRM, although the latter are to be classified as closed system models. Open system models are, in addition to the HRM–behavior link, concerned with human capital flows in and out of the organization, with the allocation of human capital across jobs and functions within the organization, and with the effects of *clusters* of HRM practices on organizational outcomes.[5]

An open systems approach to SHRM implies a configurational perspective on HRM, which contrasts with universalistic and contingency perspectives.[6] Research adopting a *universalistic perspective* seeks to identify HR practice designs that lead universally to better outcomes for the organization than other designs, regardless of the circumstances under which the HR practice is applied. Such a perspective is typically assumed by 'micro' researchers of HRM. For instance, a particular design of employee share-ownership scheme may be superior to other designs whenever employee share-ownership practices are used. Whether employee share-ownership as such is equally effective in eliciting a given desirable behavior or outcome across different employee groups, whether particular desirable behaviors are equally relevant in different functions and jobs, and whether the costs of employee share-ownership can be justified equally for all types of employees are of no concern to such research. In contrast, HRM research that assumes a *contingency perspective* will focus on the differential effects of a given HR practice on relevant outcomes depending on various contextual variables, such as a company's competitive strategy. The *configurational perspective* is an expansion of the contingency perspective in that it is concerned with the contingent effectiveness of entire HR systems or configurations as opposed to individual HR practices.

[1] Wright and McMahan (1992, p. 298).

[2] Wright and Boswell (2002).

[3] Lepak and Snell (1999, 2002).

[4] Uzzi and Barsness (1998).

[5] Wright and McMahan (1992).

[6] E.g., Colbert (2004), Delery and Doty (1996).

The **historic origins** of ILM and employment systems theory can be traced back to Kerr (1954). Building on the concept of noncompeting groups in labor markets by Cairnes (1874), he distinguishes two sets of institutional rules which delimit structured ILMs. Workers employed under the so-called *craft system* are trained and socialized into a craft by their unions; employers hire workers through the unions; and movement between firms is relatively frequent. Alternatively, employers may hire workers through the *industrial system,* whereby employees are attached to a single employer and to a subsystem such as production, sales, or white collar. Within their subsystem, the industrial employees may move vertically up the closed hierarchical structures. Besides the two ILM systems, Kerr also refers to external structureless markets for unskilled workers.

Dunlop (1966) and Doeringer and Piore (1971) further specify the rules that govern external and ILM arrangements. They suggest that internal employment systems are characterized by inertial administrative rules. The inertia of the rules stems from norms and customs, which develop once a set of rules is in place. In the first instance, however, according to Doeringer and Piore, the rules are established as a result of rational firm decision making.[7]

Edwards (1979) and Osterman (1982, 1984, 1987, 1988) refine the typology of employment systems by adding a type for managers and professionals. Compared to the industrial system, jobs of that type are defined more broadly; compensation is based on seniority rather than on the job definition. Osterman further notes economic pressures on organizations to introduce core–periphery systems of employment. The workers at the 'periphery' of the organization are low-skilled, low-paid employees with a lack of career prospects within the organization. They are employed under what Osterman refers to as a secondary subsystem. While the workers positioned at the periphery must give up some of the previous rights and benefits of industrial workers, those at the core, Osterman argues, must assume increasingly broad and flexible job responsibilities.

Osterman also contributes to the understanding of the economic rationale of the different employment systems. He suggests that an organization's configuration of employment practices should depend on the relative importance of HR goals of cost effectiveness, predictability, and flexibility of employment. He also notes that there may be firm-specific constraints on the strategic choice of practices, including physical technology, social technology, the characteristics of the labor force, and government policies.

Lawrence (1985) depicts the historical development of different employment systems. His theory covers craft, market, technical, career, and commitment systems. He associates the emergence of each system with historical changes in technology, the economy, and society. According to Lawrence, whenever a new system emerged, the other systems continued (and mostly still continue) to be used for staffing certain functions and jobs. Building on the work of Lawrence and Osterman, Hendry (2000, 2003) suggests that organizations choose from eight

[7] Cf. Sect. 2.2.

types of employment system, each of which emerged as a result of particular historical changes in the industrial environment. They include an occupational/professional system for managing high-skilled employees and a market system for managing low-skilled ones. In both of these systems, Hendry argues, control is exercised at the market level. He distinguishes them from a career system for high-skilled and an industrial/clerical system for low-skilled employees, both of which feature control structures at the level of the organization. He further identifies an associate system for high-skilled employees and a family/political system for low-skilled employees that involve control at the personal level. Finally, Hendry refers to an emerging commitment system, being the result of a shift within the industrial system toward the career system, and an emerging performance management system, resulting from a shift in the career system toward market-based control.

Any historic overview of research contributing to this theoretical strand must also refer to writers of the psychological contract literature; Rousseau (1995) distinguishes five types of employment relationship: careerists/jugglers, core, pooled, independent contractors/temporaries, and networked/guest workers. Each of them is associated with a specific psychological contract. A *relational* psychological contract, for instance, entails expectations of long-term employment and performance terms that are not specified in advance. A *transactional* contract lasts for a limited period of time and the performance terms are specified in advance. Additionally, Rousseau distinguishes psychological contracts according to which one party in the employment relationship gets more out of the relationship than the other. This idea is taken further by Tsui et al. (1995, 1997), who build on exchange theory to differentiate between balanced and imbalanced approaches to employment. They suggest that transactional and relational contracts are balanced in that the contributions made by employees to the organization and the remuneration and support they receive from the organization are perceived to be equitable. The so-called unbalanced approaches encompass overinvestment and underinvestment approaches. Overinvestment approaches are characterized by long-term employment security and a narrow specification of task responsibilities *ex-ante*. Such employment relationships may result, for instance, from the influence of powerful trade unions. Underinvestment approaches involve broad, flexibly defined obligations of employees and close-ended contracts. They may occur, for example, temporarily in the wake of organizational restructuring or as a result of oversupply of a given type of human capital in the labor market.

The employment systems model created by Lepak and Snell (1999, 2002) can be considered the **theoretical basis** of the present work. Their model focuses on explaining the economic rationale of two market-based and two internal systems of sourcing and managing human capital, building on the resource-based view of the firm, human capital theory, and transaction cost economics. They argue that organizations administer human capital through ILM arrangements if its *strategic value* is high and through market-based arrangements if the strategic value is low. Human capital is considered strategically valuable if it enables "a firm to enact strategies that improve efficiency and effectiveness, exploit market opportunities, and/or neutralize potential threats"; that is, if it contributes "to the competitive

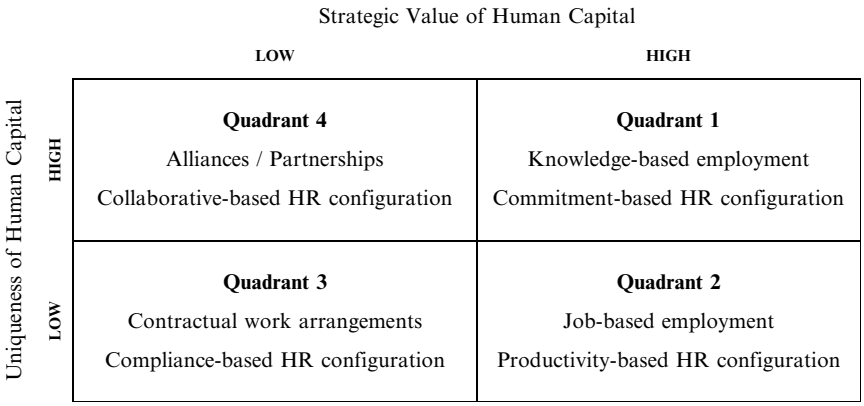

Fig. 1 Employment systems model by Lepak and Snell (2002, p. 520)

advantage or core competence of the firm."[8] Both the market-based and the internal systems are further differentiated according to the *uniqueness of human capital*, as shown in Fig. 1, where uniqueness is defined as the firm specificity of human capital. Firm specificity of human capital may, for example, result from "enhanced social complexity, causal ambiguity, and the development of tacit knowledge" in team-based production or unique operational procedures.[9]

The *knowledge-based* employment mode applies to an organization's core employees, such as managers or team-based production workers, who collectively hold the knowledge central to an organization's strategic competitive advantage and raison d'être. They are granted long-term employment security, generous remuneration, and the firm will invest in their development. In return, they are committed to organizational goals, which they pursue without narrowly defined job descriptions.

Examples of employees hired under the *job-based* employment mode include, for instance, accountants, engineers, and lawyers.[10] Owing to their lower degree of uniqueness of human capital, they are thought to be more likely than those in knowledge-based employment to transfer to other organizations. Their jobs are defined more specifically than those of knowledge-based employees. And employers are less inclined to invest in the development of their transferable skills. Instead, employers seek fully trained staff, able to perform on the job immediately upon employment. It is because of their high strategic value, Lepak and Snell argue, that job-based employees are hired under an open-ended contract of employment.

[8] Lepak and Snell (1999, p. 35).

[9] Lepak and Snell (1999, p. 35).

[10] Lepak and Snell (2002, p. 525). Their empirical study also indicates that HR professionals may either be categorized as job-based or as knowledge-based, depending on the role of the HR function in the organization.

The *alliances/partnership* mode is concerned with the engagement of external service providers who are defined through a high degree of uniqueness and a low strategic value, such as management, legal, and IT consultants, investment bankers, and research and development laboratories. They typically cooperate with the firm on a long-term basis, which enables them to apply their specialist expertise in the given organizational context. Development and incentive practices are geared toward the integration of knowledge and the elicitation of cooperative behavior, so the argument goes.

Contractual work arrangements cover low-skilled workers whose jobs are narrowly defined and easily monitored. There is a large supply of such workers in the market who can perform the jobs without any training or development. Hence, they are easily replaceable. HRM activities focus on ensuring compliance with narrow job definitions.

Lepak and Snell provide empirical support for their model.[11] For a sample of 148 firms, they confirm that a measure of the strategic value of human capital is higher for the two ILM modes than for the two market-based arrangements. They also find that a measure of the uniqueness of human capital is greater for knowledge-based employment and alliances/partnerships than for job-based employment and contractual work arrangements, respectively, as predicted. Their predictions about the HR practices associated with the different employment modes are also confirmed, with the exception of the prediction made for knowledge-based employment. Although what is referred to as commitment-based HRM configuration is, as expected, applied almost exclusively to knowledge-based employees, the other three HRM configurations are also used to manage this type of employment. Among other explanations, the authors point out that "there may [. . .] be inertial pressures [. . .] that limit freedom to adopt a commitment-based approach."[12] Such pressures may relate, in particular, to what is referred to elsewhere as industrial/clerical workers, who, in this model, must be subsumed either with knowledge-based employees or with contract workers, corresponding with the notion of a core–periphery system of worker employment. In other words, in Lepak and Snell's model, workers are employed either as team-based production workers with high levels of employment security and responsibility, or as contingent or temporary workers with no employment security and narrow job definitions.

Approaches which include explicitly an institutional perspective, such as those by Lawrence and Hendry, suggest that existing employment systems are not entirely superseded by newly emerging employment modes and that they continue to be relevant for certain functions in the organizational value-adding process. It is proposed that the emergence of core–periphery employment practices for workers do not replace the traditional industrial employment mode entirely. If the industrial employment mode continues to exist, a model which caters for three types of employment modes at the worker level might yield a better fit with the empirical data.

[11] Lepak and Snell (2002).

[12] Lepak and Snell (2002, p. 537).

Another conceivable explanation for the inconsistent application of HRM practices to the knowledge-based employment mode could be that, in practice, the characteristics of the employment mode and the associated HRM practices may differ for core employees at the management and at the worker level. In other words, if there had been separate employment/HRM configurations for managerial core employees and for core or commitment-type workers employed in production functions, the model could potentially have better explained the data.

Finally, the empirical results of Lepak and Snell's study deviate from their model in that the strategic value of alliances/partnerships was found to be significantly higher than that of contracted workers, that is, at levels comparable to those of job-based employees, and significantly lower than that of knowledge-based employees.

Lepak and Snell's model represents a starting point in the pursuit of a **twofold objective** of the present work. The first objective is to develop an enhanced, alternative model with a view to accomplishing a better match with the empirical observations. That model is introduced in Chap. 2. The second objective of this work is to extend strategic or macro theory of HRM to integrate micro approaches. Thereby, it heeds to publications which have criticized the compartmentalization of macro and micro research on HRM and a lack of convergence between the two approaches.[13]

It can be argued that the extant 'storyline' of employment systems theory begins with the functions of different types of human capital in the organizational value-adding chain. For each function, an employment system is characterized, for instance, in terms of entry points into the system, the expected duration of employment, and the specificity of the job definition. Blending in with the characterization of the employment relationship is a preliminary outline of HRM practices that are expected to be associated with different functions and employment relationships. The theoretical storyline ends at that point with sketchy statements such as "compensation systems are also likely to be job-based (Mahoney, 1989) balancing market wages with concerns over internal equity."[14] Or: "To further emphasize the importance of learning over time, performance appraisal systems are likely to focus on developmental feedback."[15] The statements are not derived systematically; causal links are not yet explored. In the absence of theoretical exploration, a number of empirical studies have used cluster analysis to identify HRM configurations.[16] Lacking a theoretical foundation, it is perhaps not surprising that "empirical categorization schemes do not reveal consistent patterns of HR practices."[17] Failure to derive actionable HR practices, in turn, limits the applicability and, hence, relevance of SHRM and employment systems theory.

[13] Wright and Boswell (2002), Ferris et al. (1999), Wright and Sherman (1999), Ostroff (2000).

[14] Lepak and Snell (2002, p. 522).

[15] Lepak and Snell (2002, p. 522).

[16] Cf. review by Wright and Boswell (2002).

[17] Cf. review by Wright and Boswell (2002, p. 13).

Given the limits of space, time, and cognitive capacity available for a single publication, it is hardly possible to add equal depth across the entire breadth of HRM subfunctions of an employment/HRM system. Two routes for further developing the extant theoretical storyline seem feasible. Either, one could select one employment mode at a time, for instance that of industrial workers, and develop a detailed HRM system for that mode covering the entire set of HRM subfunctions from recruitment to dismissal. Or one could focus on one HRM subsystem, such as that of recruitment, and explore it in depth for the different employment modes.

The second route has been chosen by a study which matched different styles of leadership to the four staffing modes of Lepak and Snell's model.[18] This route may be advantageous over the first one for practical reasons. The 'micro' literature on the various subfunctions of HRM is more extensive than the literature on the specifics of the various employment modes. It seems that the resources of the community of employment systems researchers will be used more efficiently overall if each publication or researcher studies a different functional area of HRM, such as recruitment or remuneration, and applies it to the different types of human capital rather than each researcher studying all functional areas of HRM in depth and applying them to a different, single type of human capital.

Thus, the present work seeks to add depth to employment systems theory by integrating systematically the findings of micro research on one selected subfunction of HRM with the different staffing modes of an altered version of Lepak and Snell's model. Subfunctions of HRM that could be subjected to the proposed analysis include, for instance, recruitment and selection, performance appraisal, training and development, and remuneration.[19]

Performance appraisal is chosen because it represents a pivotal element of any employment/management system and a mechanism for exercising control over the contributions by the employee to the employment relationship. Performance appraisal constitutes a foundation for other HR subfunctions in that assessments and ratings frequently represent an input for remuneration, staffing, and training/development decisions. Thus, there is value in deriving HR practice configurations for the HR subfunction of performance appraisal first, as the design of other subfunctions may build on the understanding of performance and competency requirements of different workforce functions developed during the process of defining performance appraisal configurations.

Performance appraisal can be defined as the process of evaluating the performance of an individual or group in relation to implicit or explicit performance expectations, which may be based on the past performance of this individual or group, the past or present performance of others, or logical deduction. The term performance appraisal also implies a systematic approach to evaluation, which is agreed upon in advance and takes place at regular intervals.[20] Empirical studies,

[18] Liu et al. (2003).

[19] E.g., Tichy et al. (1982).

[20] Cf. DeNisi (2000), Drewes and Runde (2002), Fletcher (2002).

carried out at the beginning of the 1990s, found that between 74 and 89% of organizations operated a formal appraisal system at that time.[21] More recent publications suggest that the prevalence of performance appraisal has risen further as it is applied increasingly to all parts of the organizational hierarchy, including professionals, senior and middle managers, clerical employees, and blue-collar workers.[22] This indicates that some workforce functions may have been subjected to formal appraisals only more recently than others and that there may be value in determining whether and how appraisals ought to be conducted differently for different functions.

A potential risk inherent in the chosen route of focusing on one HRM subfunction and relating it to different employment modes is that interdependencies between different HRM subfunctions are missed and omitted from the theoretical model. To mitigate this risk, the performance appraisal function will be studied in context in Chap. 2. Before focusing on the detail of performance appraisals, the nature of each type of employment relationship will be characterized while maintaining a relatively broad perspective, specifically in Sect. 2.3. On the basis of a comprehensive understanding of the key features of each type of employment relationship, Chap. 3 will be concerned with the HRM subfunctional context of performance appraisal. That is, performance appraisal purposes will be derived by discussing the control, development, and staffing processes of the different employment modes.

Further narrowing the perspective of analysis, the contingent design of performance appraisal systems will be the subject of the fourth and fifth chapters. The term *performance appraisal system* implies that performance appraisal can itself be regarded as a configuration of policies and practices. Central elements of the performance appraisal system are the appraisal criteria or performance dimensions as the focus of the appraisal process. Performance dimensions will be the subject of Chap. 4. Chapter 5 covers the appraisal process including, for example, the rating source, rating scales, and feedback processes. Hence, the structure proposed for the remaining chapters represents a chain of analysis from the function of human capital in the organizational value-adding process, through the nature of the employment relationship, the systems of control, staffing, and development, the performance appraisal purpose, the performance dimensions, to the performance appraisal process.

The agenda of this dissertation is **theoretical as opposed to practical** in that the concern is not merely with making predictions about effective HRM practices but also with understanding *why* a solution is effective.[23] Nevertheless, it is hoped that the intended balance somewhere between the abstractness of macro research and the sometimes narrow detail of micro research is also practically relevant and that it appeals, say, to the academically inclined SHRM practitioner.

[21] Harris (1994).

[22] Fletcher (1997, 2002).

[23] Wright and McMahan (1992).

Taking a broad perspective on performance appraisal by integrating relevant aspects of control/compensation, development and staffing may be associated with the practitioner concept of performance management. *Performance management* has been defined as "the range of activities engaged in by an organization to enhance the performance of a target person or group."[24] Depending on the author, this includes activities related to planning, managing, and appraising performance[25] as well as to rewarding and developing performance.[26] Performance management has then also been described as "more holistic" and as a "control process that tries to ensure that subordinates act in accordance with organizational goals."[27] Some empirical evidence indicates that performance management may be, especially, applicable to managerial employees.[28] Besides that, performance management seems to be a somewhat elusive concept and it is hardly dealt with in the academic literature. Yet, practitioners with an interest in the topic may find the present work relevant.

A more recent buzz word in the world of HRM practitioners is *workforce management*. The term is used somewhat inconsistently, but it often refers to activities of human capital management at the level of the workforce function. It encompasses determining what skills are required by a function, the skill level available, whether to 'insource', 'outsource', or 'offshore' a function, long-term HR plans in the context of demographic change, and managing time, attendance, and expenses data as well as other key performance indicators.[29] Practitioners interested in workforce management may find employment systems theory and the contents of this dissertation relevant.

Finally, the proposed agenda of this dissertation is **theoretical as opposed to empirical**. The goal is to develop the theoretical storyline further, introducing a model which explains the relationship between workforce functions and employment systems and exploring the gap between macro and micro theory. The introduction of the model represents advancement consistent with previous developments in the field; it continues the strand of research developed by Lepak and Snell.[30] In Chaps. 3–5, the model ventures further away from the extant research by integrating various micro approaches to HRM, and so the material must be considered explorative. The existing psychological–behavioral literature is also progressed in the process to enable the derivation of comprehensive employment and HRM configurations.

In exploring the macro–micro gap, the present work represents a response to various criticisms of the compartmentalization of macro and micro research on

[24] DeNisi (2000, p. 121).

[25] Guinn (1987).

[26] Schneier et al. (1987), Heisler et al. (1988).

[27] Fletcher (2002, p. 116).

[28] Industrial Society (1994), Institute of Personnel Management (1992).

[29] E.g., HR focus (2007).

[30] Cf. Chap. 2.

HRM and calls for research to be undertaken in that direction. By expanding employment configurations to include HRM, performance management, and appraisal process configurations, employment systems theory becomes more relevant and practically applicable. It also becomes more verifiable. Previous empirical research on employment systems theory was limited by the abstract nature of the predictions and difficulties in testing them. Using the proposed model, empirical researchers will find it easier to test the effectiveness of configurations at various levels of abstractness for different workforce functions.

In using the model, one must bear in mind that the configurations represent archetypal systems. That is, one would expect employment, performance management, and appraisal process configurations of real organizations to be clustered around the archetypes, provided the studied organizations use effective configurations. The proposed model is a prescriptive model. That is, functions that are staffed according to the proposed employment and management configurations would be expected to be performed most effectively, whereas functions that are not staffed according to the recommendations would be expected to be performed less effectively.

Chapter 2
Workforce Functions

The ultimate goal of organizations is their survival. In the case of public limited companies, survival depends on the capital markets' expectations of their current and future profitability. If the investors perceive that a firm will, at a given level of risk, provide a lower return on their investment than other organizations, they will withdraw their capital and reinvest it elsewhere. The current and future profitability, in turn, rests on the company's ability to contribute something to the economy which people are and will be willing to pay for and which the company does better than other companies. The capital markets represent a mechanism for assessing the current and future demands for different products and services, and for allocating available resources accordingly. This mechanism has become increasingly important in recent years. As product and capital markets have turned global, there are a greater number of firms which compete in satisfying the needs of an economy. Additionally, the technological development has been impacting on what society demands and is willing to pay for. There is a greater degree of dynamism with regard to both what it is that people are willing to pay for and which company is best positioned 'to do the job.' This dynamism has resulted in an increased activity of capital markets, allocating and reallocating resources.

Depending on the business a company is in, there are differences in what it needs to do better than other companies. A company may serve a demand for products or services that are innovative in their design or functionality, that are of higher quality or durability than other products, and that are least costly given functionality, quality, or design. These differing product and service demands require different types of technical expertise. An automobile company which seeks to stand out through technical innovation requires the best engineers to develop the innovations – and expertise in other functions such as marketing, production, and HR, as well as an understanding of how to manage the available resources so that they integrate to generate sustainable competitive advantage in the automobile business. A global bank requires the best financial experts to deliver the returns on investment their customers demand and also expertise in other functions such as marketing, HR, and sales, as well as an understanding of how to coordinate these functions to generate sustainable economic rents in the banking business. A low-cost retailer requires

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expertise in logistics and supply chain management to offer products at a lower cost than the competiton, and expertise in other functions such as marketing, HR, and legal services, as well as a detailed understanding of the particular constellation of factors that lead to sustainable competitive advantage.

In each of these organizations, the HR function needs to make available staff with particular technical skills, for example, in engineering or finance. The competitive advantage of a company will rest partly on its ability to recruit people who are more competent and cost-effective than the people recruited by their competitors. Engineers in Germany, for example, all go through the same school systems and attend broadly the same courses at university.[1] German car manufacturers in the premium sector, such as Audi, BMW, Daimler, or Porsche, compete for these graduates who are possibly a notch better qualified than others, for example, because they have invested extra effort in their studies or have developed some extra competencies through international exchange programs or work placements. Yet, as the terms and conditions for engineers in these companies are comparable, one cannot say that an automaker's position in the market is based primarily on differences in the competence of its engineers. The human resource input into an organization may only partly or temporarily explain the differences between companies' competitive positions. Competitive advantage also stems from a firm's processes which enable the continuous identification and implementation of ways in which the firm can make itself more attractive to the markets than other firms.

A firm's processes can be related to explicit or implicit knowledge of how to run an organization and market its products or services. Some of the firm's processes relate to component knowledge, such as billing processes or processes for the recruitment and selection of new employees. Component knowledge is often made explicit. Hence, it may leak to competitors. At another level, organizational processes may be related to the so-called architectural knowledge. Those are the processes that integrate the various component processes of the organization into a functioning whole. Architectural knowledge is complex, tacit, and can usually not be grasped by a single individual. Competitive advantage stemming from component knowledge is costly to protect. The Coca Cola recipe or patents of pharmaceutical companies represent examples of component knowledge yielding competitive advantage. In most cases, however, component knowledge is sooner or later imitated by the competition. Usually, it is architectural knowledge which represents the main source of sustainable competitive advantage. [2]

Knowledge of the architecture of an organization can only be learnt on-the-job as people experience working in different parts of the company and become a part of

[1] German universities have been egalitarian in that, until recently, students with A-levels had equal access to all universities, all universities received the same state funding, and all professors were paid the same salaries. Recently, a process of evolving into a more market-based system with elite institutions has set in.

[2] Cf. Matusik and Hill (1998) on the distinction between component and architectural knowledge. Cf. Sect. 3.3.6. Cf. Barney (1991) on the resource-based view of the firm and sustainable competitive advantage.

the organizational network. They can only be exposed to parts of the architecture at one time, and they must be exposed to those parts for longer periods of time to absorb them and relate them to other parts of the organizational architecture. Many companies seek to structure the process of architectural knowledge absorption through trainee programs for those who are to become managers of the organization. Upon joining the organization, they are exposed systematically to a number of different divisions, functions, and national subsidiaries. Each assignment lasts for several months during which the trainees work as full members of the respective units.

Thus, it is the managers of an organization who, as a collective, are considered to harbor the knowledge that constitutes the competitive advantage of the organization.[3] Although they may possess a university degree, they do not define themselves professionally through their technical expertise but through their understanding of and ability to function in the idiosyncratic organizational system of their company. They may be referred to as generalists as they must have a broad understanding of all components and functions of an organization. This contrasts with professional specialists in an organization, who define themselves through a particular type of expertise, for example in software programming, engine design, or law. Professional specialists typically have their career within their function. They do not participate in the cross-functional trainee programs when joining an organization. They may be a member of a professional association, through which they continuously develop and maintain their professional knowledge. Because their expertise is not organization-specific, they are more likely to change firms than managers.

Besides managers and professional specialists, most organizations also have a requirement for staff such as production workers or office clerks, who are neither on a generalist's nor on a specialist's career track. Traditionally, they have been collectively organized through trade unions. Some organizations have been attempting to cut these workers' bonds with trade unions through self-managed team working arrangements. Workers in such arrangements are assigned responsibility for managerial tasks, including planning tasks and mutual monitoring. They are granted more generous terms and conditions and higher levels of employment security than traditional workers, which contribute to their identifying with their team or organization rather than with the worker collective. More recently, certain organizational functions have also been staffed with contingent workers. Unskilled contingent workers are hired to reduce costs and to increase the numerical flexibility of the organization; skilled contingent workers are hired to cost-efficiently import expertise which is needed on a temporary basis.

Hence, there are similarities across different kinds of firms and organizations in that they all need staff who manage the unique organizational value-adding chain, staff who perform non-firm-specific specialized functions, and staff who perform unskilled work. There are different ways of employing and managing staff to perform each of these functions in an organization. In the following section, some

[3] E.g., Rousseau (1995); cf. Sect. 2.3.1.

economic theories are introduced to explain how certain parameters of the employment relationship relate to functional job requirements.

2.1 Staffing Different Functions Differently

Depending on their function within the organization, different staff require different competencies. Competencies may be organization-specific, such as an understanding of how different functions and processes interact to generate sustainable profits. Or they may be applicable to different firms, as in the case of specialists in IT or law. Organization-specific competencies are not available on the labor market. They must be developed within the organization. With generic competencies, organizations have a choice of developing them in-house or hiring specialists who already possess the required competencies. According to **human capital theory**, it is more economical to acquire such competencies from the external market.[4] If an organization invested in the development of generic competencies, so the argument goes, it would risk losing its investments to other organizations. Accordingly, organizations should support generic skill development only if the costs are borne by the employee, for example, by paying wages or salaries that are lower than the market rate.[5] Thus, it can be derived from human capital theory that training and development processes should differ depending on the organization-specificity of the competencies required to perform a job. Human capital theory further predicts that staff with organization-specific competencies are paid more than staff with transferable competencies at a comparable level of development, as they must be compensated for a lower level of flexibility, that is, for not being able to seek employment with different organizations without incurring a loss of income.

Making available the competencies required by the different functions of an organization is one contribution of human resource management toward the sustained competitive advantage of the organization. Besides that, HRM systems also must ensure the alignment of the individual's with organizational interests[6] – control must be exercised. In his **control theory**, Snell (1992) differentiates three types of control systems: behavior, output, and input control. Under systems of behavior control, the actions of employees are directly monitored, evaluated against predefined standards, and rewarded or sanctioned on that basis. Behavior control represents the most immediate form of control among the three types, allowing for

[4] Becker (1962).

[5] Alternative to the employees bearing the costs of training through lower wages, organizations may contractually arrange for employees to reimburse the costs of training if they leave the organization prior to a set period of time. Technically speaking, human capital theory predicts that the costs of development will be shared between the employer and the employee and that the shares of each party depend on the relation between quit rates and wages, lay offs and profits, and on other factors such as the cost of funds, attitudes toward risk, and desires for liquidity (Becker, 1962).

[6] Cf. Alchian and Demsetz (1972), Fama and Jensen (1983), Jensen and Meckling (1976).

corrective action to be taken as behaviors are observed. Under output systems of control, it is the results of performance which are evaluated and rewarded or sanctioned accordingly. Staff are given discretion in the selection and pursuit of suitable task strategies. Performance is controlled ex post. Behavior and output control systems both seek to elicit extrinsic motivation. Extrinsically motivated employees exhibit behaviors because they believe that this will yield them valued outcomes such as money, power, and recognition.[7] Hence, for control to be effective, these systems require the establishment of an instrumental link between concrete behaviors or outputs and rewards, including pay, promotion, and continued employment. In contrast, systems of input or clan control seek to control the precursors of performance.[8] Investments into the rigorous selection and training of employees are intended to ensure the availability of necessary competencies. Comprehensive socialization and rewards tied to organizational performance, for example through share-ownership, seek to elicit intrinsic motivation and commitment to organizational goals.

Building on the work of Deci,[9] Lindenberg[10] distinguishes two types of intrinsic motivation: hedonic and normative intrinsic motivation. *Hedonic intrinsic motivation* is driven by goals of being engaged in enjoyable, self-determined, and competency-enhancing behavior. It depends on the importance attached to such goals by an individual and on the design of the work tasks and of the task context.[11] *Normative intrinsic motivation* is driven by the desire to engage in behavior that is compliant with the norms and values of a particular social unit, such as a group or an organization. Norms and values are more abstract than goals, giving employees a more general idea of what kind of behaviors and outputs are desired for the unit's effectiveness. The effect of normative intrinsic motivation on performance depends on the degree to which prevailing norms and values correspond to organizational goals and the extent to which they are internalized by an employee. Internalization of norms and values can be supported through systematic socialization of new employees.[12] Thus, systems of input control may enhance hedonic intrinsic motivation through work designs that allow for autonomy, task variety, and personal development.[13] Socialization activities such as mentoring programs, company-wide introductory trainings, and social events support a process of internalizing organizational norms and values, fostering normative intrinsic motivation. The monitoring and management of the organizational culture may contribute to the alignment of organizational norms and values with its goals.

[7] Vroom (1964).

[8] Cf. Ouchi (1980).

[9] Deci (1975), also Deci and Ryan (1985).

[10] Lindenberg (2001); cf. Gottschalg and Zollo (2007).

[11] Hackman and Oldham (1976).

[12] E.g., Kerr and Jackofsky (1989). Cf. Sect. 2.3.1.

[13] Hackman and Oldham (1976).

Control theory further entails that the choice of the control system hinges on the availability of the information required to administer each of the systems or, technically speaking, on the costs incurred to make the information available. Behavior control requires that relevant behaviors are observable and that the cause and effect relations between behaviors and organizationally relevant outcomes are understood. Output control systems depend, in the words of Snell, on the availability of *crystallized standards of desirable performance*, in other words, on the availability of *ex-ante* definitions of output standards and the feasibility of measuring them ex post. In the absence of the administrative information required for behavior and output control, one may revert to input control, which, however, requires an understanding of the impact of the various input factors, such as skills and abilities as well as norms and values, on relevant outcomes.

Snell states that, whatever the chosen mode of control is, the ability of an organization to generate the respective administrative information can improve in the process of using a control system. It is also possible to combine different modes of control, provided the necessary information can be generated (Fig. 2.1).

Another theory which is relevant to the explanation of employment systems is **transaction cost analysis,** which explains when staff should be hired as regular employees (that is, on open-ended contracts of employment) and when they should be hired on a contingent basis (that is, on limited-duration contracts of employment or on service contracts). Transaction costs include the costs of negotiating terms and conditions of employment/contracting, costs of control and organization, and costs of developing the knowledge, skills, and abilities required to perform the job. Due to transaction costs, it is economic to offer open-ended employment if a job requires firm-specific competencies, if it involves uncertainty and discretion with

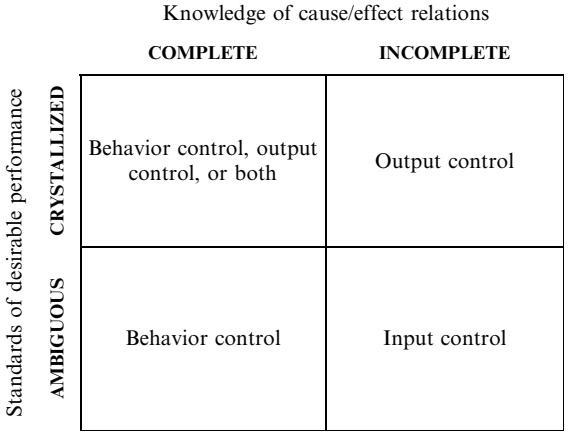

Fig. 2.1 Control theory (Snell, 1992, p. 295)[14]

[14]Adapted from Thompson (1967) and Ouchi (1977, 1978).

regard to the tasks to be completed, if the competencies are needed on an ongoing or frequent basis, and if performance and outputs are difficult to observe and measure. In contrast, it is economic to resort to temporary employment or contracting if the needed competencies are easily available on the market, if the tasks to be performed can be structured and defined a priori, if the jobs are to be performed periodically or for short periods of time, and if performance or its outputs can be easily measured or evaluated.[15]

2.2 The Interplay of Economic and Institutional Factors

Human capital theory, control theory, and transaction cost analysis provide the economic logic of employment systems. Economic considerations in the design of employment systems are subject to institutional constraints, including laws, cultural and societal norms, and mimetic processes.[16]

Laws impact on employment systems, for example, by setting minimum wages, regulating the working time, protecting employees from dismissal, or limiting the duration of contingent employment. In the United States, the threat of litigation has been said to result in 'legal centric decisions' in the context of employment relations and human resource management.[17] Examples include not using valid psychometric testing methods to avoid litigation for improper use, never rating performance in the top rating category to avoid litigation in case employees have to be made redundant at a later point in time, and discouraging socialization between men and women for fear of sexual harassment claims.[18] For operating legally defensible performance appraisal systems, it has been recommended that formal job analysis should be used for defining performance dimensions and that any non-task-related performance dimensions should be omitted.[19]

Laws may also exert an indirect influence on employment practices by granting rights to collective labor representation. In Germany, for example, every organization with more than five employees must have a works council. The German works council has extensive rights of consultation and codetermination in decisions and in the design of systems relating to the selection, appraisal, remuneration, and dismissal of employees. Thus, labor preferences for or against certain employment practices may limit an organization's ability to implement economically rational employment systems. Unions of blue-collar workers, for example, have been shown to prefer pay based on job classifications and to oppose performance-related pay.[20]

[15] Williamson (1975, 1985).

[16] E.g., Di Maggio and Powell (1983).

[17] Roehling and Wright (2003).

[18] Ibid.

[19] Bernardin et al. (1995).

[20] Hanley and Nguyen (2005). Cf. Sect. 3.3.3 for further evidence.

Thus, depending on the country an organization is located in, the labor legislation and jurisdiction may impose constraints, impacting directly and indirectly on the design of employment systems.

Organizations also face pressures to obtain legitimacy by adapting their practices to national or local customs.[21] Similar pressures exist at the organizational level where the so-called **intraorganizational institutions** may take on a rule-like status. Intraorganizational institutions result from written records, organizational traditions, corporate regulations, employee expectations, power, influence, conflict, and contests of control. Their prevalence increases with the size and age of an organization, a phenomenon which has been termed the *iron law of ossification*.[22]

According to Doeringer and Piore,[23] the rigidity of employment rules represents a defining feature of internal labor markets. In market-based employment systems, the terms and conditions depend on the supply and demand of different types of labor. In internal labor markets, by contrast, the allocation and pricing of labor is governed by a set of administrative rules and procedures. A certain extent of rigidity of these rules is necessary to protect the internal employment system from direct exposure to the forces of the external labor market. If the rules of employment reacted in direct response to external market demands, according to this argument, internal labor markets would essentially not function any different from market-based systems of employment. Thus, the economic theory and institutionalism do not necessarily contradict each other. Partly, they may represent complementary explanations for the existence of different types of employment system. Doeringer and Piore suggest that the initial establishment of an employment system is the result of deliberate and rational decisions by influential members of the organization. Once established, group norms and organization-wide customs develop, making it increasingly difficult for the organizational leadership to exert influence on it. Further adjustments may only occur through slow processes of gradual change.

Because ILM rules are stable, they persist even if they temporarily do not represent the optimal economic solution. If the survival of the organization is under threat, however, institutional constraints may yield to the economic pressures. Those in charge of the organization will increase their efforts to find ways of circumventing the constraints. Firms which persist in operating uneconomic employment systems will eventually generate inferior rents, making them vulnerable to takeover, which may lead to a forced adaptation of their employment system. Hence, the employment practices predicted by economic theory may not only exist as a result of deliberate managerial decision making but they may also be emerging as a result of selective evolutionary processes in competitive markets.[24]

[21] Gooderham et al. (1999).

[22] Peterson (1981), cf. Elsbach (2002), Wright and Snell (1998).

[23] Doeringer and Piore (1971).

[24] What constitutes an economic system (as opposed to an uneconomic system) is relative to the competition. Firms operating in a closed national market with certain legal constraints on employment practices may successfully operate employment systems which are less economic than those of similar companies operating in other national or international economies.

Elsewhere, it has been suggested that employment systems emerge in reaction to major changes in the industrial environment.[25] The changes provide 'windows for change' in which rational systems of employment emerge as a result of deliberate decision making or selection processes. Subsequently, institutional processes set in to stabilize the systems until the next major change takes place. Whenever a new system emerged historically, it did not completely displace the systems that existed previously, so that, today, a number of different employment systems are in use for different types of staff.

Historical accounts of the emergence of employment systems have been provided by Lawrence and by Hendry.[26] They suggest that the first systematic approach to the employment of workers in organizations was the *craft system*.[27] It represented the prevailing mode of employment from the seventeenth to the early nineteenth century, when production processes were located in small workshops and demand for skilled labor was high. Craft workers joined a trade as apprentices and remained a member throughout their life. Career-wise they progressed from apprentice through journeyman to master. Their loyalty was with their trade; employers were changed frequently. In the 1820s, improvements in communication and transportation facilities induced an expansion of local markets into regional markets. The resulting increase in competition led to reductions in product and service prices, which, in turn, put pressure on the price of labor. Concurrently, labor supply increased due to a new immigration wave. Cost competition and oversupply of cheap labor brought about the emergence of a new type of employment system. Under the *market system,* unskilled labor was hired through spot markets. The first labor unions were founded, which were weak and lacked legitimacy. Employment relations continued to be managed on an individual basis. Workers were hired and fired at the discretion of foremen. Wages fluctuated following changes in the supply and demand of labor.

The evolution of what Lawrence refers to as the *technical system* followed as a consequence of increasing shop floor conflict, socialist movements in response to worker exploitation, and a further expansion of market competition from the regional to the national level. Technological progress and the ideas of Frederick Taylor enabled Henry Ford to implement a new work system for manufacturing automobiles, which involved a granulated division of labor and automatic pacing of the assembly line. Generous remuneration and fringe benefits such as medical insurance and pension plans were meant to address the conflicts of the market system, enabling the employers to mass-produce standardized goods at low costs.

After World War II, consumer demand for quality and tailored products surged. As a result of a further expansion of competition to the international level, the high labor costs of the technical system became increasingly problematic. Despite generous compensation, shop floor conflict continued and workers became

[25] Lawrence (1985), Hendry (2000, 2003), Osterman (1987).

[26] Lawrence (1985), Hendry (2000, 2003)

[27] Lawrence (1985).

dissatisfied with their highly specialized work roles. IBM and the expanding electronics industry were the first to address these problems by establishing a *career system*. This system is based on long-term, nonunion employment with internal career ladders, employment security, and a single, homogenous work culture. The employees in the electronics industry were mostly college-educated, white-collar professionals. The career system became associated with managerial or professional employees.

The *commitment system* is the result of the attempt to apply the terms and conditions of the career system to industrial workers. Blue-collar jobs were enlarged through job rotation and enriched by adding responsibilities for tasks that were previously performed by managerial staff, such as scheduling and mutual monitoring. The removal of traditional status barriers and the introduction of financial participation were intended to inject a sense of collective responsibility and ownership, to sever bonds with trade unions, and to overcome them-and-us attitudes. Intended outcomes for the organization include a skilled and functionally flexible workforce, reduced costs of supervision, and improved production quality. The shift from the technical, union-dominated system to the commitment system was facilitated by the governments in the USA and the UK during the 1980s and 1990s, making, for instance, employee stock ownership tax deductible, fostering an entrepreneurial spirit, and weakening the powers of trade unions.[28]

In summary, the historic account yields five distinct employment systems – craft, market, technical, career, and commitment systems, all of which can still be found in modern organizations. The one exception is perhaps the craft system, as the employment of crafts people is not organized in the same way through trade associations anymore. Hendry[29] suggests, though, that *occupational/professional career systems* resemble craft systems in that occupational/professional employees acquire a professional or vocational qualification at the beginning of their career, divide their loyalty between their employer and their profession, and change organizations more frequently than those employed under career systems.

In addition to these five employment systems, a recent trend toward the contingent employment or contracting of professionals in areas such as information technology has been noted by various authors.[30] The arrangements for temporarily hiring skilled professionals differ from those for temporarily hiring unskilled workers.[31] Consequently, it can be argued that six different employment systems have been shaped historically through the interplay between economic and institutional factors. The following section describes the economic rationale behind these systems, linking them back to the economic theories introduced in Sect. 2.1.

[28] Cf. Hendry (2000, 2003).

[29] Hendry (2000).

[30] E.g., Pearce (1993), Slaughter and Ang (1996), Boxall and Purcell (2002), Rousseau (1985), Hendry (2000, 2003), Lepak and Snell (1999, 2002).

[31] Cf. Sect. 2.3.6.

2.3 Rationality of Emerged Employment Systems

Different functions require different competencies. In the matrix below, functions are classified according to the degree to which they require generic competencies, such as transferable professional skills, presentation skills, or learning capability, and the degree to which they require organization-specific competencies, such as knowledge of organization-specific processes and networks and the ability to function as part of them. In the following it will be shown that each of the six emerged employment systems is suitable for making available and controlling a different mix of generic and organization-specific competencies.

Rousseau (1995), Tsui et al. (1995, 1997), Hendry (2000, 2003), and Lepak and Snell (1999, 2002) use **dimensionalities** for their models that either define or explain employment systems for different groups of workers (Fig. 2.2). Rousseau's dimensions, *degree of embeddedness in the organization* and *time frame of employment,* serve to define her five employment modes – that is, they state how employment systems differ but not when and why. Tsui et al. (1997) define employment systems based on the specificity with which the expected contributions are defined by the employer *(broad vs specified obligations)* and on the inducements the employer uses to effect the desired contributions *(open-ended broad ranging rewards vs close-ended monetary rewards)*, yielding two *balanced* and two *imbalanced* types of employment relationship. Hendry's model seems to *define* the employment system in one dimension in terms of the control system *(personal vs organizational vs market-based control)* and to *explain* it in the other dimension in terms of the types of skill it is applied to *(high vs low skill).* Lepak and Snell's

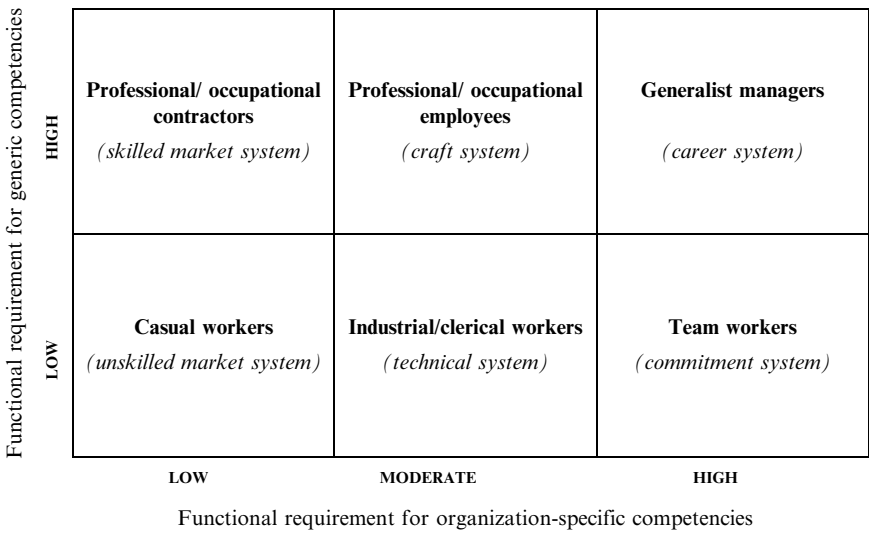

Fig. 2.2 Employment systems model

dimensionality describes the type of human capital that is employed: the dimensions *strategic value* and *uniqueness* define four types of human capital, which are matched with employment modes (knowledge-based, job-based, alliances/partnerships, and contractual arrangements).

Like Lepak and Snell's dimensions, the dimensions of the model proposed in the present work do not define the employment systems but an independent variable, that is, the organizational functions in terms of their human capital requirements. On that basis, causal links between human capital requirements as explanatory factor and the type of employment relationship can be explored. In the remainder of this chapter, six organizational functions are described in detail, in particular those of generalist managers, professional/occupational employees, industrial/clerical workers, team workers, casual workers, and professional/occupational contractors. Based on an understanding of the functions, competency requirements can be determined. These are defined in terms of the required degree of generic and organization-specific development. Generic competencies are non-organization-specific; for example, knowledge acquired at university, written and oral communication skills, computer programming skills, or the ability to fly an airplane. Different levels of generic competency may be combined with different levels of organization-specific development. Generalist managers, for instance, may require a university degree and good communication skills as well as exposure to an organizational trainee program.

The characteristics of the employment relationship are derived from the competency requirements for each of the six functions using human capital theory, control theory, and transaction cost analysis. Human capital theory explains that organization-specific competency requirements must be developed within the organization, sponsored by the organization, and that they are associated with long-term employment security and mutual commitment. It also predicts that generic competency development must be at the expense of the worker. Transaction cost analysis explains when functions without a requirement for organization-specific competency development are staffed through internal labor market arrangements and when through market-based arrangements. That is, if staff without a high degree of organization-specific development are needed permanently or frequently, it is more cost efficient to employ them. If not, it is more cost efficient to hire them through market-based arrangements, especially if their performance can be easily monitored and evaluated.

Control theory helps specify the control arrangements and thereby the nature of the exchange relationship. It will be elaborated in the following sections that generic competencies concur with task complexity. Task complexity makes it difficult to understand cause–effect relations. It will also be elaborated that organization-specific development is associated with task fluidity, which makes it more difficult to set "crystallized" standards of desirable performance *ex-ante*. Knowledge of cause–effect relations and the availability of crystallized standards of performance are the independent variables of control theory, which determine whether input, behavior, or output control should be used.

2.3.1 Generalist Managers

The function of an organization's generalist management is to ensure that the employees in the constituent units of an organization work together so as to make a valuable contribution to the economy. To that end, individual members of an organization's management perform a variety of different tasks ranging from the first-line supervision of workers through managing sales and supply chain functions and conducting internal revisions to the overall coordination of the different functions at the executive level. Despite the variety of different tasks performed managers are usually dealt with as a homogenous group in the literature. Compared to other staff categories such as professional/occupational specialists, their roles and tasks are defined and assigned more flexibly. During their career, they may work in different managerial subfunctions. For any given subfunction, they must be prepared to perform an unspecified number of different tasks.

The jobs of managers are interconnected. They function as part of a complex, open system. They are the ones who are responsible for managing the complexity of the system, constantly interacting with each other and exerting influence on the system. They are also the staff category which is closest to the boundaries of the organizational to other systems. Hence, they are the ones who are most directly affected by the dynamics of the market environment, resulting in unstructured and nonroutine strategic challenges.[32] Managers must not only be ready to perform tasks that cannot be specified *ex-ante*. It has also been suggested that managers have discretion in how to approach their job, enabling them to take advantage of their idiosyncratic experiences and strengths.[33]

Functional Competency Requirements

To perform their function, generalist managers need to possess an intimate knowledge of what it is that sets their organization apart from the competition in the markets and of the processes that effect the desired market position on a sustainable basis.[34] Such knowledge has been referred to as the architectural knowledge of an organization, the absorption of which requires exposure to different divisions, functions, and roles in an organization over a prolonged period of time.[35] An exposure to a variety of experiences may be fast-tracked through management trainee programs, accelerating the **organization-specific development** of

[32] Ackoff (1978), Mintzberg et al. (1976), Ramaprasad and Mitroff (1984).

[33] Bourgeois (1984), Vancil (1979).

[34] Cf. Rousseau (1995, p. 96).

[35] Matusik and Hill (1998).

managers at the beginning of their career. [36] Management trainees require cognitive ability and flexibility as well as motivation to cope with frequent changes in their job and to absorb the complex architectural knowledge. As their career unfolds, they need to maintain a broad outlook, understand not one function in depth but the purpose of different functions and how they interrelate. Thus, it can be argued that they do not only require a high level of organization-specific development but also particular generic abilities.

Sociologists such as Freidson have sought to capture and describe the ideology of managers and termed it **managerialism** or **elite generalism.** They suggest that the purpose of generalist managers can be defined as the alignment of the productive work of specialists with the demands of the market. This purpose requires the ability to perceive in the perspective of totality as well as the abilities to direct and organize the workforce of an organization and to influence consumer demand and demands of other stakeholders. Thus, elite generalists must claim authority over specialized expertise without possessing specialized expertise themselves. Specialism is seen to obstruct abilities of gauging the expectations of consumers and other stakeholders and of preserving a sense of the whole. Instead, so the argument goes, versatility and generally applicable skills are required. The ideology of elite generalism is embodied in the traditional liberal arts curricula taught at US and UK elite universities, which "assert the ideal of the well-rounded person who has gained knowledge of a wide variety of topics that are deeply embedded in the traditional high culture favored by the elite."[37]

Up to the twentieth century, a *liberal arts education* represented a formal prerequisite for careers in the higher civil service, politics, and, usually, the management of private firms in many European countries, including Germany, England, and France. Nowadays, someone with a specialist degree may join the generalist managerial ranks if he or she possesses the required general abilities. Engineers, accountants, and lawyers represent typical examples of employees with a specialist background who may be promoted to executive positions, not only in organizations specialized in their professionalism, that is, engineering, accounting, and law firms, respectively. However, "they can do so only by leaving the practice of their profession."[38] As they are socialized into the employment relationship of general managers, normally through participation in a trainee program, they give up their status as professionals. Consequently, other professionals "regard those of their numbers who become managers as another breed, no longer really colleagues in spite of their common training and experience in working as professionals before they undertook administrative responsibilities."[39]

[36] Cf. Schein (1971), Hall and Nougaim (1968). Cappelli (2000) refers to companies such as General Electric, SmithKline Beecham, PepsiCo. Inc., and Procter and Gamble Co., which provide "two years of general management training and work experience to college graduates in areas like finance, human resources, information systems, and engineering" (p. 23).

[37] Freidson (2001, p. 119).

[38] Freidson (2001, p. 168).

[39] Freidson (2001, p. 153).

Although recognized as a professional specialism, the *discipline of law* has been attributed characteristics conducive to generalist roles. It has been classified as a normative discipline, that is, it prescribes what ought to be desirable behaviors across a broad range of different aspects of life. In this respect, it represents a moral authority akin to the clergy or moral philosophers. What distinguishes law from the latter disciplines is its technical authority, which is based on a systematic logic of consistently deriving specific norms from higher-order norms, such as a constitution or international regulations, and from previous laws and jurisdiction. In that respect, law resembles scientific disciplines such as physics or chemistry. It is this unique combination of moral and technical authority which has been said to equip lawyers for leadership functions in politics as well as in the public and private economy.[40]

Business schools have been seeking to distill into their MBA programs some of the generic knowledge required by managers. The curricula usually cover cross sections of various business-related disciplines such as finance, organization, and marketing as well as contents of other faculties such as economics and law. The various contents are taught in condensed form in the course of usually 1 or 2 years. Given the brevity of time available for imparting a broad body of knowledge, MBA graduates cannot be regarded specialists, unlike graduates with specialized masters degrees in fields such as finance or human resource management. The eclecticism of MBA courses supports a generalist managerial orientation. The curricula also vary across different MBA programs, indicating a lack of consent on what should constitute the generic knowledge required by managerial functions. The difficulty of capturing the broad and fluid competency requirements of managers then entails that there are no binding prerequisites for becoming a manager. An MBA degree is one among several qualifications conducive to the development of the competencies required by generalist managers.

Hence, in the proposed employment systems framework, generalist managers are classified in the top right category, requiring an extensive organization-specific development and the generic competencies associated with elite generalism. According to human capital theory, the organization-specific competencies are investments, financed by the organization and owned by the employee, which entail a long-term attachment between the organization and the employee. The managerial function is performed on an ongoing basis and is, as will be elaborated in the following section, difficult to evaluate. On that basis, it can be derived in line with transaction cost economics that managers perform their function within an internal labor market arrangement.

Input Control

Standards of desirable performance of managers tend to be ambiguous because of the interconnectedness of the managerial function and its direct exposure to the

[40] Halliday (1987).

fluidity of the business environment.[41] According to control theory, this entails that the contributions of managers must be controlled through either behavior or input control but not through output control. Furthermore, cause–effect relations are difficult to understand given the complexity of open social systems. The architectural knowledge that guides the actions of managers is often tacit and held by the collective. It is rarely grasped in its entirety by individual members of the organization.[42] Furthermore, managers possess idiosyncratic experience and strengths, and they may be expected to contribute those by approaching their jobs so as to take advantage of them.[43] According to control theory, this means that it is also not possible to prescribe how managers ought to do their job by specifying standards of behavior. Thus, input control remains as a means of controlling managerial behavior.[44]

The inputs to a manager's performance are his or her competencies, that is, skills, knowledge, and abilities. Competencies are not readily observable. They can only be inferred from behavior and output observations. Behaviors and outputs may be observed during assessment center exercises designed to reveal particular competencies. They may also be observed day-to-day on the job, even if it is not possible to specify desired standards in advance. The behaviors and results thus observed are only indicators of competencies, contributing only partly to the judgment of competency. The more observations are accumulated, the more robust the competency judgments become. To the extent that they are based on a number of competency-indicating observations, they are a more stable construct than behavior or output performance. In other words, competency assessments should not fluctuate with performance results at given point in time, but they should be adjusted gradually, reflecting the entirety of performance behaviors of a given manager.[45]

Input control may seem to be in conflict with credos such as 'what gets measured gets done,' mirroring ongoing attempts to monitor and direct all activities of all employees, ideally on the basis of outputs. Centralized Taylorist systems have been made more flexible through the introduction of goal-setting procedures, which, compared to earlier methods of performance management, decentralized the definition of performance dimensions, measures, and standards to the units to which the standards apply. Flexible goal setting provides flexibility where the direction of organizational systems or parts of them needs to be adjusted in annual or biannual intervals. Setting goals in shorter intervals is usually not feasible because goal setting and reviewing is time consuming – especially with complex jobs such as those of managers. Even with annual or biannual intervals, it is regarded as an additional burden on top of the day job by many managers. Given the ever-

[41] Ackoff (1978), Mintzberg et al. (1976), Ramaprasad and Mitroff (1984).

[42] Matusik and Hill (1998).

[43] Bourgeois (1984), Vancil (1979).

[44] Cf. Sect. 2.1.

[45] Cf. Sect. 4.3.1.

increasing speed of the interconnected business world, goals must often be coordinated and adjusted in much shorter intervals than 6- or 12-month periods. Within 6 months, a booming economy may slump; organizations may merge or be taken over, also affecting the competitive position of other companies; a new technology or trend may emerge in another part of the world, offering new opportunities for business; an organization may be shaken by corruption and other scandals; or a new CEO may unexpectedly take over, altering the direction of a firm.

Against this backdrop, it is often necessary to coordinate activities more flexibly and informally than an output-based goal-setting system permits. If formal goal setting is nevertheless mandated, the goal-setting and appraisal procedures may be adhered to formally while being sidetracked in practice. Or the HR managers who are responsible for the performance management system may seek to avoid sidetracking by introducing new intricate appraisal mechanisms, forcing managers to take the process seriously. One such mechanism is a forced ranking procedure with employee performance rankings linked to performance-related pay.[46] Because managers care about rewards, this may in fact result in them spending ever more time on setting goals and appraisals. They may seek to distribute rewards as equitably as possible by ranking their staff based on factual evidence only and by comparing and negotiating with other managers on the overall ranking of staff. It is questionable whether such complex processes are more effective as they consume much time (especially if conducted biannually or more often) and, given complex, dynamic jobs, may still miss out on important aspects of a job. It will be shown in Sect. 3.1 that goal setting linked to valued incentives does result in people doing what gets measured – and only that. If, then, the set of goals is not comprehensive, this kind of system may also result in the neglect of important aspects of the job.

Alternatively, the formal system may be simplified, allowing informal processes to take over and exercising control through other mechanisms, such as those associated with input control. Such mechanisms would ensure that managers possess the competencies they need in order to make the right decisions, without prescribing detailed behavior or output goals. The activities of managers in different departments would be coordinated informally through networks, not through formally agreed goals. Thus, input control can be said to rest on two pillars – the monitoring of competencies and socialization into organizational networks.[47]

Institutionalized Socialization

Given the pivotal role of socialization in the control process of managers, the concept shall be elaborated. Socialization has been defined as the organizational

[46] Cf. Sect. 5.3.

[47] Cf. Snell (1992). Ouchi and Price (1978) and Ouchi (1980) referred to such mechanisms as clan control.

process of molding the values, norms, beliefs, patterns of behavior, skills, knowledge, and abilities of individuals.[48] It predominantly takes place during the first years after an individual has entered an organization, a period of special attitude malleability[49] and potency of experiences, which may influence how later experiences are interpreted.[50] Three **stages of development** of managers are distinguished in the literature. The first stage is one of initiation and basic training,[51] lasting approximately 1 year.[52] Individuals experience uncertainty and anxiety over what is expected from them and their ability to live up to these expectations. They find themselves at the fringe of their group or network and are concerned with moving inward.[53] It is during such phases of instability that people are susceptible to guidance and the said values, norms, and beliefs as well as attachment can be formed.[54]

As young managers have assimilated and are reassured of their organizational membership and fit, their attention turns to proving themselves. During the second stage of managerial development, the need for belonging is superseded by a need for achievement.[55] Group cohesion, which is strong during the first stage, is weaker at this stage.[56] Young managers compete with each other to establish themselves in influential roles. They continue to be malleable, being attentive to signals indicating what kind of attitudes and behaviors may yield the desired recognition. The second stage of managerial development and the process of socialization conclude as attitudes and behavioral automatisms mature. This stage may last up to the 5th year,[57] in some instances up to the 8th year of organizational membership.[58] Upon entering the third stage of managerial development, group cohesion returns to the levels developed during stage one. Norms, values, and beliefs are stable at this stage: "...organizational efforts to influence managers must now involve the maintenance or alteration of existing attitudes rather than the molding of new attitudes."[59]

As control theorists posit that socialization should play a central role in the control of managers, one may ask how precisely that socialization should occur. After all, some sort of socialization will always take place when a junior individual joins a group of people for the first time, regardless of any targeted interventions.

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[48] Van Maanen and Schein (1979), Fisher (1986), Van Maanen (1976).

[49] Parsons (1951), Katz (1967), Brim (1968).

[50] Brown (1963), Caldwell (1962), Berlew and Hall (1966).

[51] Schein (1971, p. 311).

[52] Hall and Nougaim (1968), Buchanan (1974).

[53] Kahn et al. (1964).

[54] Schacter (1959).

[55] Hall and Nougaim (1968).

[56] Buchanan (1974).

[57] Hall and Nougaim (1968).

[58] Katkovsky (1965), cited in Hall and Nougaim (1968).

[59] Buchanan (1974, p. 537).

Socialization tactics have been defined along six bipolar dimensions: *collective vs individual, formal vs informal, sequential vs random, fixed vs variable, serial vs disjunctive,* and *investiture vs divestiture*. The collective vs individual dimension refers to the extent to which newcomers are grouped and exposed to the same socialization experiences rather than treated individually. The formal/informal descriptor refers to the extent to which socialization processes are separated from the day's job during a defined period of socialization. Sequential socialization programs cover a set sequence of steps in the socialization process as opposed to randomness in the order of socialization experiences. Fixed socialization provides a close-ended time table for the socialization process; variable socialization provides flexibility in the timing of experiences. The serial/disjunctive dimension describes, according to the literature, the extent to which an experienced member of the organization serves as a role model. Investiture tactics build on and strengthen the identity of newcomers. Divestiture tactics disconfirm their personal attributes with a view to changing them.[60]

The various socialization tactics have been shown to occur in one of two gestalten or patterns. The first one, the *institutionalized socialization gestalt,* encompasses collective, formal, sequential, fixed, serial, and investiture tactics. The second pattern, which is referred to as *individualized socialization gestalt,* is defined by individual, informal, random, variable, and divestiture tactics of socialization.[61]

Institutionalized and individualized socialization gestalten have a differential effect on various organizationally relevant outcome measures. The former appears to reinforce existing values, norms, and ways of doing things. It is thought to support continuity, provide structure, and, thereby, reduce the leeway of individuals in interpreting their jobs – at least initially, that is, as long as the socialization process lasts. On that basis, it can be said to serve as a means of control over new employees. It is also hypothesized to reduce the variability of performance, while individual socialization entails a greater variability of performance. That is, individually socialized employees are thought to be more likely to exceed standard levels of performance, but also to perform below standard performance, while institutionally socialized employees are expected to perform just at the expected level of performance.[62]

While socialization tactics have been found to impact on performance variability, their relationship with mean performance must be considered neutral against the backdrop of existing evidence. A study by Ashforth and Saks did not find significant correlations between mean performance and four of the socialization tactics.[63] A significant positive correlation was found for investiture only. Other than that, a weak negative correlation was found for the degree to which tactics

[60] Van Maanen and Schein (1979).

[61] Jones (1986), Ashforth and Saks (1996), Allen and Myer (1990).

[62] Ashforth and Saks (1996).

[63] Ashforth and Saks (1996).

were formal and performance 4 months after joining the organization ($r = -0.16$, significant at $p \leq 0.05$). Not any significant correlation between the formality of socialization and performance was found after 12 months of organizational membership anymore. The *formal/informal* dimension of socialization is defined as the degree to which the socialization process is separated from the day's job during a set period of socialization. It is conceivable that an initial slight reduction in job performance is due to "off-the-job" initiation and training programs taking place during the newcomers' first weeks within the organization, temporarily reducing the focus on immediate task requirements. The authors of the study offer a different explanation. They hypothesize that their homogenous sample of high-potential employees might explain the negative correlation after 4 months. In other words, they argue that giving leeway to high potentials (as opposed to average performers) by using informal socialization tactics is more likely to result in upward deviations from norm performance than in downward deviations. In a more heterogeneous sample of employees they hypothesize, individualized (or informal) socialization tactics would "simply produce greater variance in performance" without an increase in mean performance.[64]

The individualized socialization gestalt has further been found to result in higher levels of role ambiguity, role conflict, stress symptoms, and intentions to quit, but also in higher levels of role innovation – perhaps not surprisingly, as individuals who are thus socialized have no other choice but to find their own ways of performing their role. Institutionalized socialization resulted in higher levels of organizational commitment, organizational identification, and job satisfaction.[65] In two out of three empirical studies, the initial positive correlation between institutionalized socialization and organizational commitment had disappeared after 12 months of organizational membership.[66] This may be attributable to the onset of the second stage of socialization, during which needs for achievement and competition supersede the earlier needs for fitting in and identification with the organization. None of these studies continue beyond 12 months. There is, however, a study related to the subject which shows that *peer group cohesion* is high during a manager's 1st year in an organization, then drops significantly during the second stage of socialization, and again reaches the levels of the first stage by the 5th year,[67] providing tentative support for the hypothesis that organizational commitment – dependent on socialization tactics upon entry into the organization – surges again after the positioning of managers in the organizational hierarchy has become more stable.

Altogether, the evidence indicates that institutionalized socialization tactics may be appropriate for generalist managerial staff, as they reduce the performance variability of young managers and increase organizational commitment during

[64] Ibid., p. 155.

[65] Ashforth and Saks (1996), Allen and Meyer (1990), Jones (1986).

[66] Allen and Meyer (1990), Jones (1986).

[67] Buchanan (1974).

the 1st year and after the second development stage of proving and positioning themselves in the organizational hierarchy is complete.

Collective socialization appears an especially potent tactic, as it has been shown to be the only tactic besides divestiture exhibiting a significant positive correlation with *person change*.[68] The serial socialization tactic, which provides newcomers access to a more senior employee as a role model, has been found to be the main explanatory factor for differences in role orientation.[69] Elsewhere, the importance of relationships with more experienced employees for the socialization of newcomers has also been argued theoretically[70] and evidenced empirically.[71] This indicates that relationships with other members of the organization – i.e. **networks** – may play a critical role in the socialization process. It seems warranted to, again, drill a little deeper at this point, attempting to establish what kind of networks are conducive to the socialization and performance of generalist managers.

According to the network literature, employees have informational and friendship networks, which are distinct, although there may be some overlap between them.[72] Both types of network may vary in terms of their size, density, strength, range, and status, factors which may have an impact on the effectiveness of socialization.[73] Specifically, it has been hypothesized that the size, range, and status of informational networks are positively related to the acquisition of organizational knowledge, that is, knowledge about organizational structures, processes, and overall functioning. Network range refers to the diversity of a network, including the extent to which its members belong to different units of the organization.[74] Like network size, network range is argued to yield a broader information base with multiple sources of information.[75] Network status refers to the seniority of a network's members in the organizational hierarchy,[76] which is thought to be associated with both political and informational benefits.[77] The empirical evidence supports the hypothesized relationships, finding significant positive correlations between informational network size and range on the one hand and organizational knowledge on the other hand. No relationship has been found between the informational network status and organizational knowledge. However, friendship network status has been found to correlate with organizational knowledge.[78] This suggests

[68] Ashforth and Saks (1996).
[69] Allen and Meyer (1990).
[70] Feldman (1981), Louis (1990), Reichers (1987).
[71] Louis et al. (1983), Ostroff and Kozlowski (1992).
[72] Brass (1984), Ibarra (1992), Krackhardt (1992), Podolny and Baron (1997).
[73] Morrison (2002).
[74] Campbell et al. (1986).
[75] Ostroff and Kozlowski (1992).
[76] Lin (1982).
[77] Ibara (1995), Louis (1990), Ostroff and Kozlowski (1992).
[78] Morrison (2002).

that it does help to have contacts in the upper echelons of the organization, provided the intensity of the contact goes beyond that of loose informational networks.

While informational networks impact primarily on learning outcomes, friendship networks have a greater impact on processes of affiliation and attachment.[79] It has been argued that, if commitment is to be directed toward the organization rather than parochial interests of work groups or organizational departments, the friendship networks of new employees should encompass members of different units and at different levels of the organization rather than just immediate peers.[80] The argument is supported by evidence which shows that friendship network strength, range, and status correlate with organizational commitment.[81] Generalist managers must identify with the well-being of the organization rather than particular functions or teams only. Accordingly, they should be given the opportunity to develop not only informational but also friendship ties across the organization. This may be accomplished through assignments to different organizational units in the course of the trainee program. A common, prolonged initiation and training program for new hires across different units of an organization may also provide opportunities for the development of friendships. The incentive to socialize and connect may be especially large if the initiation program takes place at a geographically separated location, such as a training center or hotel in another city or country. Mentoring programs may contribute to the development of friendship ties with senior members of the organization.

In summary, the socialization of generalist managers should be based on institutionalized tactics. Institutionalized socialization provides structure and continuity of organizational norms, values, and beliefs, "thus promoting a more loyal workforce."[82] As managers are given considerable discretion at later stages of their career, it may be beneficial to constrain their latitude initially, during their trainee period, through the use of institutionalized socialization tactics. Institutionalized socialization fosters organizational commitment, which is argued to play a pivotal role in the control of generalist managers.[83] Special attention should be paid to sequential, collective, and serial socialization tactics, which support the development of organization-wide informational and friendship networks, and thus enable both the acquisition of organizational knowledge and the development of organizational rather than parochial commitment.[84]

[79] Cf. Brass (1995).

[80] Reichers (1987).

[81] Morrison (2002).

[82] Ashforth and Saks (1996, p. 171).

[83] Cf. following subsection.

[84] Cf. Ashforth and Saks (1996).

Organizational Commitment

Input control, institutionalized socialization, and the establishment of broad networks all share two central themes. Firstly, they center around making available information to managers and equipping them with the skills, knowledge, and abilities they require to perform their jobs. Secondly, they seek to elicit commitment to the values and goals of an organization. Thus, it can be stated that organizational commitment is central to the control system of generalist managers. At the same time, it is a somewhat elusive concept. In the following, an attempt is made to pin it down and define it. Subsequently, its effects on relevant outcomes are demonstrated and its antecedents identified. Thereby, it should become evident how one may go about the targeted elicitation of organizational commitment in the control process of generalist managers.

There are a number of different approaches to defining and categorizing organizational commitment. One of them differentiates between two types of organizational commitment, the first of which is referred to as value, affective, or **attitudinal commitment**. It is concerned with the individual's identification with the values and goals of the organization. The second type is referred to as calculative, exchange-based, or **continuance commitment**, which represents the individual employee's desire to remain a member of the organization. It is based on the individual's rational considerations of expected economic benefits of continued organizational membership relative to the benefits of alternative means of earning a living.[85]

The notion that attitudinal and continuance commitment represent different types of commitment is disputable. It has been argued, for instance, that the desire to maintain organizational membership (as well as the willingness to exert effort on behalf of the organization) represent "likely consequences of commitment" rather than dimensions or elements of it.[86] It will be elaborated below how attitudinal and continuance commitment are influenced by different antecedent factors and how they differentially impact on various outcomes of the organization, supporting the argument that attitudinal organizational commitment (AOC) should be the central target variable in the control process of managers. It induces them to exert effort in the pursuit of organizational interests even when it is not possible to directly control their behaviors and outputs. Continuance commitment is a prerequisite for organizations making investments in the training and development of managers and it may affect the effectiveness of the organizational processes as it is associated with continuity and low costs of fluctuation. It does, however, not play a role in the

[85] E.g., Angle and Parry (1981), Mayer and Schoorman (1992), Stevens et al. (1978), Morris and Sherman (1981), Mathieu and Zajac (1990), Meyer and Allen (1984). A third type of commitment has also been distinguished, i.e., normative commitment. It is defined as a sense of obligation to one's organization (Allen and Meyer, 1990). It has, however, been found too closely related to value commitment to be regarded a separate construct (Meyer et al., 2002; Ko et al., 1997).

[86] O'Reilly and Chatman (1986, p. 497).

managerial control processes in the sense that it affects their motivation to display effort.

An alternative approach to categorizing commitment distinguishes between **compliance, identification, and internalization**.[87] *Compliant* employees display desired attitudes and behaviors merely to obtain rewards or avoid punishment. When *identifying* with an organization, individuals adopt attitudes and behaviors in order to affiliate themselves with the organization and its members. When employees have *internalized* an organization's value system, it is congruent with their own.[88] There is empirical research to show that "critical voluntary behaviors that are not specified by job descriptions are largely a function of identification and internalization rather than instrumental involvement."[89] Mere compliance would not help to control generalist managers, whose job behaviors and outputs are difficult to specify in advance, observe, and evaluate. It seems debatable whether the term commitment is even applicable to a situation in which someone simply complies with rules in order to obtain a reward or avoid punishment. In any case, the commitment to be elicited from generalist managers should be based on identification with or internalization of organizational values, norms, and beliefs.[90] In the following, organizational commitment shall be understood as "a partisan, affective attachment to the goals and values of an organization, to one's role in relation to the goals and values, and to the organization for its own sake, apart from its purely instrumental worth."[91]

Distinctions between attitudinal and continuance commitment and between compliance, identification, and internalization are widely used and researched in the academic literature. A third, related approach, which will provide an input to arguments in the following sections and chapters, is based on social identity theory.[92] According to that, identification can be defined as "an expanded sense of self" and "as a fundamental human motivation reflecting both a need to belong as well as an adaptiveness to complex and changing social environments."[93] A distinction is made between **situated and deep structure identification**. Situated identification is triggered by situational cues such as interdependent tasks, common goals, and symbols conveying group membership. The classical study by Sherif and Sherif[94] on youths in a holiday camp who fundamentally altered their attitudes toward their mates depending on whether they were to compete between individuals or between groups represents an example of this

[87] Kelman (1958).

[88] There is ample evidence to establish that identification and internalization are distinct constructs (Kelman, 1961; Kelman and Eagly, 1965; Klein, 1967; Romer, 1979; Smith, 1976).

[89] O'Reilly and Chatman (1986, p. 497).

[90] Cf. Becker et al. (1996).

[91] Buchanan (1974, p. 533).

[92] Tajfel and Turner (1979, 1986), Lembke and Wilson (1998).

[93] Rousseau (1998, p. 219).

[94] Sherif and Sherif (1969).

kind of identification. Thus, situational identification lasts only as long as the cues are present. The presence of situational cues represents a prerequisite for the other, more enduring type of identification, which is deep structure identification, leading "to congruence between self-at-work and one's broader self concept."[95] Deep structure identification occurs as employers are perceived to bestow – beyond economic resources – status, personal support, and concern for one's family so that the employment relationship resembles a personal relationship in the employee's cognition.[96] The organization becomes family, thus "helping an organization succeed can make a person feel successful."[97] Members who identify with a team or organization are not doing things for other team or organizational members nor are they doing it out of loyalty to them, but they are "doing it for themselves and their team purpose."[98] According to Tajfel and Turner, social identification represents a transition from acting like a distinct individual to acting like the representative of a social group.[99]

Following these definitions, it seems useful to recapitulate what the **goals and values of an organization** should be and, thus, to specify what exactly a manager should be committed to. It was stated at the beginning of this chapter that the ultimate goal of an organization is its survival. Given functioning capital markets, the survival of *market-traded firms* depends on whether they add value beyond that added by alternative uses of capital. If they do not, capital markets will shift resources to other organizations and purposes which add more value. In order to add value, firms must take into account the goals of constituencies such as those of their employees, contractors, and suppliers, and those of the state. The position of such goals in the organizational goal hierarchy depends on the power of the constituency, which in turn depends on its own market position. The overarching goal and purpose, however, always remains to add value beyond that added by other firms.[100]

The goals of *privately owned firms* (as opposed to market traded, public limited firms) will usually also focus on some profit or ROI measure. In addition, some owners may pursue other goals, for example, to create employment locally beyond what makes sense economically from a national or global perspective or, indeed, from their individual wealth perspective. Besides that, some private owners may engage in 'empire-building,' that is, they may pursue goals related to the

[95] Rousseau (1998, p. 218).

[96] Eisenberger et al. (1986).

[97] Rousseau (1998, p. 222).

[98] Lembke and Wilson (1998, p. 929).

[99] Tajfel and Turner (1986).

[100] This does not imply that employers must exploit their employees or other constituencies. Treating employees well may increase the current and future value of the organization. Besides that, it is the espoused objective of the current work to depict economic mechanisms taking the perspective of the organization. An understanding of economic pressures and mechanisms operating at the organizational level, it is hoped, will contribute to a balanced and informed judgment of individual decision makers, taking into account the welfare of all constituencies involved.

maximization of turnover or the number of employees regardless of whether it makes sense economically. Thus, the goals of privately owned firms are whatever the owners value as important.

State-owned organizations pursue specific goals which are deemed essential to the functioning of the state. Profitability or cost minimization may be pursued as secondary goals. It is then the state or its representatives in the government who must define what would represent added value. *Not-for-profit organizations* pursue goals which are deemed valuable by whoever provides their funding. Donators may, for instance, decide that there is value in protecting rare animal species from extinction. Hence, regardless of the type of organization, the ultimate goal is always to add value as perceived by whoever funds the activities of an organization. An organizational system with effective control mechanisms at all levels will be geared toward this goal. One such control mechanism should be that the generalist managers, as the agents of the owners, internalize or identify with this goal.

Having specified the meaning of organizational commitment, evidence is presented in the following paragraphs for its positive **effects on organizationally relevant outcomes**, providing further support for the argument that it can play a role in the control process of generalist managers. AOC on the one hand and continuance commitment on the other hand have been shown to impact on different outcome variables. The former has been found to have a significant effect on performance and on organizational citizenship behavior. The latter seems to have a weaker impact on those outcomes but is more strongly related to indicators of withdrawal behavior such as turnover and turnover intent.[101] Before further empirical evidence is discussed in depth, the theoretical rationale of the AOC-performance link shall be briefly stated: firstly, the identification with or internalization of organizational goals, values, and norms is thought to provide *direction* in the absence of explicit proximal goals. Secondly, the affective aspect of AOC is believed to elicit *effort* in the absence of immediate personal rewards. In the presence of proximal, individual performance rewards, however, extrinsic motivation is thought to substitute intrinsic motivation, weakening this second effect of AOC.[102]

A meta-analysis by Riketta covering 111 samples and 26,344 employees sheds light on the size of the effect of attitudinal commitment on performance, yielding a corrected and significant mean correlation of .20 across all subjects.[103] Significantly stronger correlations were found among white-collar ($r = .20$) compared to blue-collar employees ($r = .10$). The correlations were furthermore significantly higher for extra-role performance ($r = .25$) than for in-role performance ($r = .18$).[104]

[101] E.g., Mayer and Schoorman (1992, 1998).

[102] E.g., Kohn (1996).

[103] Riketta (2002).

[104] Previous metaanalyses covering a maximum of eight samples yielded comparable estimates of the strengths of the commitment–performance relationship (Allen and Meyer, 1996; Mathieu and Zajac, 1990; Mowday et al., 1982; Organ and Ryan, 1995; Randall, 1990).

A correlation of .20 is typically considered moderate or weak. In the above meta-analysis, it has also been concluded "that the AOC-performance correlation is weak."[105] On that basis, it may be tempting to dismiss the AOC construct, deeming it not relevant for the performance management process. However, one may argue that doing so would be a mistake on two grounds. Firstly, Hunter has demonstrated that the impact of a factor displaying a 'weak' correlation of .20 with employee performance may have a considerable impact on the financial results of an organization – provided the factor has a causal impact on performance.[106] His calculations are elaborated on in Sect. 4.2 in the context of his studies on the effects of cognitive abilities and personality on performance. Secondly, it seems conceivable that the impact of AOC on performance is larger for managerial than for other white-collar employees. The AOC-performance relationship might be moderated by the strength of the context situation, a construct which has been researched in the context of personality effects on performance.[107] Strong situations are highly controlled and predictable, providing little scope for individual differences in personality to impact on performance. In weak situations, the job incumbent has considerable job autonomy, allowing for individual differences to have a greater effect on performance.[108] It is conceivable that the performance effect of attitudinal differences may be moderated by the strength of the situation in the same vein as the performance effect of personality differences.

The white-collar category in Riketta's meta-analysis covers different occupations, the largest groups being salespeople (18%) and nurses (5%). The performance measure of sales people is unambiguous. They are typically rewarded based on commission, eliciting extrinsic motivation and compliance. In other words, they display effort in order to obtain a desired reward. AOC is likely to be less relevant where performance is motivated extrinsically. In contrast, nurses can be classified as professionals. It will be explained in Sect. 2.3.2 that the performance of professionals is motivated and directed by commitment to professional norms and values rather than those of the organization.

Riketta also differentiates between supervisory staff ($n = 1{,}774$) and non-supervisory staff ($n = 11{,}272$). The AOC-performance correlation was slightly larger for supervisors ($r = .20$) than for non-supervisory staff ($r = .18$), but the difference was not statistically significant. A category 'supervisor' overlaps but is not identical with the function which is referred to as generalist management in the present work. For instance, a nurse who supervises other nurses would still be regarded a professional and not a generalist manager.[109] Finally, the finding that the impact of AOC on extra-role behavior is larger than that on in-role performance

[105] Riketta (2002, p. 264).

[106] Hunter (1981).

[107] Mischel (1977), Weiss and Adler (1984), Adler (1996).

[108] Barrick and Mount (1993).

[109] Cf. Sects. 2.3.2, 3.3.2.

also supports that AOC may be especially potent in weak context situations such as those of managerial functions.

Thus, assuming a correlation of .20 between AOC and the performance of generalist managers would represent a conservative position, to say the least, which would warrant the proactive management of AOC on the basis of an expected sizeable positive impact on tangible organizational outcomes.[110] Moreover, performance is a complex construct, impacted on by a variety of different factors such as cognitive ability, personality fit with the team, experience, education, training, technical constraints, remuneration, financial and other incentives, job design, the dyadic relationship, work–life balance, health, etc. Given that so many different factors impact performance, the effect size of any single factor is by default relatively low. As a result, there are very few factors which correlate much more than .20 with performance (one of them being cognitive ability).[111] In a climate of intense competition, an organization would not want to neglect any of these factors, which, in the aggregate, will make the difference between high-performing organizations and the rest.

Another meta-analysis covers studies with time-lagged designs in order to find out about attitude-behavior sequencing.[112] It reveals that predictive effect sizes (that is, attitude preceding behavior) were larger than postdictive effect sizes (that is, behavior preceding attitude) for various attitude-behavior relationships, including organizational commitment and task performance. In conclusion, "a statistically significant overall trend favoring temporal precedence for attitudes" was demonstrated.[113] The cautious formulation is owing to an overlap of confidence intervals for predictive and postdictive estimates. In other words, the study found both significant predictive and postdictive effects. Because the predictive effects were larger than the postdictive ones, it was assumed that attitudes influence behaviors more likely than vice versa, although the possibility was not ruled out "that reciprocal causal processes are operating."[114] It seems that, even if the confidence intervals had not overlapped, a reciprocal model might explain the data. That is, organizational commitment would have a positive effect on performance. At the same time, there would also be a weaker feedback effect of performance on commitment, such that the commitment of strong performers would be bolstered and that of weaker performers reduced. Such a reciprocal model would not contradict the notion that organizational commitment should represent a target in the control processes of generalist managers. Firstly, it does support a primary causal effect of commitment on performance. Secondly, organizational commitment is impacted by various factors other than performance.[115] This means it can be

[110] Hunter (1981), cf. Sect. 4.2.

[111] Cf. Sect. 4.2.

[112] Harrison et al. (2006).

[113] Ibid., p. 316.

[114] Ibid., p. 318.

[115] See below.

managed and it can have a positive impact on performance even with temporarily low performing managers.

Prior to the discussion of the antecedents of organizational commitment, outcomes of the second type of organizational commitment, continuance commitment, shall be presented. **Continuance commitment** is defined as an employee's desire to maintain organizational membership,[116] which can be seen as an inverse of someone's intent to quit.[117] Not surprisingly, it is correlated with intent to quit and turnover. In a survey covering 228 employees of a large financial organization, for instance, continuance commitment correlated $r = .30$ with tenure and $r = -.21$ with turnover (significant at $p < .001$).[118] A meta-analysis found organizational commitment (encompassing both attitudinal and continuance commitment) to correlate $r = -.28$ with turnover.[119] Elsewhere, organizational commitment correlated $r = -.32$ with intentions to quit.[120] Yet another study found organizational commitment to correlate $r = -.35$ with intention to leave and $r = -.10$ with actual leaving; that is, actual leaving was influenced by other factors besides intention to quit.[121] Overall, the evidence supports a moderate correlation between organizational commitment and intention to quit as well as actual turnover.[122] When distinguishing attitudinal and continuance commitment, it becomes evident that much of this correlation is due to continuance commitment, although the correlation of AOC is also significant.[123]

The empirical research also reveals that continuance commitment does not have a significant positive relationship with performance and organizational citizenship behavior. One study even yields a negative relationship between continuance commitment and performance.[124] Hence, the evidence shows unequivocally that continuance commitment bears little relationship with task performance and extra-role behaviors. It is primarily AOC which is relevant to the control process of generalist managers. It remains to be elaborated how far continuance commitment is of significance to the employment relationship of generalist managers.

According to human capital theory, longevity of the employment relationship of generalist managers is a consequence of an organization's investment in the

[116] E.g., Angle and Perry (1981).

[117] Continuance commitment has been captured in empirical studies by scoring respondents based on whether they would definitely change, were undecided, or would definitely not change employing organizations given (a) no, (b) a slight, or (c) a large increase in (1) pay, (2) freedom, (3) status, (4) responsibility, and (5) opportunity to get ahead (Ritzer and Trice, 1969).

[118] Mayer and Schoorman (1998).

[119] Mathieu and Zajac (1990).

[120] Ashforth and Saks (1996).

[121] Lee and Mowday (1987).

[122] Also cf. Porter et al. (1974), Michaels and Spector (1982), Arnold and Feldman (1982), Larson and Fukami (1984), Clegg (1983), Cotton and Tuttle (1986).

[123] Mayer and Schoorman (1992, 1998).

[124] Meyer et al. (1989).

development of organization-specific skills. **Side-bet theory**[125] is a theoretical approach to continuance commitment which can, perhaps, be regarded as the flipside of human capital theory. Human capital theory is concerned with the interests of firms in the knowledge, skills, and abilities of employees and who should invest in their development. Side-bet theory is concerned with organization-specific competencies while assuming the perspective of the employee. More specifically, it proposes that continuance commitment grows as individuals accumulate investments (or 'side bets') linked to their membership in a particular organization. Such investments may include contributions to nonvested pension plans as well as the development of seniority, networks, career opportunities, individual adjustment to the social position and the conditions of a job, and, as a result, the relative ease of completing one's job. Although the costs of these investments may be borne by either the employee or the organization, the investments are subsequently tied to or 'owned by' the individual employee. Because of their organization-specificity, the employee can collect returns on those investments while remaining with the organization. The gist of the theory then is that the more such investments an employee collects the more he or she has to lose by transferring to another organization and the greater the desire to remain with an organization.

The empirical evidence provides mostly support for side-bet theory;[126] one study does not support it.[127] The methodology of these studies has been criticized on the grounds that the scales used do not measure continuance but attitudinal commitment.[128] The study which produced the contradictory evidence was also criticized for employing an "insufficiently sensitive commitment index."[129]

The study which did not support side-bet theory was conducted with members of the American Society for Personnel Administration. No significant relationships were found between continuance commitment and age, education, marriage, and number of children. A weak significant relationship was found between continuance commitment and the rate of intercompany change. The conclusion was that side-bet theory should be rejected.

Before doing so, one should consider some specifics of the study design. The original publication of side-bet theory provides concrete examples of the type of organization-specific investments an individual may accumulate, including pension contributions, adjustment to social positions and job demands, networks, and career opportunities. As some of these are difficult to capture empirically, the study examined rather broad proxy measures of the employees' investments in their organization, including age (not even tenure), education, and family situation.

[125] Becker (1960).

[126] Alutto et al. (1973), Hrebiniak and Alutto (1972), Shoemaker et al. (1977), Stevens et al. (1978).

[127] Ritzer and Trice (1969).

[128] Meyer and Allen (1984).

[129] Alutto et al. (1973, p.448).

At the same time, the sample was drawn from only one category of employees, HR professionals, and can, hence, be regarded relatively homogeneous. Variations in continuance commitment and in the dependent variables can be expected to be fairly subtle within such a homogeneous sample. Moreover, HRM is considered to possess characteristics of a professional occupation.[130] In Sect. 2.3.2, it will be argued that the competencies of professionals are largely generic rather than organization-specific and that professional careers are less dependent on the integration into organizational networks. Professionals are able to collect returns on their investments into their professional expertise in different organizations. Their dependence on one organization can be expected to be relatively low regardless of factors such as tenure or even age. It seems that HR professionals are not the most suitable subjects for testing side-bet theory.

Hence, taking into account the limitations of this study and the supportive outcomes of the other studies, the overall empirical support for side-bet theory can be concluded to be robust. Generalist managers can then be expected to be especially committed to their continued organizational membership as high levels of organization-specific development represent a defining characteristic of this employee category. The desire to remain a member of an organization is negatively related to the intent to quit, which is, in turn, related to employee turnover. The relative longevity of employment is a defining characteristic of the managerial employment mode. It constitutes a prerequisite for the management and appraisal practices proposed for managers throughout the chapters that follow. Continuance commitment does not, however, directly relate to the control processes of managers.

Having established that AOC is a relevant target variable in the control process of generalist managers, it needs to be stated which **antecedent factors** may influence it, so it can be taken account of in the design of employment and management systems. It has already been explained above that institutionalized socialization and broad friendship networks have a positive impact on AOC. Another set of factors which has consistently been shown to be relevant revolves around the discretion and influence of the employees with regard to their work. Various studies have theorized and evidenced relationships between AOC and perceived employee participation or involvement,[131] discretion, influence, information,[132] power within the organization,[133] and autonomy at work.[134] Furthermore, role clarity and role ambiguity have been found to correlate positively

[130] Cf. Freidson (1986), Ritzer and Trice (1969), Lepak and Snell (1999, 2002), Hendry (2000, 2003).

[131] Rhodes and Steers (1981), Fields and Thacker (1992), Leama et al. (1992), Dornstein and Matala (1989), Mathieu and Hamel (1989).

[132] Nystrom (1990).

[133] Brown (1969).

[134] Kalleberg and Marsden (1995), Meyer and Allen (1997, p. 39), van Knippenberg (2000), Cohen (1991), Randall (1990).

and negatively with AOC, respectively.[135] Perceived supportiveness by the organization and its representatives is also supported by the evidence as a factor impacting AOC. It is argued that employees reciprocate perceived support by displaying AOC; of special importance in this reciprocal process appears to be the support provided by the immediate supervisor.[136]

It has not been examined systematically for any of these correlations whether they involve causality or whether the causality is in the implicitly assumed direction. It is, for example, conceivable that confusion about role expectations results in frustration and reduced AOC (the usual interpretation) or that committed managers are more likely to be clear about their roles because they think more about their job and ask more questions.

Nevertheless, the possibility of a causal impact of at least some of these factors on AOC should be taken into consideration in the design of organizational systems. Given a potential negative impact of role ambiguity on AOC, for example, generalist managers should be clear about what is expected from them. Expectations and norms regarding the role of a young manager can be one focus of socialization processes. This is not meant to say that managerial role behaviors should be prescribed in detail. However, clarity should exist about the purpose of a job or function, about which aspects of the job may be approached idiosyncratically, bringing to bear one's strengths and experiences, and about the fundamental rules of behavior, that is, norms, values, and beliefs.

A factor which has been evidenced to causally impact AOC is the prestige of an organization.[137] Related to that, it has also been argued that AOC depends on the extent to which hurdles must be overcome in order to obtain desired rewards.[138] According to this, commitment is lower if organizational membership and rewards are obtained relatively easily. Positions that are difficult to obtain entail a higher status and greater identification with the organization and its culture. Hence, it may be beneficial to the organization to foster a somewhat elitist self-conception among its generalist management. To the extent that large employers can choose among a large number of applicants for their generalist managers' career track, perceived prestigiousness of the job may be given. For the most part, prestigiousness (and job attractiveness to applicants) is a consequence of pay and career opportunities. To some extent, it may also be influenced by employer branding activities. Perceptions of prestigiousness among those who are already employed can be fostered through special perks, for instance conducting trainings of 'elite generalists' not at the same corporate training barracks used for other employees but, say, in a hotel in a special location.

[135] Dornstein and Matalon (1989), Mayer and Schoorman (1998), Morris and Koch (1979), Morris and Sherman (1981), Walsh and La Van (1981).

[136] Nystrom (1990), Lee (1971).

[137] Mayer and Schoorman (1998), cf. March and Simon (1958).

[138] Grusky (1966).

A final factor which has been demonstrated to impact AOC is job involvement, that is, "the degree to which a person's self-esteem is affected by his or her work performance."[139] Other than that, individual differences at the personal level have been found to be less important than situational variables, "so much so that it has been concluded that individual differences have little relevance for organizational commitment."[140]

Hence, discretion, role ambiguousness, organizational support, prestige, and job involvement as well as institutionalized socialization and network range/size have been shown to impact or be correlated with AOC. A number of those have also been shown to be related to continuance commitment, indicating that AOC and continuance commitment may be related. Continuance commitment is relevant with regard to the desired longevity of the employment relationship of generalist managers. It is, therefore, proposed that the **antecedents of continuance commitment** should also be taken into account in designing or explaining the employment systems of managers. They include discretion, role ambiguousness, and job involvement, as well as factors contributing to an employee's accumulated investments in an organization, such as nonvested retirement benefits,[141] social interactions and involvement,[142] and opportunities for accomplishment as well as actual accomplishment.[143]

The relative attractiveness of alternative jobs at other organizations has also been hypothesized to relate to continuance commitment.[144] The education of employees has furthermore been suggested to influence access to attractive job alternatives[145] and, hence, has been found to be negatively related to continuance commitment.[146] The literature does not differentiate between a professional specialist's education and the education typically associated with a generalist manager. It merely states that someone with, for instance, tertiary education is more mobile than someone with primary or secondary education. A final predictor of continuance commitment is job satisfaction.[147]

Several of these hypothesized predictors of continuance commitment also display a weaker correlation with AOC, again indicating that AOC and continuance commitment are not entirely unrelated.[148] In order to bind generalist managers to

[139] Mayer and Schoorman (1998), Stevens et al. (1978), Jamal and Baba (1991), Mathieu and Farr (1991), Igbaria and Siegel (1992).

[140] Johnson and Chang (2008, p. 513), also Irving and Meyer (1994), Meyer et al. (1991), Meyer et al. (2002).

[141] Mayer and Schoorman (1998).

[142] Sheldon (1971).

[143] Lee (1971), Brown (1969), Hackett et al. (1994), Hrebiniak (1974), Stevens et al. (1978), Mayer and Schoorman (1998), Sheldon (1971).

[144] Farrell and Rusbult (1981), Mobley et al. (1979).

[145] Strober (1990).

[146] Steers (1977), Morris and Steers (1980), Angle and Perry (1981), Morris and Sherman (1981), Mathieu and Hamel (1989), Dornstein and Matalon (1989), Mayer and Schoorman (1998).

[147] Farrel and Rusbult (1981).

[148] Cf. Meyer and Schoorman (1998).

their organization, the predictors should be taken into account in the design of employment and management systems. Organizations may, for instance, offer organizational pension schemes to generalist managers, provide opportunities for social interaction and networking during socialization programs, and a career path which promises opportunity for accomplishment.

Recapitulating the gist of this subsection, the relevance of AOC to the control of generalist managers has been demonstrated by elaborating on its effects and antecedents. Continuance commitment does not bear a direct relevance to the control processes of managers. It seems to be related to AOC, though, and a relevant mediator and target variable for strengthening the bonds of generalist managers with their organization. Altogether, this subsection concludes a thread on input control, which started by sketching the basic elements of it, including the requirement to monitor the competencies needed by general managers. Subsequently, the functioning of socialization processes and networks were elaborated on as key mechanisms in aligning and coordinating their activities. The concept of commitment was discussed as an outcome of socialization processes and an antecedent of managerial performance. Thus, the concept of input control has been explored selectively, expanding on aspects that were felt to be less obvious than others and also especially relevant for the appraisal system designs proposed in the following chapters. An understanding of the fundamentals of commitment also provides a basis for the exploration of the employment relationships that are the subject of the following sections.[149]

Summarizing this employment system, generalist managers collectively perform the function of aligning productive work with market demands. As part of the management system of their organization, they perform subfunctions such as managing the organizational interfaces with suppliers or customers. Given a high degree of market fluidity, their task responsibilities are defined broadly. They must understand how their activities relate to other subfunctions of the organization, enabling the alignment of the organizational system, internally and with the markets. They typically perform different subfunctions in the course of their career to develop such an understanding. During the process, they undergo an extensive organization-specific development, which is associated with a long-term employment relationship. They also need a particular type of generic competencies which can be characterized as generalist competencies. Their generic and organization-specific competencies are the focus of organizational control processes, seeking to ensure that they possess the competencies that enable them to make the right decisions given a relatively wide scope for action. Institutionalized socialization processes result in the integration into the organization-wide managerial network system and commitment to organizational goals and values beyond a narrowly defined exchange relationship. The managerial employment relationship can be

[149] The generalist manager employment mode corresponds to what has elsewhere been termed knowledge-based employment (Lepak and Snell, 1999, 2002), career system (Hendry, 2000, 2003; Lawrence, 1985), core employees (Rousseau, 1995), and salaried subsystem (Osterman, 1982, 1984, 1987, 1988).

summarized as an exchange of consummate effort of the managers in return for a career within the organization.

2.3.2 Professional/Occupational Employees

Professional and occupational employees perform complex functions that require a high level of specialized expertise as well as discretionary judgment. Their functions occur in similar form across different organizations. Examples of such functions include information technology, legal services, and product engineering. Since the expertise of professionals and occupational specialists is applicable beyond one organization, they must develop it at their own expense. Typically, the expertise is acquired at some professionally recognized or accredited institution for tertiary education prior to any employment.[150]

The specification and overall management of all functions within an organization, including professional/occupational ones, is the responsibility of the generalist management – it is for that purpose that they are given control over the economic resources of an organization by its funding principals.[151] The internal processes of professional/occupational specialist functions are relatively autonomous, however, largely due to the complexity of the professional/occupational specialists' work, rendering them opaque to anyone who is not in the same profession/occupation.

Professional/occupational specialists assume the values of their profession/occupation and learn to identify with it during their professional/occupational education or apprenticeship. This adds to their relative independence from any one employer.[152] Hence, autonomy as a result of the transferability of competencies, technical complexity, and identification with a profession/occupation rather than with an organization is a key characteristic of professional/occupational employees, and it represents a particular challenge in the management and control of these employees.

There is a difference between professions and occupations in that the former are granted a special status because they perform protected functions in society. Public accounting, law, and nursing, for example, are typical professions whereas finance, information technology, and plumbing, are, strictly speaking, nonprofessional occupations. Although nonprofessional occupations do not have a special societal status, they share with professions that they perform a specialized technical function within the organizational system. For simplicity, the terms *profession* and *professionals* are used in the following sections to include *occupation* and *occupational specialists*, unless stated otherwise. The following subsection explores

[150] Cf. Becker (1962).

[151] Cf. Freidson (2001).

[152] The argument will be elaborated below.

professionalism and the background to its special status, serving to further characterize the function of professionals in organizations.

Professionalism

According to sociological theory, professionalism is defined in relation to a specialized body of knowledge, skills, and abilities which is central to the needs of society. Professionals are granted special status, prestige, and powers by society, in return for them acquiring such specialized expertise (rather than an elite generalist education, which provides access to control over resources), and in return for them exercising objective professional judgment, independent of the receipt of rewards.[153] Professions pursue goals beyond the immediate benefit of their members, for instance health, justice, beauty, prosperity, salvation, or truth.[154] These goals are passed on to individual professionals in the form of values during the process of socialization into the profession.[155] The socialization into a profession takes place primarily during a prolonged training period at the beginning of the career of a professional, for instance at a university, law school, or hospital. During that time, notions are formed of "how work should be performed" and even "of what work is interesting and worthy of their [the professionals'] training."[156] Professional values may be codified, as for example in the case of accounting principles for chartered accountants. Codification may help strengthen the values of a profession, it is, however, not a prerequisite for the existence of professional values.

Professionals are organized in **professional associations**, the powers and functions of which vary across countries and professions. Professional associations have been argued to be more preeminent in the UK and USA than in other countries.[157] Accounting represents an example of a profession with powerful professional associations. Being certified by a chartered accounting association is a necessary prerequisite for practicing as an accountant in the UK and USA. The professional association of HR managers in the UK, the Chartered Institute of Personnel and Development (CIPD), qualifies and certifies its members, too. CIPD certifications are recognized (and desired) by British employers, although they are not generally a prerequisite for working as an HR manager. Professional associations of engineers represent an example of weak professional associations. They are numerous, not well organized, dispersed, and hardly play a role in shaping their profession. One purpose of professional associations is to represent their profession in society. Often, they have played an instrumental role in establishing the special status of

[153] Vollmer and Mills (1996), Moore (1970), Larson (1977).

[154] Freidson (2001, p. 122).

[155] Goode (1957), Greenwood (1957), Wilensky (1964), Larson (1977).

[156] Freidson (1986, p. 170)

[157] Freidson (2001).

their profession by acting as lobbying groups or representative bodies in legislative and judicative processes.[158] Other purposes of professional associations include the representation, protection, support, and development of individual members. They may also help to bolster professional values by formulating codes of ethics and professional standards, disseminating values during trainings and seminars, providing a platform for exchange between their members, and fostering discussion on professional values.

Thus, from a sociological perspective, professionals must be granted autonomy as part of an exchange relationship with society. They are legitimized to pursue higher-order goals. Professionals are more than faithful servants to those who pay for their services, which, at times, demands trust and tolerance by consumers, managers, and even the state or ruling classes that may have once aided in the establishment of a professionalism.[159]

The US census distinguishes 25 **occupations** in the category *professional, technical, and kindred workers,* some of them more obscure than others. Those that are the most relevant to business organizations include accountants; architects; computer specialists; engineers; lawyers and judges; librarians, archivists, and curators; mathematical specialists (including actuaries and statisticians); operations and systems researchers and analysts; personnel and labor relations workers; physicians, dentists, and related practitioners; engineering and science technicians; other technicians (e.g., airline pilots, air traffic controllers); and writers, artists, and entertainers (including designers, editors and reporters, public relations/publicity writers). Not all of those are professions in the narrow sense of the above definition. Yet, for purposes of organizational systems design, those are the occupations that are referred to when the term *professionals* is used henceforth.

Some professions are considered to be stronger than others. Law, for instance, is considered a strong profession on the grounds that it is well organized and not merely a scientific but also a normative discipline. Architecture is also considered strong as it does not only command technical authority but also authority over esthetic design, which, again, entails an element of normative judgment. Part of the strength of both of these professions is also due to the fact that they can be fairly easily practiced in independent self employment, reducing their dependence on large employers. In contrast, engineering is considered a comparatively weak profession. Its authority is limited to technical problems, engineering associations are weak, and the opportunities for independent, self-employed practice are also limited.[160]

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[158] Some professions have gained their special status despite an absence of strong representative associations. Engineers, for example, owe their special status to politicians who recognized their importance to the military and infrastructure of their country. Their special status does not only encompass public recognition and professional autonomy but also academic recognition and legal protection of qualifications in Germany and France (Freidson, 2001).

[159] Ibid.

[160] Freidson (2001, p. 171–172).

The present work is concerned with the management of **professionals within organizations**. Professionals may work in organizations on the basis of open-ended or close-ended contracts of employment or on the basis of service contracts. Permanent employees are in the present work referred to as *professional/occupational employees*, temporary employees and service providers for the sake of simplicity as *professional/occupational contractors*.[161] Transaction cost analysis helps understand when a function should be staffed using regularly employed and when using contracted professionals.[162] According to that, regular employment is preferable if the professional expertise is required on an ongoing or frequent basis, if it requires some organization-specific development, and if there is some uncertainty with regard to the tasks to be completed. Binding professionals through employment contracts reduces costs of recruitment and it ensures continuity in the function they perform within the organization. Professional employees grow familiar with the organization-specific processes and routines immediately surrounding their function, adding to the efficiency of organizational processes. Thus, professional employees undergo a limited amount of organization-specific development concerning the organizational context of their function. Beyond that, their functions do not require a broader understanding of the organizational processes in the way the managerial functions do.

The transferability of their specialized expertise and the limited need for organization-specific development enables this type of employee to change organizations without a significant loss of income. A change of organization may even result in a pay increment when organizations' 'headhunt' needed expertise away from other organizations. Some mobility of professionals is desirable also from a professional point of view, as knowledge exchange between organizations may spawn innovation and contribute to the development of the professional body of knowledge.[163] A comparatively high level of mobility among professional employees entails that they may enter organizations at all levels of the hierarchy.

According to human capital theory, it would be economic to pay them salaries which are closer to market-based equity than those of generalist managers. A moderate premium should be paid to professional employees compared to what professional contractors with comparable professional competencies get, compensating for their (moderate) organization-specific development.[164] The empirical literature on professional contractors supports these predictions.[165]

Professional employees with the requisite potential may occasionally be given the opportunity to join the managerial ranks of their organization, in which case they must cease to perform the function of a professional specialist and become a

[161] The majority of skilled contingent workers are contracted and not employed as temporaries; cf. Sect. 2.3.6.

[162] Cf. Williamson (1975, 1985); Sect. 2.1.

[163] Cf. Sect. 2.3.6.

[164] Becker (1962), Lepak and Snell (1999, 2002).

[165] E.g., Marler et al. (2002); cf. Sect. 2.3.6.

generalist instead. In some cases, the **distinction between professionals and managers** is more ambiguous; for example, in the case of professionals in R&D who supervise junior professionals in addition to their professional job. Some further elaboration on the fundamental functional divide between the two staff categories seems warranted.

The basic function of managerial employees is to allocate the resources of the organization on behalf of their governing board (that is, the shareholders, supervisory board, or private owners in the case of companies). They must gauge the value of alternative options for resource allocation, taking into account factors such as the abilities of productive workers and market conditions. They are "essentially concerned with the preservation of the integrity of the organization (or organizational unit) as a whole in the light of the general policy of its governing board."[166] In contrast, professionals seek resources in order to be able to pursue the goals and values associated with their professional function. They are primarily "concerned with the preservation of the integrity of their specialized pursuit of a discipline or a profession."[167]

The US National Labor Relations Board (NLRB) pursues a more practical approach in distinguishing professionals from supervisory and managerial employees. The National Labor Relations Act (NLRA) grants protection to professionals and other nonmanagerial employees of collective bargaining rights while exempting supervisors from that protection.[168] In order to decide whether employees who partially perform supervisory functions should be exempted, the NLRB has adopted the "50 percent rule." According to this, employees classify as supervisors if they spend more than half of their working time supervising nonprofessional employees. On that basis, professional engineers who supervise junior engineers were, for instance, ruled to be (nonexempt) professionals rather than (exempt) supervisors.[169]

The fact that managers must be paid higher salaries than professional employees has resulted in some professionals desiring to become managers. This may not necessarily result in the optimal staffing of managerial positions and it may lead to the drain of professional expertise where a lack of career opportunities for professionals contributes to "the loss of talented engineers, scientists, and salespeople who insist on moving into management to realize promotion possibilities when none are available in their area of expertise."[170]

In an attempt to increase the attractiveness of being employed as a professional, some organizations have been introducing **professional career tracks** with a hierarchy of job titles and pursuant pay increments. If such career ladders are to be sustainable, they must be grafted in line with the economic demands outlined in

[166] Freidson (1988, p. 152).
[167] Ibid.
[168] NLRA, Sect. 2.
[169] Finkin (1977).
[170] Baker et al. (1988, p. 602.).

this dissertation. Distinctive career profiles must be devised for managers and for professionals. The career track of a manager must provide more employment security, higher salaries, and more training and development opportunities than the career track of a professional employee. Some professional career tracks may attempt to disguise inevitable differences by introducing new job titles for professionals which emulate a managerial promotion structure. If those are not linked to tangible changes in employment conditions, they are unlikely to prevent professionals from desiring to become managers. If the professional career tracks represent attempts to impose a new hierarchical structure onto the professional system, they may violate requirements for professional autonomy and interrupt effective processes which have emerged within a profession given its particular functional challenges. If they result in tangible changes by actually raising the salaries of professionals to the levels of managers' salaries, it may affect the competitiveness of the organization if other organizations obtain the same professional outputs while paying salaries closer to market equity.

It appears more promising to emphasize the actual advantages of professional career trajectories, such as the greater autonomy, marketability of skills, and opportunity to work in self employment at later career stages. It will be elaborated in Sect. 3.3.2 that the compensation of professional employees should be linked to the delivery of professional outputs, offering a more immediate reward compared with the deferred rewards of managerial employees.[171] Although professionals cannot be offered much in terms of organizational sponsorship of their professional training and development, organizational employment may be seen as an opportunity for professionals to gather experiences, develop their competencies on the job, interact with other professionals, including professional contractors, and thereby increase their value in the external labor market. Furthermore, it is not expected that professionals devote the same consummate effort to their organization as managers.[172] Such aspects of the psychological contract of professionals tend to be implicit. Making them explicit may add more to the perceived attractiveness of professional employment than career tracks that are either not sustainable or merely a ploy.[173]

Organizational–Professional Conflict

Professional and organizational value systems have been argued to be in conflict.[174] Organizational value systems are characterized as bureaucratic, centering around hierarchical control and authority, conformity to established rules and procedures,

[171] Cf. Chap. 3.

[172] See subsection below.

[173] Cf. Sect. 3.3.2 on professional hierarchies and staffing systems.

[174] Gouldner (1957, 1958), Ben-David (1958), Corwin (1961), Shepard (1956, 1961), Kornhauser (1962).

and organizational loyalty. **Professional value systems** center around higher-order goals relating to the profession's function within the society and its independence of professional judgment.[175] A US professional association of public accountants, for example, suggests that the professional identity of an auditor should encompass dedication to a professional ideal, responsibility to the users of financial information (as opposed to interest groups within an organization), and loyalty to their profession.[176] It has furthermore been argued that professionals "tend to respond to hierarchy based upon expertise, while organizations rely upon the authority of hierarchy."[177]

Professional values are, like other values, to some extent self-perpetuating. The internalization of professional values has been suggested to result in professionals perceiving the pursuit of professional goals as a way of self-realization.[178] As a result, professionals may have preconceptions concerning work that is "interesting and worthy of their training" and they may "deplore, if not actually resist, management's allocation decisions and its efforts to establish greater productivity."[179] Organizational–professional value conflict has been shown to lead to the rejection of hierarchical authority and standards[180] and to job dissatisfaction and fluctuation among professional employees.[181]

The early research on organizational–professional conflict hypothesized that it is not possible for employees to be committed to an organization and a profession at the same time.[182] Later on, evidence indicated that individuals may be high both on organizational and professional commitment, low on both, or high on one and low on the other.[183] Eventually, the researchers arrived at the conclusion that some **moderator variables** must be in operation, one of them being the nature of the profession. *Technical-scientific* professions such as engineering and accounting were found to be more likely to match organizational value systems than *person* professions such as law, medicine, and university teaching.[184] The likelihood that an employee is high on both organizational and professional commitment has also been found to increase with the employee's level in the organizational hierarchy, indicating that

[175] Vollmer and Mills (1966), Larson (1977).

[176] American Institute of Certified Public Accountants (AICPA), cited in Aranya and Ferris (1984).

[177] Aranya et al. (1981, p. 273).

[178] Larson (1977).

[179] Freidson (1986, p. 170).

[180] Scott (1966).

[181] Sorensen and Sorensen (1974), Wilensky (1956), Gouldner (1957), Reichers (1985, 1986).

[182] Shepard (1956), Ben-David (1958), Gouldner (1958).

[183] Abrahamson (1956), Avery (1960), Grimes and Berger (1970), Berger and Grimes (1973), Filley and Grimes (1968), Flango and Brumbaugh (1974), Friedlander (1971), Goldberg et al. (1965), House and Wigdor (1968), Jauch et al. (1978).

[184] Goode (1969), Hastings and Hinings (1970), Tuma and Grines (1981).

senior employees may have discovered ways of circumventing value conflicts or that they are more likely to be part of the organization's generalist management.[185]

The negative relationship between professional and organizational value commitment is further moderated by the degree to which organizational systems accommodate professional values and goals. The formation of professional values and commitment precedes the formation of values and commitment relating to a particular organization,[186] taking place during professional socialization processes.[187] Professional socialization occurs at professional schools and institutions, "whose task is to codify, refine, and extend the profession's body of knowledge and skill, and also elaborate and clarify the values served by their discipline [. . .] somewhat independent of the market and the polity."[188] Acceptance of and commitment to organizational values, so the argument goes, can then only be established to the extent that they facilitate conduct according to the professional values that were imparted during the earlier process of professional education.

The argument has been tested by comparing the attitudes of professionals employed by professional organizations (e.g., accounting or law firms) with the attitudes of professionals employed by heteronomous professional organizations. The hypothesis was that professional organizations tend to be less bureaucratic because of their ability to rely on the informal controls associated with professional membership, that the professional organizations' goals are more likely to parallel those of its professional employees, and that, hence, professional organizations incur less organizational–professional conflict than other organizations. The hypothesis was confirmed, providing support to the idea that accommodation of professional goals and values by organizational systems moderates the negative relationship between professional and organizational commitment.[189] On that basis, it is proposed that the control system design of professional/occupational employees should accommodate the pursuit of professional values in order to avoid organizational–professional conflict and its various ramifications.[190]

Output Control

It is difficult to establish organizational commitment with professionals not only because of organizational–professional conflict but also due to other factors which

[185] Aranya and Ferris (1984).

[186] Aranya et al. (1981).

[187] Goode (1957), Greenwoode (1957), Wilensky (1964), Larson (1977).

[188] Freidson (2001, p. 123).

[189] Aranya and Ferris (1984).

[190] Closely related to the concept of professional commitment is occupational commitment. Strictly speaking, professional commitment is defined more narrowly than occupational commitment, akin to the distinction between professions and occupations. However, for the purposes of the present work, it is assumed that the antecedents and effects of occupational commitment are the same as those of professional commitment (cf. Blau et al., 1993; Wallace, 1993).

contribute to a comparatively **low organizational commitment** of professional employees including a lack of power and ability to influence the organizational decision-making processes[191] and a shorter expected tenure due to the transferability of their competencies.[192] It has also been argued that "whether or not one must overcome hurdles in order to obtain the rewards of an organization may be an important factor in determining one's commitment to it. If the rewards are readily obtained, one's obligation is likely to be weak as one becomes convinced that it was his/her attributes rather than those of the organization which provided the rewards."[193] Further, professionals "are more likely to attribute their rewards to their occupational qualifications rather than to the organization. [...] Many [of them] would attribute the extrinsic rewards they received to their qualifications and therefore would not reciprocate with high organizational commitment. For professionals, the relationship with the organization can be characterized as an exchange relationship."[194]

Finally, the mechanisms which have been shown to be conducive to the development of organizational commitment, such as institutionalized socialization and broad networks, may not be applicable to professional/occupational employees. Professional employees are hired to perform a specialized and narrowly defined function in the organizational value-adding process. Performing a narrow function does not require an understanding of the overall functioning of an organization. Research on learning processes has found that *job and role learning* processes differ from those of *learning related to wider organizational processes*.[195] According to that, quickly coming up to speed with one's job requires reliable and consistent information rather than a breadth and variety of information. "Newcomers need contacts with whom they can approach again and again with questions and who are familiar with the newcomer's particular job and role requirements."[196] Accordingly, denser and stronger informational networks have been found to be positively related to job mastery.[197] Hence, it is not the organization-wide networks which are conducive to the development of organizational commitment but dense, strong networks around the professional function which seem suitable for professional/occupational functional requirements.

If it is not possible to establish attitudinal commitment to organizational goals among professional employees, one cannot apply the input-based control system that is proposed for managers to this employment mode – even if it may perhaps seem that it would well suit professional autonomy demands. A **separate control system** must be devised. The functions of professionals within organizations are

[191] Welsch and La Van (1981).

[192] Welsch and La Van (1981), Buchanan (1974).

[193] Cohen (1992, p. 542–543).

[194] Ibid., p. 543–544.

[195] Bauer et al. (1998), Ostroff and Kozlowski (1992).

[196] Morrison (2002, p. 1150).

[197] Ibid.

clearly defined and circumfenced. IT professionals, for example, may be employed to operate the IT infrastructure of an organization. It may not be possible for nonprofessionals to understand why and how IT systems function but they can assess whether it functions and its level of effectiveness, for example, in terms of system breakdowns, speed, and functionality. It may be possible to define output standards on the basis of past performance levels, experiences of organization members who were previously employed elsewhere, and benchmark studies by professional consultants. Likewise, it may be possible to specify output standards for employed engineers, lawyers, and accountants. Professionals may be involved in the definition of standards. Engineers may, for example, voice their views on the feasibility of performance specifications for an engine they are tasked to develop, which are typically taken into consideration by their supervising managers. It is further possible to set performance standards for professionals that are still valid after a 6- or 12-month period as professional functions are not as directly exposed to the markets as those of managers and as they are not as interconnected with other functions. The functional performance requirements are not as volatile as those of managers.

If behavior standards were to be set in addition to or instead of output standards for professionals, it would require an understanding of cause–effect relations,[198] which is possessed only by other members of the profession and not by the managers who supervise the professional function. Behavior control would only be an option for the internal control processes of a profession. Prescribing behavioral standards to professionals, however, may be seen as an infringement on their professional autonomy. Besides, each individual in a professional system is expected to specialize slightly differently than other professionals. It may, therefore, be difficult to fully understand cause–effect relations of a professional job even for other professionals. Hence, in line with control theory, output control is a feasible and economic option for the control of professional employees, meeting both professional demands for autonomy and organizational functional requirements.

In summary, professional/occupational employees perform complex specialized functions which are required on an ongoing or frequent basis by the organization and which occur across different organizations. They need to possess highly specialized generic competencies and a limited amount of organization-specific development concerning processes immediately surrounding their function. Because of the transferability of their competencies, the professionals are themselves responsible for their development and maintenance. Typically, professionals form part of a professional or occupational network, which supports the development and maintenance of professional competencies and of a professional value system. Professionals identify with professional value systems. An important professional value is autonomy. Professional employees are employed rather than contracted because their functions are to be performed on an ongoing or frequent

[198] Snell (1992).

basis. The organizational control processes focus on professional outputs, giving them discretion in applying their professional task strategies and behaviors. Thus, the exchange relationship can be summarized as the ongoing delivery of specified outputs in return for the payment of a monthly salary.[199]

2.3.3 Industrial/Clerical Workers

The term *industrial worker* is used in the following to denote workers performing manual labor in, what can be referred to as, scientific management systems. **Scientific management**, also known as Taylorism, stands for a scientific approach to the organization and optimization of work flows.[200] It rests on the following principles. Firstly, the planning and the execution of labor are separated. Management specifies a standard method for performing a job, which is exactly adhered to by the executing worker. Secondly, the work process is deconstructed, enabling the scientific optimization of processes and narrow job definitions. The human relations movement in the 1950s referred to this aspect of scientific management as the *deskilling of labor*. Thirdly, workers are to benefit from efficiency improvements through incentive pay. Consequently, workers are expected to embrace productivity-oriented work process designs. Taylor's principles of scientific management have subsequently been integrated in the Fordist assembly line production system.[201]

Although scientific management dates back to the beginning of the last century, and despite the human relations movement, total quality management, and high commitment management, this approach still provides the foundation for a large part of industrial mass production. The main alternative to this approach are self-managed work teams (SMWTs), which achieve high levels of labor productivity at a higher cost.[202]

The function of industrial workers is to perform narrowly defined tasks according to standard procedures. This function is not only required in production environments but also in the service sector, for example, in fast food restaurants and call centers. Call center operators perform highly structured tasks according to computer-aided processes and scripts. The work processes of call center operators are a mass manufacturing approach to service operations, only that work is

[199] This employment mode resembles what has elsewhere been referred to as craft subsystem (Osterman, 1982, 1984, 1987, 1988), occupational system (Hendry, 2000, 2003), and job-based employment system (Lepak and Snell, 1999, 2002). Predecessors of this type of employment relationship include the communal ownership approach of craft groups (Kerr, 1954), craft markets (Doeringer and Piore, 1971), and craft systems (Lawrence, 1985).

[200] The approach is named after Frederick W. Taylor who was first to publish a comprehensive description of it (Taylor, 1911).

[201] Nevins (1954).

[202] Cf. Sect. 2.3.4.

"individualized, repetitive, scripted, and machine-paced by expert systems rather than assembly lines. [. . .] telemarketers, operators, and customer service and sales representatives in banking, insurance, airlines, telecommunications, and the service centers of manufacturing operations" represent examples of jobs that are typically organized in large call centers "as the factories of the information economy."[203] The white-collar equivalent of industrial workers shall in the following paragraphs be referred to as *clerical workers*.

Given narrowly defined tasks, the generic **competency requirements** of industrial/clerical workers are limited. Some industrial jobs may place physical demands on the worker. Some clerical jobs such as those of call center operators require a certain command of the language. A minimum level of learning ability may be required to comprehend the procedures that are to be followed. Yet, those are competencies that are widely available in the labor markets of developed countries and, at a lower cost, in developing countries. Hence, the generic competency requirements of industrial/clerical workers are classified as limited. The organization-specific competency requirements are moderate as, according to the principles of Taylor, industrial/clerical workers need to be trained in applying the standard procedures devised for them by management.

The Role of Collective Organization

Deskilling and dissatisfaction of labor, ample supply of equivalent competencies on the labor market, and ongoing contact between permanently employed workers provide fertile ground for the emergence of collective organization among workers. Workers who face the wage–effort bargain as individuals are at a disadvantage as they can be played out by the hiring managers against other workers. Through collective organization, they seek to monopolize the labor supply and to improve their bargaining position. The effective establishment of a labor monopoly depends on their ability to create collective unity, which depends on their ability to reach all the workers that may potentially be approached by the employer and on their ability to penalize employers by calling strikes. The abilities to organize collectively and to call strikes hinge on the law and the powers it provides to the worker collective in that respect. As a consequence of an effective monopolization of the labor supply, the wage rates for the monopolized types of labor increase.

Another effect is a reduction in the **flexibility** of employers in the management of workers. According to the principles of scientific management, the jobs of industrial/clerical workers are defined narrowly and specifically. Job definitions are fixed through collective agreements or contracts, which formally tie pay rates to different job classes. A flexible adaptation of job definitions requires renegotiation and is therefore costly. Defining jobs more broadly in the first place would contradict the principles of scientific management. Moreover, labor representatives would

[203] Batt (1999, p. 540).

be afraid that employers may take advantage of such flexibility and obtain more effort from the workers than they pay for.[204] If labor representatives agree to a limited amount of flexibility at all, employers must make concessions in terms of pay or working time. Given the entrenched industrial system of wage–effort bargaining, real flexibility may require an entirely different mode of employment such as that of self-managing team workers.[205]

The kind of flexibility which is missing in the context of narrow and fixed job definitions has been termed *resource flexibility*, that is "the extent to which a resource can be applied to a larger range of alternative uses, the costs and difficulty of switching the use of a resource from one alternative use to another, and the time required to switch from one use to another."[206] Hence, collectively organized industrial workers are associated with a relative lack of resource flexibility. In addition, they can also be associated with a relative lack of *coordination flexibility,* which has been defined as "the extent to which the firm can resynthesize the strategy, reconfigure the chain of resources, and redeploy the resources."[207]

Economically, it is not in the interest of the organization to reach the same level of coordination flexibility for industrial/clerical workers that it may reach, for instance, for casual workers. By teaching these workers the standardized procedures and by giving them some time initially to get up to standard levels of performance, organizations make an investment in them. The investment is moderate compared to the development and training received by generalist managers but large enough to render this type of employment uneconomical if it were to last only for weeks or months.[208]

It is not in the interest of organizations to adapt the size of their industrial/clerical workforce to demand fluctuations in the same way they would do with their casual workforce. However, if a change in demand is expected to last longer than, say, the expected remaining tenure of the organization's CEO, or, more generally, if the return of market demand to previous levels is not foreseeable in the near future, savings from not continuing to employ a part of the workforce will offset the loss of the organization's investments in developing that part of the workforce.

Redundancies are anathema from the perspective of the industrial/clerical worker. The only human capital investment they possess is organization-specific, as the scientifically managed processes and standards vary across organizations. Organizations prefer to train younger workers, as they expect a longer pay back period for their (moderate) investment. Therefore, collective worker organizations react defensively to any attempts to reduce the size of an industrial/clerical workforce. They may seek to prevent or delay redundancies, increase the costs of the

[204] Cf. Jacoby (1984), Steiber (1959), Kahn (1976), Rubery (1978), Elbaum (1984).

[205] Cf. Sect. 2.3.4.

[206] Wright and Snell (1998, p. 761).

[207] Ibid., cf. also Tsui et al. (1997).

[208] An organization's training and development investment costs per unit of production decrease with every day the worker stays with the organization at decreasing marginal rates.

redundancy process, and, thereby, further reduce the coordination flexibility of organizations. Managers will, in turn, be more hesitant to hire new employees when demand surges. Instead, they may resort to core–periphery arrangements and create employment in countries with laws that do not allow labor to affect the coordination flexibility of organizations to the same extent.

A key element in this chain of events seems to be the fact that an organization's costs of employment per unit of production increase with the age of workers at the time they are hired.[209] If this was not the case, it would be easier for redundant workers to find new jobs, the worker collective would not have to be as defensive about redundancies, and organizations would have the coordination flexibility they require to be competitive without resorting to other systems or relocating employment. Finding solutions to that kind of macro-economic problem is outside the scope of the present work. However, given the demographic structure in countries such as Germany, it is conceivable that the political climate will change in favor of elderly citizens in the near future, which might facilitate, for example, the introduction of subsidy systems to address this issue. For now, in any case, a small cost difference between older and younger workers, which is increasingly relevant with increasing competition, entails a lack of resource and coordination flexibility for the industrial/clerical worker employment mode.

To some extent, this has been changing over the last two decades, as various factors have been contributing to a **weakening of the strategic position** of labor. One factor is globalization and its effect on labor's ability to create a labor supply monopoly. Another one is related to advancements in automation technology and the ability of employers to substitute labor through technology, impacting negatively on labor demand. Shifts in employment from traditionally better-organized production industries to the service sector have also contributed to a weakening of collective structures, as have shifts from regular, full-time employment to contingent employment and an increased female participation in the workforce. Partly a consequence of these trends, legislative changes in countries such as the UK have further contributed to the weakening of labor. Finally, employers have been using core–periphery models of employment, substituting industrial employment through the so-called core employment on the one hand, providing genuine employment security to selected workers, and through peripheral employment on the other hand, having a greater amount of work performed by contingent workers, through outsourcing, or offshoring. Thereby, employers manage to obtain high levels of resource flexibility coupled with low levels of coordination flexibility in the case of core workers, and high levels of coordination flexibility coupled with low levels of resource flexibility in the case of workers situated at the periphery of the organization. The employment modes of core and peripheral workers are described in Sects. 2.3.4 and 2.3.5, respectively. At this point, it can be noted that the loss in

[209] The bulk of a firm's costs of investment into the worker's skill development occurs at the time of hiring. Because these workers are not very mobile and expected to remain with their firm until retirement, the expected average labor costs per unit of production is, if only marginally, lower for a worker hired at a younger age.

power of organized labor enables management to shape the employment mode of industrial/clerical workers to a somewhat greater extent as they see fit.[210]

Dual Allegiance?

The attitudinal or value commitment of generalist managers should be directed toward the goals of the organization. They should identify with those goals or, ideally, internalize them; that is, they should perceive the goals of the organization as their own. Professional employees are merely expected to *comply* with organizational goals as far as they relate to their function. Their attitudinal commitment is directed toward the values and goals of their profession. This subsection is concerned with the intrinsic goals and values of industrial/clerical workers. It will be argued that their value commitment is directed toward the labor collective.

In the literature, the workers' **identification with the labor collective** is approximated by *union loyalty*, which is defined as "an effective attachment to the labor organization and is denoted by (a) positive attitudes toward the union and its values and goals, (b) a sense of pride in being a member of the union, and (c) a desire to maintain one's membership."[211] Identification with the labor collective is a broader concept than union loyalty as it may also exist in the absence of formal union structures. It can be defined as the perceptions of an inevitable pluralism of interests in organizations, of a common fate of workers in possessing less power than other interest groups in organizations, and of the need to form a coalition between workers in facing other interest groups. Such perceptions are commonly referred to as *them-and-us attitudes* – that is, *them*, the other interest groups, in particular the owners or funders of the organization and management as their representatives, and *us*, the worker collective. Since the 1980s, attempts have been made to overcome them-and-us attitudes through so-called high commitment management practices, seeking to establish a unitary perspective on employment relations.[212] The purported notion of workers, managers, and owners of organizations all *sitting in the same boat* suffered, however, from forced redundancies and continued differences in pay and working conditions. It was soon understood as *we are all sitting in the same boat as long as it serves our interests, then we may have to*

[210] While shifts away from terms and conditions above the market equilibrium have started already in the 1980s, they continue to be an issue. In May 2008, the Ford motor company offered generous buyout packages, including one-time cash payments of $140,000 or college tuition fees for entire families, in an effort to substitute workers who have been paid middle-class wages through new hires who are paid approximately half of these wages. In the preceding 2 years, 32,000 Ford employees had accepted buyout and early retirement offers. General motors and Chrysler have been making similar offers to their hourly workers. In total, 80,000 jobs under old terms and conditions were eliminated among the three Detroit auto makers in 2006 and 2007. The revamping process is not expected to be concluded yet (*The New York Times*, article reprinted in World and Press, May 1, 2008, p. 10).

[211] Fullagar and Barling (1989, p. 213).

[212] Cf. Sect. 2.3.4 on team workers and self-managed work teams.

throw you over board again. Unitarist perspectives on employment relations may successfully be established among core workers in core–periphery systems, whose interests are genuinely heeded to in the organizational decision processes. For other workers, a pluralism of interest remains undeniable in the current business environment.

It is against this backdrop that one must see efforts in the research community to establish whether there can be such a thing as **dual allegiance** – that is, allegiance of workers to both their trade union and their employer. Various studies have found workers who are committed to their union and the organization they work for at the same time,[213] which does, however, not necessarily represent a proof for the existence of dual allegiance. It has been suggested elsewhere that dual allegiance may exist only in the absence of labor conflict and where memories of previous hostilities have faded[214] and that dual allegiance may, if at all, exist temporarily, depending on the quality of the relationship between management and labor;[215] the empirical research provides support for such arguments.[216] Thus, it seems that workers may be committed to an organization as long as it helps them to pursue their own interest. It is the question whether this kind of attitude should be referred to as commitment or allegiance, if, once it is put to a test, it vanishes. If one looks at things this way, one may conclude that there is no such thing as dual allegiance in labor relations: workers pursue their own interest. The union or other institutions represent this interest. Organizations are not in a position to accommodate this interest at all times – at least not with the employment relationship discussed in the present section – hence, workers identify with the worker collective and not with the organization. If the organization does largely accommodate the interest of the worker, as for example in the case of the team worker–employment relationship,[217] workers will perceive a unitarism of interests, eradicating the need for trade unions, worker representation, or, indeed, the worker's identification with the labor collective.

The argument that there is no such thing as dual allegiance or dual (deep structure) identification is compatible with social identity theory. According to Tajfel and Turner, social identification represents a transition from thinking and feeling as an individual to thinking and feeling as representative of a social group.[218] Social identity is argued to represent a framework for perceiving and responding to the environment. Only one such framework of perception can be active at a given time. It is further argued that social identity is to be distinguished from personal identity, which is concerned with the personal benefit of the

[213] E.g., Angle and Perry (1986), Dalton and Todor (1982).

[214] Stagner (1956).

[215] Kornhauser (1961).

[216] Fukami and Larson (1984), Dean (1954), Gottlieb and Kerr (1950), Magenau and Martin (1985), cited in Gordon and Ladd (1990).

[217] Cf. Sect. 2.3.4.

[218] Tajfel and Turner (1986).

individual. Social identification with, or allegiance to, an organization or the labor collective represents a shift in perception, thinking, and feeling from the individual to the group level – a broadening of identity.[219]

Studies on the **antecedents of union loyalty** found that union instrumentality – that is, the extent to which unions can achieve benefits for their members – is the best predictor of union support among white-collar and blue-collar workers.[220] Extrinsic job (dis)satisfaction has also been found as a significant predictor.[221] It was found elsewhere that "personal calculative considerations" are more important for employees in "low-status occupations" than for those in "high-status occupations."[222] Socialization experiences are, compared with personal calculative considerations, secondary, although their impact on union loyalty has still been found to be statistically significant.[223] Direct contact to reference groups can, perhaps, be regarded a catalyst to the development of affiliation with the worker collective. In other words, the motivation for identification stems from substantive issues related to a pluralism of interests; contact with other workers and representatives of organized labor may further increase the awareness of such issues.

This also implies then that suppressing socialization activities of the worker collective, and engaging in organizational socialization activities instead, will likely not effect organizational commitment among workers in the absence of corresponding changes to the psychological contract. Attempts to elicit organizational value commitment against a background of loyalty to the labor collective have, moreover, been suggested to lead to psychological conflict among workers, who struggle to integrate conflicting endorsements.[224] Consequences of this kind of intrapersonal conflict may range from 'feelings of cognitive dissonance'[225] to withdrawal from the organization.[226]

Hence, what has been argued to be a workable form of control for generalist managers does not seem suitable for industrial/clerical workers. Attempts to elicit organizational attitudinal commitment among them will, at best, result in mantra-like verbal confessions that last as long as the system immanent conflict of interest does not become manifest. A control mechanism must be devised for this employee category on the premises of interest pluralism. Before such a control mechanism is described, it is to be emphasized that the arguments in the present section are not intended to represent a general rejection of more integrative approaches to the

[219] Lembke and Wilson (1998).

[220] Kochan (1979), Fullagar and Barling (1989).

[221] Kochan (1979), Fullagar and Barling (1989), DeCotiis and LeLouarn (1981), Gordon et al. (1980).

[222] Cohen (1992, p. 552).

[223] Fullagar and Barling (1989), Gordon et al. (1980).

[224] Reichers (1986).

[225] Newton and Shore (1992).

[226] Reichers (1985).

management of workers. The integrative approaches suit only particular framework conditions and functional designs, however, which are discussed in Sect. 2.3.4.

Total Control?

Scientific management involves the prescription and control of detailed performance standards. Applying control theory to the functional specification of industrial/clerical employees, behavior and/or output control can be derived as effective modes of control. Task complexity is low, enabling the supervising managers to understand cause–effect relations without having to develop a particular specialized expertise. Task fluidity is also low, enabling the specification of crystallized standards of performance. Even if there were technology updates as often as every 1 or 2 years, it would still be possible to anticipate and define accurate standards of performance *ex-ante*. Hence, control theory predicts that **output control, behavior control, or both** may be effective for industrial/clerical workers.

Which of these three options is chosen will, in practice, depend on the availability of the respective measures. Because of the far-reaching deconstruction of jobs in Taylorist production systems, immediate outputs are typically easily observable and measurable. With simple manual jobs, for example, one may count the number of fault-free widgets processed within a given time period. That is, an output measure which is reflective of the assembly line workers' performance and not of any contextual factors that are not under their influence is available. In the case of call center operators, there is no single output measure that is comprehensive and reflective solely of the operator's performance. The number of callers who have been served 'fault-free' within a given time period is more difficult to evaluate. The number of complaints filed by dissatisfied customers is only a crude indicator of the worst 'faults' committed by an operator, as other dissatisfied customers may not bother to file a complaint but vent their frustration in other ways. Handling as many callers as possible merely under the condition of avoiding the most serious of gaffes may not be in the interest of the employing organization. Some additional behavior monitoring is required to ensure requisite standards of quality. The use of recording technology is common practice in call centers. They are used to monitor not only the operators' adherence to predefined scripts but also factors such as the length of calls and the number and length of breaks taken between calls.[227]

Generally, the development and increasing **ubiquity of technology** enables managers to monitor behavior in ways not possible in the past. Computerized product tracking systems with inbuilt quality control are used to automatically monitor the quality and quantity of work in production environments.[228] Video surveillance is used to monitor shop-floor assistants and even teachers at language schools. Technology enables the remote monitoring of truck drivers and tracking of

[227] Cf. Batt (1999), Cappelli (2000).

[228] Skorstad (1991), Sewell and Wilkinson (1992), Taplin (1995).

student test score performance in education. Supervisors of clerical workers in various jobs may monitor computer work and other online activities of theirs via the organization's information technology network. The progress in information and surveillance technology made a wider spectrum of jobs amenable to scientific management, the most prevalent one being call center operators.

Although this may improve the ability of employers to monitor their employees, the employees' experience has been described as less favorable. Call centers have been labeled *modern day panopticums;* the feeling of being constantly monitored has been shown to result in physical symptoms of stress, especially among weak performers.[229] Under personal systems of supervision, the supervisor and the work group form a social group. The personal supervisor displays a certain tolerance and understanding of, for example, social interaction needs. There will be times at which the workers will be unobserved. With electronic surveillance, the workers will not know who observes them and when they are observed. For their purposes, they must assume that they are constantly being exposed, leaving no leeway whatsoever. The quality of the social interaction with coworkers may also deteriorate, taking on the quality of a conversation one would lead, say, on a public bus. Even if the anonymously observing supervisors tolerated some slack, workers may not perceive that and feel pressured to constantly give the impression of working close to their limits.

From the point of view of the employer, on the other hand, electronic surveillance does not only result in more effective monitoring and increased worker efforts, but also in reduced costs of monitoring as the effect of constant supervision can be achieved without constantly having to post supervisors to all production locations. Given findings of possible health effects of electronic monitoring, some managers may find themselves in a decision dilemma, having scruples about using surveillance technology while experiencing the competitive pressure to increase productivity. A first criterion in deciding about whether to use the technology would naturally be the law. According to the German codetermination act, for instance, the employer must obtain approval from the elected works council to implement technology that can be used for purposes of monitoring and evaluating individual employees.[230] Thus, the German legislator devolves the decision about whether electronic surveillance should be permissible to the company or, more specifically, to the production plant level.[231] Negotiations between works councils and managers about the installation of surveillance technology may, however, not always be primarily concerned with health effects and their acceptability. It is conceivable that negotiations about surveillance technology become part of the wage–effort bargain instead, as the technology will reduce the leeway of workers to exercise control over the pace of work, to take breaks at their own discretion, or to

[229] Fernie and Metcalf (1999), London (1997), Campbell et al. (1993).

[230] German codified law: BetrVG §87, I, 6.

[231] The German works councils are situated at the plant level.

plainly shirk – that is, at a given wage, employers will be able to extract more effort from their workers. Taking the perspective of the employer, the current German legislation may then be understood in a way that electronic surveillance is generally permissible and that it is legitimate to press for it within the legally prescribed codetermination procedure.

Some employers may, beyond economic considerations, choose to pay for personal supervision instead of electronic surveillance to avoid health effects for their workers. This may, theoretically, happen under two conditions. Firstly, it may happen if an organization is led by philanthropists. If this organization operates in a competitive environment and if some of the competitors are not led by philanthropists, opportunity costs will arise from not using electronic surveillance systems. Secondly, if there were societal norms against the use of electronic monitoring and if organizations which violate such norms were penalized by customers who avoid their products, organizations would also have an incentive to use worker-friendly employment practices.

Whether electronically or personally, close monitoring and supervision represent essential elements of this employment mode. The detailed specification of how work is to be performed not only provides a basis for the control of workers by the management but also enables the worker collective to exercise control over the employer and to pursue their traditional approach to **wage–effort bargaining**. By exactly specifying what an employer should obtain from a worker for a given pay rate, workers are protected from unreasonable demands and exploitation by employers and individual managers. Thus, under this system, it has been in the interest of both parties to narrowly define the objects of exchange, that is, a series of narrowly defined task behaviors in return for an hourly rate.

In summary, it has been argued throughout this section that industrial/clerical workers perform simple, narrowly defined tasks in scientific management systems. There is only a limited requirement for generic competencies and some moderate organization-specific development in learning the standard processes they need to perform. Because their function is required on an ongoing basis, they are employed on open-ended contracts. They organize collectively to improve their position in the labor market, seeking to create a monopoly on the labor supply. The fact that, system-immanent, their allegiance is with the labor collective necessitates close monitoring and control of their performance. The fact that their tasks are simple and stable over time represents the basis for the specification and control of their performance outputs (and, in the absence thereof, behaviors). Thus, this employment mode represents a narrowly defined exchange relationship, inevitably entailing close mutual monitoring and a presumption of low trust. Electronic surveillance technology may be used in monitoring both blue- and white-collar workers, subject to legal and societal constraints. To the extent that powerful labor organizations push the wages of workers above the market equilibrium and minimize the coordination flexibility of organizations, this employment mode may partly be supplanted by core–periphery models of employment. The core workers of core–periphery systems are the subject of the following

section; casual workers, who would be positioned at the periphery of the system, are dealt with in Sect. 2.3.5.[232]

2.3.4 Team Workers

Team workers are part of what is referred to as self-managed work teams (SMWTs), semiautonomous work groups, or self-determined work groups. As a team, they perform functions similar to those of industrial/clerical workers, including the assembly of automobile chassis and computer parts, motorcycle manufacturing, apparel manufacturing, paint manufacturing, pet food manufacturing, coal mining, minerals processing, ware housing, processing of insurance claims, production-level services, and customer service and sales.[233] The difference lies in the way the work is organized. Tasks that are performed separately by industrial workers under the supervision of a manager are brought together and the SMWT is made responsible for accomplishing these tasks as a collective whole.[234] Management no longer makes decisions about the division and allocation of work to individual workers. It is the SMWT's members who are collectively responsible for work methods and emerging process designs, for the allocation of work, and for mutual monitoring. Their responsibilities may also include support functions such as maintenance and purchasing. Further a defining characteristic of SMWTs is that each member performs more than one task or even all of the tasks to be performed by the team via job rotation. Outside the remit of team decision making are decisions about capital, technology, and long-term plans.[235]

The literature distinguishes between *online* self-managed teams and *offline* teams (also *delegation* vs *consultative participation)*. The described arrangement of SMWTs classifies as an online team. Offline teams include, for example, quality circles, quality action teams, and problem-solving groups, which are parallel to the production processes and formal authority. The effects of offline participation arrangements on attitudes, behaviors, and performance have been found to be modest and inconsistent.[236] Thus, offline teams can be regarded as a partial

[232] The industrial/clerical worker employment mode corresponds to Hendry's industrial/clerical system (2000, 2003), Osterman's industrial subsystem (1982, 1984, 1987, 1988), Lawrence's technical subsystem (1985), Doeringer and Piore's enterprise markets (1971), and Kerr's private property method of industrial workers (1954).

[233] E.g., Barker (1993), Singer and Duvall (2000), Batt and Applebaum (1995), Poza and Markus (1980), Walton (1977), Trist et al. (1977), Cordery et al. (1991), Manz et al. (1990), Manz and Angle (1986), Campion et al. (1993), Batt (1999).

[234] Pearce and Ravlin (1987).

[235] Pearson (1991).

[236] Batt (2004) and Cohen and Bailey (1997) cite several empirical studies on the effects of offline participation arrangements.

implementation of the SMWT idea, accomplishing less than a proportionate effect.[237] They may be useful for some organizations which implement them as a first step toward a full implementation of SMWT structures or for organizations the trade unions of which resist the introduction of SMWT structures.[238]

SMWTs are the major practical application of **socio-technical systems theory** (STS).[239] STS theory views the organization as two separate but linked systems. The *technical system* encompasses equipment, processes, and knowledge. The *social system* consists of people, relationships, and organizational arrangements. According to STS theory, the study and design of organizations should combine the concepts and thinking of engineering and physics (which have been dominating prior to the advent of STS theory) with those of psychology, sociology, and politics.[240] In the wake of STS theory, technical systems have been altered to account for social needs and conditions, realizing improvements in both worker satisfaction and productivity.[241]

Early practical trials of SMWTs include those at English coal mines during the 1950s[242] and those at Volvo's Uddevalla plant in Sweden during the 1970s.[243] While those well-publicized trials were discontinued, it turned out only years later that other major corporations such as General Motors, Procter and Gamble, Hewlett Packard, and Digital had successfully been adopting SMWTs already since the 1970s and not publicizing it to not give away what they considered to be a significant competitive advantage.[244]

SMWTs have been adopted on a broader scale only since the 1980s: "There was little momentum for their adoption in US workplaces until the past decade or so as firms reduced the levels of management."[245] The **prevalence of SMWT arrangements** today is evidenced by various studies. One study shows an increase from 2% in 1986 to 32% in 1998 among a sample of US manufacturing sites. The same study found 8% of manufacturers in the European economic area making use of SMWTs.[246] The lower adoption rate in Europe may be attributable to the role and power of organized labor in many European countries.[247] In another study, 68% of Fortune 1,000 companies reported that they used SMWTs in 1993.[248] A replication of this study found that, by 1996, SMWTs were used in 78% of the corporations,

[237] Lawler (1988), Cohen and Bailey (1997), Manz and Stewart (1997).
[238] Lawler (1988).
[239] Rice (1953, 1958), Trist et al. (1963), Emery (1959, 1963), Elden (1981).
[240] Ketchum and Trist (1992).
[241] Trist (1981).
[242] Trist et al. (1963).
[243] E.g., Bolweg (1976).
[244] Perry (1984), Buchanan (1987).
[245] Guzzo and Dickson (1996, p.324), cf. also Manz and Sims (1993).
[246] de Leede and Stoker (1999).
[247] This argument is elaborated below.
[248] Lawler et al. (1995).

albeit only a small fraction of the workforce was involved in most of the companies.[249] In yet another, nationally representative sample of US establishments, 40.5% reported the use of SMWTs in 1992, which decreased slightly to 38.4% in 1997.[250] A plateauing or slight decline in the adoption of SMWTs has been attributed to the resistance of supervisors and middle managers.[251]

SMWTs are also used in service establishments, albeit the prevalence is slightly lower than in manufacturing. A study of customer service centers in the telecommunications industry, for instance, reported an 18% adoption rate.[252] The difference between adoption rates in service and manufacturing environments has been attributed to greater demands for group problem solving and cross-functional flexibility in manufacturing compared to service teams.[253]

STS theory predicts a number of benefits from the use of SMWTs, including higher levels of employee satisfaction, motivation, and effort. For example, according to the job characteristics model by Hackman and Oldham, tasks are predicted to be intrinsically motivating given a high level of task variety, identity, significance, autonomy, and feedback. Intrinsic motivation, in turn, is thought to result in work satisfaction, motivation, effort, and productivity.

Improvements in employee morale as a result of SMWT arrangements may effect furthermore a reduction in grievances, costs of grievance handling, and working time lost.[254] SMWTs are also expected to result in effectiveness and product or service quality improvements, as workers engage in problem solving at the point of production[255] and as their tacit knowledge is used in operational decision making.[256] Enhanced resource flexibility further contributes to labor efficiency and responsiveness to market demands: SMWTs are better able to cope with demand fluctuations, absenteeism, and changes in the production process because team workers are able to flexibly take on different tasks.[257] Finally, because monitoring and control functions are integrated with direct labor functions, SMWTs result in more efficient organizational structures.[258] That is, team workers do not only possess autonomy but also additional responsibilities that were previously the responsibilities of managerial staff. A study of SMWTs of field technicians estimates that teams do the work of supervisors in 68% less time. Using average wage data, it is estimated that the employer in this case saved $60,780 in indirect labor costs per team per year. The employer could have eliminated 1,000 of

[249] Lawler (1998).
[250] Osterman (2000).
[251] Batt (2004), cf. below.
[252] Batt (2000), cf. also Hunter (2000).
[253] Hunter (2000).
[254] Hunter (2000).
[255] Ibid.
[256] Batt (2004).
[257] Batt (2001), Hunter (2000).
[258] Batt (2004).

the 3,000 first-line supervisors of field technicians, which would have resulted in savings of approximately $60 million in annual labor costs.[259] Elsewhere, SMWTs have been suggested to represent an organizational approach primarily concerned with the delayering of management.[260]

The beneficial effects of SMWTs have not only been derived theoretically or based on case study evidence but are also supported by the empirical literature. Literature reviews and meta-analyses supporting significant performance and productivity effects of SMWTs include those by Pearce and Ravlin,[261] Cotton,[262] Cohen and Bailey,[263] Guzzo and Dickson,[264] and Macy and Izumi.[265] Case studies provide evidence for quality improvements.[266] Literature reviews by Pasmore et al.,[267] Cotton,[268] and Cohen and Bailey[269] provide support for the positive impact of SMWTs on employee satisfaction.

Costs of team working arrangements are linked to their initial implementation, as they may be resisted by first-line supervisors, labor organizations, and, to a lesser extent, by senior workers. First-line supervisors may fear a loss of power in team-working structures and they may be insecure about their new roles as team facilitators and coaches.[270] From the perspective of organized labor, SMWT structures may represent an attempt to severe the ties between workers and their trade unions.[271] Senior workers may have to give up seniority-based autonomy[272] or shift privileges.[273] Thus, resistance to change represents an obstacle and the overcoming of it a cost related to the introduction of SMTW arrangements. Furthermore, wage and training costs of team workers are higher than those of the industrial workers. Team workers must develop multiple skills to be able to perform the different tasks in their team and to undertake the required planning and managerial activities. This results not only in training and development investments greater than those of

[259] Batt (2001).

[260] Gryzb (1984), Batt (2004).

[261] Pearce and Ravlin (1987).

[262] Cotton (1993).

[263] Cohen and Bailey (1997).

[264] Guzzo and Dickson (1996).

[265] Macy and Izumi (1993).

[266] E.g., Batt (1999), Singer and Duvall (2000).

[267] Pasmore et al. (1982).

[268] Cotton (1993).

[269] Cohen and Bailey (1997).

[270] Manz and Sims (1987), Lawler (1986), Walton and Schlesinger (1979), Clegg (1979), Walton (1975), Larsen (1979), Buchanan and Preston (1991), Emery (1980), Klein (1984), Mueller-Jentsch (1995), Schlesinger (1982), Schlesinger and Klein (1987), Heller et al. (1998, p. 203), Batt (2004).

[271] Peel (1979), Hull (1978), Hodson et al. (1993), Boxall and Purcell (2002, p. 114). See below.

[272] Carnall (1982, p. 283, p. 290).

[273] Adler (1991, p. 451).

workers specialized in fewer and more narrowly defined tasks but also in higher costs of compensation.[274]

The net gains of SMWTs can be expected to be lower in low-cost production or service environments or in very stable settings, where a more limited potential for gains in resource flexibility may not offset the higher costs. Studies have demonstrated that innovative work practices, including SMWTs, are either less likely to be adopted or less effective in companies competing on the basis of price.[275] It has been argued that innovative work practices "are well suited to achieving superior quality, customization or innovation" and that they tend to be adopted by firms that are "more likely to be exposed to new ideas and practices, and to be pressured to adopt them."[276] Others have emphasized advantages for management from group working in turbulent environments, situations of high process uncertainty, and difficulty of predicting work load.[277]

Team workers require extensive **organization-specific development**. According to human capital theory, organization-specific development concurs with long-term attachments between the workers and their organization. Hence, this employment mode must be associated with long-term employment security not only to justify investments into organization-specific competencies but also as a prerequisite for overcoming them-and-us attitudes, as will be explained in the subsection below. The *generic competency requirements* of team workers are broadly comparable to those of industrial/clerical workers. There is, however, a difference in selecting someone who does not possess the required basic competencies, which will be more costly in the case of team workers. 'Correcting' selection mistakes may impact on the workers' perceptions of employment security, and it results in the loss of the firm's investments in the training and development of the worker. Therefore, team workers must be vetted more carefully during the selection process. In one case study, for example, candidates were hired as part of the contingent workforce before they were employed as full members of the SMWT, allowing for careful observation and selection by the existing team members.[278]

The Better Taylorism?

In the previous section, it has been explained how them-and-us attitudes and notions of mutual control are inevitably associated with traditional industrial employment. On that basis, it can be argued that the emerged system of industrial

[274] E.g., Adler (1991), Hunter (2000).

[275] Arthur (1992), Osterman (1994), Youndt et al. (1996).

[276] Hunter (2000, p. 481).

[277] E.g., Kelley (1987), Smith and Comer (1994). The gist of such arguments can be related back to Burns and Stalker's claim that high rates of change call for organic structures (Burns and Stalker, 1961, p. 120–122).

[278] Barker (1993). Cf. Sect. 4.3.4.

employment is not a full implementation of the principals of scientific management as they were formulated by Taylor. In particular, one of Taylor's principles states that pay should be linked to performance and that, thus, workers should be committed to efficiency improvements. Essentially, Taylor has envisaged a unitarist frame of interest rather than the pluralist system of industrial production which has emerged in practice. Industrial labor organizations regard efficiency improvements and the associated revampings of work processes generally suspiciously because they are concerned about workforce reductions. They are equally suspicious about performance pay, which is seen to reduce the influence of unions and collective control. Where performance pay schemes are operated, industrial workers have been observed to engage in what is referred to as *rate busting*, *the game of making out*, or simply *output restriction*.[279] That is, industrial work groups develop norms of performing at an equal level which is deemed just acceptable to management and does not result in upwards adjustments of the performance standards. Labor resistance to performance pay may also be fuelled by flawed implementations of performance–pay systems, for example if the pay–performance link is not transparent or if invisible pay ceilings result in outstanding performance not being rewarded with commensurate pay awards.[280]

In the present and following subsection, it shall be argued that SMWT structures, albeit designed as an alternative to so-called Taylorist production systems, may actually be a more complete implementation of the principles of scientific management as envisaged by Taylor originally. They may be a means of overcoming them-and-us deadlock and **establishing a unitary frame of interest**. In the following, factors that trigger them-and-us attitudes are described. It is then derived, what features an employment system must possess to eliminate such factors. Thereby, an understanding is created of the design features of SMWTs and of how they contribute to the establishment of a unitary frame of interest. The factors that may trigger them-and-us attitudes include concerns of workers about being 'short-changed' if they face employers as individuals in the wage–effort bargain; concerns of workers that performance standards are raised if they put in too much effort; worker frustration as a consequence of alienation; and workers' fears of losing their jobs and not being able to find equivalent employment again.

Concerns about being disadvantaged in the wage–effort bargain when facing employers as individuals can be preempted if employers develop a reputation for making **fair pay offers** in the absence of labor pressure. Paying higher wages for team workers than for industrial workers is in line with human capital theory, as the acquisition of organization-specific competencies must be rewarded and investments bound to the organization by offering wages above the market level. Higher wages can be financed through reductions in supervision costs and the greater

[279] E.g., Henley and Nguyen (2005), Heery (1997), IRS (1999), Gunnigle et al. (1998), Roy (1954), Burawoy (1979), Walton and Hackman (1986), Molstad (1988). Econcomic analyses by Kandel and Lazear (1992, p. 810), Jones (1984, pp. 40–52).

[280] Cf. Guzzo et al. (1985).

productivity of workers. Concerns about individual workers being 'short-changed' by employers may, in addition to pay, also relate to working conditions: worker solidarity has generally been described as a defense mechanism "against management abuses."[281] Hence, in order to avoid a need for such worker defense mechanisms, the working conditions of team workers must be beyond suspicion of being unfair, unhealthy, or exploitative.

Concerns about raising of performance standards in response to high performance originate from respective negative experiences of workers, which are passed down via the worker collective's norms and values from one generation of workers to another.[282] The most fundamental way of avoiding such concerns is to actually **never raise the quotas** for a given worker. To retain the ability to exercise some cost control, organizations may offer different quotas to different workers, but never raise the quota for a given individual worker. Thereby, any efficiency improvements as a result of restructuring of the work process yield a permanent increase in rewards for any worker who was part of the team at the time of the restructuring. Higher quotas can be agreed for workers who join the team at a later point in time. Thus, they do not benefit from improvement suggestions that were made before their time. They should perceive, though, that they receive a fair wage and that they will benefit from future efficiency improvements in the same way as other workers did before them.

Worker solidarity is seen to "[mitigate] feelings of alienation that arise from meaningless work."[283] Sociologists have argued that Taylorism has brought about a sense of worker alienation through *isolatedness, meaninglessness, estrangement,* and *powerlessness*.[284] STS researchers have argued that SMWTs may help to overcome worker alienation by fostering a sense of *belongingness, meaningfulness, task involvement,* and *empowerment*.[285] Literature reviews have established that SMWT workers experience job enrichment and job enlargement.[286] On that basis, it can also be argued that the **enriched and enlarged work design** of SMWTs represents a factor in overcoming alienation, worker solidarity, and them-and-us attitudes.

Finally, the establishment of worker commitment to goals of the firm requires the credible establishment of the employer's commitment to job security. Workforce reductions have been suggested as a key factor in triggering worker solidarity and resistance.[287] Increases in job security have been said to undermine class

[281] Hodson et al. (1993, p. 398).

[282] Buroway (1979, p. 167) describes how worker concerns about price cutting may trigger them-and-us attitudes.

[283] Hodson et al. (1993, p. 398).

[284] Blauner (1964).

[285] Cf. Goddard (2001).

[286] Miller and Monge (1986), Ganster and Fusilier (1989).

[287] Gallie and Vogler (1990).

consciousness.[288] Early trials of team or commitment-based work systems failed after employers were forced to make some of the team workers redundant. If the managers are to adhere to their commitments to **employment security**, they ought to offer the team worker deal only to a part of the workforce which is considered to be 'core' regardless of any demand fluctuations and other eventualities.[289] Continuity of employment entails trust, which has been said to be an essential ingredient to the generation of deep structure identification.[290] In the absence of trust, workers have been found reluctant to even accept the rewards associated with deep structure identification such as status or personal concern: "For example, a firm in which workers do not trust management will, in effect, be unable to bestow a symbolic reward, such as "employee of the month." Economic rewards such as money might be more readily accepted. Where workers identify with the organization, the organization is able to offer (as well as to receive) particularistic as well as universalistic rewards."[291] Trusting workers will reciprocate the receipt of symbolic rewards, for instance, by being more willing to accept organizationally initiated changes.[292] Hence, employment security is an essential prerequisite for the establishment of a psychological contract which goes beyond the mere economic exchange of the traditional industrial system.[293]

The emergence of them-and-us deadlock and worker allegiance to the labor collective can be avoided by offering a fair pay deal, never raising the quota for individual workers, fostering job enrichment and enlargement, and providing employment security. Provided that allegiance to the worker collective can be averted, it remains to be asked what the workers' allegiance should be directed to instead. In Sect. 2.3.1, it was argued that the commitment of managers should be focused on the organization and its goals. Sometimes it is argued that the team worker mode represents an attempt to extend the psychological contract of managers to workers.[294] Should team workers identify with organizational goals as managers do? There is empirical research which shows that "for many employees, especially those at lower rungs of the corporate ladder, their work groups are not closely associated with their views of what their organization is"; it further shows that work group commitment is not significantly related to organizational commitment.[295] It has been demonstrated elsewhere that commitment to a supervisor's goals and values has a greater impact on performance than commitment to remote

[288] Goldthorpe (1968).

[289] Lawler (1998) reports that 78% of Fortune 1000 companies use SMWTs but that in most cases they are applied only to a small part of the workforce, supporting the notion that SMWTs may primarily be applied to the core workforce of organizations.

[290] Rousseau (1998), cf. Sect. 2.3.1.

[291] Rousseau (1998, p. 223).

[292] Rousseau (1998), Robinson and Rousseau (1994).

[293] Cf. Lawler (1982), Buch (1992).

[294] E.g., Boxall and Purcell (2002, p. 122).

[295] Hunt and Morgan (1994, p. 1583).

organizational goals and values.[296] In other words, organizational goals are simply too remote and abstract for workers to bear any relevance to what they are doing in their jobs. The remit of team workers is mostly confined to their own teams and their immediate surroundings. They cannot, like managers, take on different roles throughout the organization for developing organization-wide networks and identification. It is, therefore, argued that the team workers' **commitment should be directed toward their work groups' goals and values**. Socialization processes should be confined to the work group's members and people immediately relevant to the group's tasks, including (internal or external) suppliers and customers and other work groups performing similar functions, which they may compete with in terms of group outputs.[297] As a result, narrow but tight networks should be established, enabling the workers to perform the tasks at hand.[298]

According to social identity theory, deep structure identification with a unit requires attraction to the purpose of the unit and "a clear understanding thereof."[299] A case study of a well-functioning SMWT at Lego emphasizes the importance of team members spending time "talking about their purpose, what kind of a team they wanted to be, and why they were there."[300]

Another important factor in establishing an individual's identification with a group is **intergroup social comparison**,[301] which can also be illustrated with the SMWT at Lego (which was called 'Mindstorms'): "A large part of the Mindstorms team's identity development was indeed defined in opposition to others – especially, parts of its parent company – which impacted how it saw itself and others, and significantly influenced its actions."[302] In the context of establishing *organizational* commitment, activities such as "an intercompany softball league, company picnics, or even a company song" have been suggested to support intercompany comparison and, thus, the development of organizational commitment.[303] It seems plausible that an inter*team* softball league and other team-level activities could contribute to the establishment of team identification in the same vein. Performance assessments at the team level and interteam performance comparisons are further discussed in Sect. 3.3.4.

Social identification with a team is contingent on the **perceived status** of the team. People wish to belong to a unit that enhances their own status.[304] Low-status perceptions may result in fragmentation, identification with a subgroup, or identifi-

[296] Becker et al. (1996, p. 477).
[297] Cf. Sect. 3.3.4.
[298] Also cf. Sect. 2.3.1.
[299] Lembke and Wilson (1998, p. 929).
[300] Oliver and Roos (2003, p. 1072).
[301] Tajfel (1982, p. 24).
[302] Oliver and Roos (2003, p. 1072).
[303] Kandel and Lazear (1992, p. 808).
[304] Breakwell (1983).

cation with another category than the team:[305] "Should the team status be less than the status associated with the contribution one or two individuals can make without the team, they are likely to identify with their own separate effort(s) or professional discipline, not the team purpose and output."[306] Perceptions of a special status of SMWTs may be supported by their special structure, worker autonomy, employment security, and compensation. It has also been argued that "if individuals are not praised as individuals, and all team members contribute to the final output, team members are unlikely to wish to separate themselves from the team."[307] That is, praising team instead of individual performance may foster team identification by increasing the relative status of the team versus the individual.

Of special importance in the Lego Mindstorms team as well as in other cases[308] was what they referred to as guiding principles or, more generally, **values** of the team. The values contributed to a shared understanding of the functioning of the team and provided the team's common purpose. Most of the values emerged from within the team and were, hence, owned by the team. The values were communicated through *narratives*; that is, metaphors which carried meaning and content for the team members beyond literal rules of behavior. One value, for example, was to 'stay in orbit.' Like a satellite orbiting a planet, the Mindstorms team was to orbit the Lego parent company as a part of the same system. If it had gotten too close to Lego, it would have been absorbed. If it had drifted too far off, it would have disappeared into oblivion. In addition to communicating implicit meanings, narratives also helped activate the cognitive–emotional responses among members that are associated with deep structure identification.[309]

Total Control!

When scientific management was first adopted in practice by Henry Ford, it was welcomed as an objective basis for the management of workers, superseding more arbitrary, at times despotic management practices. It was still management who owned the work processes though; workers were simply to comply with standard processes. The wage–effort bargaining system emerged as a logical consequence. As the workers had 'gotten over' the promised and only partly realized benefits of the scientific management system, the socio-technical school of human relations made suggestions for ironing out the unexpected side effects of bureaucratic production systems, in particular, deskilling and the resulting frustration of workers. The introduction of semi-autonomous teams held the promise of further improvements for the working class, of a step toward the democratization of the

[305] Turner (1987).

[306] Lembke and Wilson (1998, p. 935).

[307] Lembke and Wilson (1998, p. 940).

[308] Cf. following subsection.

[309] Oliver and Roos (2003).

workplace. Not only were the rules at work to be based on rational, scientific analysis – analysis was also to be conducted by the workers themselves.

At this point, a closer look shall be taken at how control is exercised in SMWTs. To illustrate the control process, reference is made to a case study on the introduction of self-managing work groups at ILS, a US-based manufacturing company.[310] The author of the study accompanied the work groups over several years, providing rich insights which have not yet been revisited in their entire breadth by larger-scale research. Comments have been made elsewhere about the largely "anecdotal nature" of the literature on SMWTs,[311] which has been explained by the fact that organizations have rarely provided access to such teams or only "with the proviso there be no publicity or writing about it."[312]

When semi-autonomous team working was introduced at ILS, the attitude of workers can be characterized as hopeful or at least open to the change. They were divided into groups of 10–15 workers, each group performing a task of a certain complexity, while having to figure out themselves on how to perform it best. They were given some support by experienced supervisors who were to act as coaches and who were told to encourage the workers to explore and make their own decisions. Another study of self-managing work teams in a medium-sized manufacturing plant found that leadership effectiveness correlated with the extent to which leaders facilitated self-management through self-observation, self-evaluation, and self-reinforcement.[313] Hence, leaders of self-managing teams, who are referred to as **team facilitators** or as **coordinators**, provide assistance rather than acting as supervisors.[314] Their role includes activities such as providing information, training, and support resources.[315]

One case study indicates that there may be differences in effective leadership behavior between coordinators/facilitators that are external to the team (such as former supervisors) and team leaders that are elected among the group members. Whereas effective behaviors of external coordinators in the case study revolved around encouraging self-management, effective 'internal' team leaders engaged primarily in boundary management; for example, facilitating equipment and supplies and training inexperienced employees. Otherwise, the internal team leaders worked mostly alongside the other team members.[316]

The work groups at ILS also elected internal team leaders, initially for periods of 1 month, later for periods of 5 months. Toward the end of the study, permanent internal team leaders were jointly determined by the work groups and management. They also received some extra compensation for their additional boundary man-

[310] Barker (1993).

[311] Chaston (1998, p. 2).

[312] Manz and Sims (1987, p. 107).

[313] Manz and Sims (1987).

[314] Cf. also Manz and Sims (1993).

[315] Cummings (1978).

[316] Manz and Sims (1987).

agement responsibilities. Their additional responsibilities did not include the setting or enforcement of work rules and standards, which remained the responsibility of the group collective.[317]

The teams at ILS were also provided a vision statement and a set of ground rules which described the new role of the workers in abstract terms. On that basis, discussions were held among the team members about their team's particular values. A **value consensus** took shape gradually. Decisions were made with reference to accepted values. In the pursuit of accepted values, workers made personal sacrifices over and beyond what they would have done under the bureaucratic control system that was operated at ILS previously. Over a period of 2–3 years, **norms** emerged in addition to the values, prescribing in more concrete terms how work was to be done. They took on rule-like status and were strictly enforced through mutual monitoring. Eventually, the **rules** were formalized, with penalties attached to different rule violations. The penalties were strictly enforced, including, for example, the dismissal of workers who were late for work more than a specified number of times. There was no worker representation or grievance procedure, as all rules and decisions were devised and owned by the workers themselves.[318]

While the workers were hopeful about the new system when it was first introduced, they were more critical once the system was established. They found that the system was similar to the previous bureaucratic system and that it did not give them more freedom from rules constraining their behaviors. On the contrary, the workers no longer had a justification to complain about the rules or about their enforcement. After all, they were their own rules. Moreover, there was no longer only one supervisor, who may occasionally have tolerated or failed to notice some slack, but there was the "omnipresent tutelary eye" of the collective,[319] resembling the effects of electronic surveillance that were described in the previous section.

The argument that SMWT structures result in **concertive-coercive control** based on strict group norms has been made by others.[320] It has been stated that "probably the most pervasive and powerful influence on compliance is influence from one's coworkers."[321] SMWTs have been argued to result in an intensification of the work process and *management by stress*.[322] Fragmentation of work and

[317] Barker (1993).

[318] The absence of worker representation is not unlawful in the US and the UK but would be in Germany.

[319] Barker (1993, p. 432).

[320] E.g., Sinclair (1992).

[321] Walton and Hackman (1986, p. 170).

[322] Turnbull (1988), Parker and Slaughter (1988, 1995), Delbridge and Turnbull (1992), Grenier (1988), Mumby and Stohl (1991).

intensification of worker stress have been testified in case studies of a Japanese plant[323] and the US apparel industry[324] as well as by a handful of empirical studies.[325] A case study on self-managed team working at two minerals processing plants found that team workers at one of the plants worked higher levels of overtime than the traditional industrial workers, which eventually led to higher levels of absence "either through an income-compensation mechanism or through fatigue-induced illness."[326] At the second plant studied, overtime was limited with absenteeism remaining at the level of the industrial worker control group. Finally, a survey of Canadian workers concludes that SMWTs result in "concertive control, through which initial improvements in the work experience come to be offset by increased peer pressures and heightened performance norms."[327]

On the basis of available evidence, it is then possible to classify the control processes operating in SMWT structures according to control theory. At *the individual level,* coworkers monitor each others' behaviors, as they have a clear idea of what behaviors are effective. Crystallized standards of performance are available in the shape of norms – in some cases, they may even be noted down formally as rules of behavior. Cause–effect relations are well understood by the involved team workers. At *the team level,* control must focus on outputs. Team goals are set and monitored either by a supervisor or by an internal or external customer. They have clear expectations regarding the output – that is, crystallized standards of performance – however, neither a supervisor nor a customer is sufficiently involved in the SMWTs' work to understand cause–effect relations and set behavioral standards. Hence, control theory supports a two-tier control process with output standards at the group level and behavior standards at the individual level. [328]

In summary, team workers perform various productive and managerial functions as part of self-managing work teams, both in blue- and white-collar environments. This requires a limited amount of generic competencies and extensive organization-specific development. The organization-specific development entails a long-term employment relationship. Employment security is also a prerequisite for overcoming or avoiding them-and-us attitudes, which in turn is a prerequisite for the development of commitment to the values and goals of the team. Being committed to the values and goals of the team results in the emergence of norms of behavior and mutual monitoring. The SMWT's outputs are monitored at the group level. Mutual monitoring reduces costs of supervision. Worker involvement in the work process design enables access to tacit knowledge and, possibly, more

[323] Graham (1993).

[324] Taplin (1996).

[325] Fucini and Fucini (1990), Lewchuk and Robertson (1997), Rinehart et al. (1997), Landsbergis et al. (1999).

[326] Cordery et al. (1991, p. 473).

[327] Goddard (2001, p. 798).

[328] Cf. Chap. 3.

productive process designs. Worker involvement in the work process design does not necessarily result in greater freedom of workers or in industrial democracy, as the involvement does not extend to capital or technology decisions. The employment relationship can be summarized as an exchange of consummate effort and commitment to SMWT goals in return for hourly wages and employment security.[329]

2.3.5 Casual Workers

The term casual worker is used in the following to refer to *unqualified* contingent workers. The term contingent work covers all staff engagements in the absence of an implicit or explicit contract for ongoing employment.[330] It encompasses temporary agency workers, who are employed by a temporary agency firm and deployed to the hiring organization on the basis of a service contract as long as they are needed. It also includes temporary workers employed on fixed-term contracts as well as leased workers. Leased workers are a variant of temporary agency workers who are contracted to the hiring organization in larger numbers. Some small businesses turn their entire workforce over to personnel leasing firms in order to accomplish efficiency savings in the administration of the employees.[331] The activities of temporary agency workers, temporary workers, and leased workers are managed on-site by the hiring or contracting organization. This is in contrast to externalized forms of contingent work, which involve the contracting out of tasks or functions to be holistically performed by independent contractors or business service organizations.[332] Such contractors do not have employment status and they are not under the administration of the hiring organization. Occasionally, part-time employment is also associated with contingent work on the grounds that it entails a diminished sense of attachment with the organization.[333] For the purposes of the present analysis, part-time work is not conceptually integrated with contingent work. Part-time arrangements may be concluded for all six types of employment relationship, ranging from the managerial to the casual workers' mode.

Much of the literature has examined the different types of contingent work as a single phenomenon, often yielding mixed or contradictory results.[334] More consistent results were achieved where differences between categories, such as temporary agency workers in manufacturing and professionals engaged through business

[329] The team worker employment mode corresponds to the commitment system described by Walton (1985), Lawrence (1985), and Hendry (2000, 2003).

[330] Polivka and Nardone (1989).

[331] Pfeffer and Baron (1988).

[332] Cf. Rousseau and Wade-Benzoni (1995, p. 311).

[333] E.g., Pfeffer and Baron (1988).

[334] Connelly and Gallagher (2004).

service firms, were accounted for, respectively where studies focused on one category or the other. Accordingly, contingent work is dealt with in two different sections. The present section is concerned with *casual workers*, possessing no or few skills, the following Sect. 2.3.6 with *contract professionals,* that is, skilled specialists who are hired to contribute expertise which is needed on a temporary basis. This separation is consistent with the ILM model by Lepak and Snell, which refers to these categories as *contractual work arrangements* and *alliances/ partnerships,* respectively.[335] An empirical study based on data by the US Bureau of Labor Statistics provides support for a distinction between *traditional* and *boundaryless* contingent workers.[336] According to that, traditional contingent workers are of low-skill, typically hired to reduce costs, and involuntarily employed on a contingent basis. They are estimated to represent 60–70% of the contingent workforce in the USA. The remainder, a sizeable and growing minority, is boundaryless contingent workers, staffed in "professional, technical, and managerial positions."[337] In this category of contingent workers, nonpermanent employment is more and more a voluntary choice, as it allows for the development of a generic, marketable set of skills.[338] Contracting boundaryless workers on the basis of service agreements is more common than hiring them on fixed-term employment contracts. It is argued elsewhere that "contractors are typically used to provide new knowledge, but temporary workers are typically used to increase the size of a workforce rather than to add new knowledge."[339]

Thus, professional contracting is explored separately in Sect. 2.3.6, whereas the focus of the present section is on the contingent hiring of low-skilled, casual labor. A precise determination of the **quantitative significance** of casual work in the labor market is hindered by "definitional ambiguities."[340] However, one can say that the shift from regular employment to contingent work represents the most significant change in employment relations since the introduction of SMWTs. Virtually every paper on the subject begins with a statement on the increased prevalence of contingent work, in particular in the US but also in Europe. One of the most-cited statistics estimates that one-quarter of all US workers are represented by nonpermanent or part-time employees in 1988.[341] The study that resulted in this estimate also states that contingent work represents as much as 30% of the European labor market. More recent publications refer to US Department of Labor Statistics showing that "30% of the workforce can be classified as being employed in alternative or nontraditional work arrangements."[342] In absolute terms, it is

[335] Lepak and Snell (1999, 2002).
[336] Marler et al. (2002).
[337] Marler et al. (2002, p. 430), cf. Cohaney (1996), Segal and Sullivan (1997).
[338] Marler et al. (2002), Krausz et al. (1995).
[339] Davis-Blake et al. (2003, p.477).
[340] Smith (1997, p. 326).
[341] Belous (1989).
[342] Gallagher and McLeanParks (2001, p. 185).

estimated that the US contingent workforce is comprised of 3 million workers.[343] The largest group of contingent workers are temporary agency workers. Direct hire temporary workers are the second largest group.[344] "The temporary help industry has outgrown the GNP by almost two to one in the period from 1970 to 1984, and it grew 21% faster than the electronic computing equipment industry during that period."[345] From 1985 to 1995, it grew by a further 71.4%, from 700,000 to 1.2 million.[346] The number of temporary worker agencies has risen from 3,133 in 1975 to 10,611 in 1987.[347] The agency Manpower is the largest employer in the US with over 600,000 employees on their payroll.[348] Among temporary agency workers, clerical workers represent by far the largest group, followed by technical/professional, medical, and industrial workers.[349] One case study illustrates how "[most] temporary hires were placed in lower segment jobs – basic clerical positions such as bookkeepers, secretaries, and file clerks."[350]

The Rationale of Hiring Casual Workers

The rationale of hiring contingent workers instead of regular employees is twofold, including cost and flexibility considerations. Cost savings arise from **lower wage rates** and more limited fringe benefits and from more efficient recruitment and selection processes of temporary worker agencies. A study based on a national sample collected by the US bureau of labor statistics of 614 temporary agency workers and on a regional sample of 276 temporary agency workers found that traditional (as opposed to boundaryless) temporary agency workers earned 18% less than comparable workers in regular employment relationships.[351] This finding is compatible with human capital theory. The size of the wage discrepancy may also be due to the weak labor market position of unskilled workers, a hypothesis which is supported by the finding of a narrower discrepancy of 7% between the wages of skilled, boundaryless workers and their employed counterparts.

A frequent argument for the use of contingent workers revolves around the (non) payment of **fringe benefits.** This argument is applicable especially in the US, where people generally acquire health insurance through their employers; that is, not everyone is health insured – 46 million or 16% of the population are not, primarily

[343] Bernstein (1999).
[344] Polivka et al. (2000).
[345] Pfeffer and Baron (1988, p. 267).
[346] Cohaney et al. (1998), Seavey and Kazis (1994).
[347] Carnoy et al. (1997).
[348] Fierman (1994).
[349] Pfeffer and Baron (1988, p. 267), cf. Cappelli and Neumark (2004), Cappelli (2000, p. 11).
[350] Barnett and Miner (1992, p. 264).
[351] Marler et al. (2002).

in low-wage jobs.[352] Nonpayment of health insurance by the employer is not a defining element of contingent work, but it is closely associated with it, as much contingent work requires low-skill and low-pay. According to the US Current Population Survey, 87% of regular full-time employees and only 14% of contingent workers are paid health insurance by their employers.[353] Contingent workers in the US also receive less retirement and social insurance coverage than regular employees. "If their spells of employment are sufficiently short, they may, in fact, receive none. Abuses are possible, especially at the low-wage end of the employment spectrum, where payment under the counter for short-duration jobs is not unknown."[354] The situation of contingent workers is especially precarious when it comes to retirement benefits: "Some THS [temporary help service] firms do offer certain benefits, such as sick leave and paid vacations after working a designated number of hours; and some even provide medical coverage. But none, as far as we know, provides for accrual of retirement benefits."[355] Fringe benefits in the US have been estimated to comprise about 40% of total compensation.[356] Hence, savings in direct labor costs from hiring casual workers are significant, encompassing on average 18% of wage costs and up to 40% of total compensation costs through fringe benefits in the USA. The potential for direct labor cost savings through contingent work is somewhat lower in the European Union, where the legal minimum standards for employers' contributions to social benefits and national or industry-wide minimum wage requirements (through legislation or collective bargaining) are frequently higher. Cost savings have been found to be a major goal for employers hiring contingent workers in Britain.[357] Hence, a comparatively limited savings potential may explain the, compared to the US, somewhat slower uptake of contingent employment there.[358]

Thus, it can be argued that one central purpose of contingent employment has been to accomplish a step-change decrease in compensation costs for the least skilled in the emergent hierarchy of jobs in the labor market. Fringe benefits represent a considerable part of the total compensation package. Being able to (partly) not pay them to the least skilled results in a **flexibilization of the labor market** 'through the backdoor,' yielding to the pressures of the global economic system. The same extent of flexibilization could not have been achieved by negotiating commensurate cuts in the compensation packages of existing jobs. Thus, temporary agency work and limited duration employment have been chosen

[352] Kalleberg (2008).

[353] Thorpe and Florence (1999).

[354] Mangum et al. (1985, p. 610), cf. Cohaney et al. (1998).

[355] Ibid.

[356] Cascio (1992).

[357] Hunter et al. (1993).

[358] Hunter et al. (1993), European Industrial Relations Review (1996). See also Legge (1998), who states that the number of temporary workers increased by 31% in the UK between 1984 and 1996 and Matusik and Hill (1998), who find a 250% increase between 1982 and 1992 in the US.

as vehicles for this new low-cost form of labor sourcing in the US. In the UK, it is part-time employment which is associated with lower national insurance costs (including health, pension, and social insurance contributions) as compared to both temporary and regular full-time employment.[359] There, it is then part-time employment which is the most widely used form of nonstandard, low-skill, and low-cost employment,[360] whereas contingent work, as noted before, is not quite as prevalent as in the US.

Casual workers are located at the bottom of the job hierarchy. Their positions frequently represent the entry level into the organizational system, with regular employees being selected from the contingent workforce.[361] They receive the least compensation, their status is below that of regular workers,[362] they are often supervised by nonsupervisory employees,[363] they perform the least significant and least challenging tasks,[364] and they are the first to be made redundant when demand declines, thus establishing a buffer between the regular workers and volatile markets. The latter, **numerical flexibility** rationale is related to the so-called core–periphery models of employment. They are used where demand fluctuations necessitate frequent adjustments to the size of a workforce, especially where fluctuations cannot be buffered by piling up stocks, such as in the construction industry or the service sector. Producers of computer software are another example of firms with regular fluctuations in their labor demand as they must deal with extraordinary volumes of customer service inquiries following the release of new software programs.[365] Furthermore, firms operating in fickle product market environments may face demand fluctuations that necessitate frequent adjustments to their blue-collar and R&D workforces, for example firms in the digital camera business.[366] Making frequent adjustments to the regularly employed workforce may entail high "transaction costs associated with extensive bargaining between labor and management,"[367] "practices that do not fit organizational needs (e.g., seniority rights during downsizing),"[368] severance pay, unemployment compensation, costs of litigation, costs of good will in the community,[369] and "a declining reputation as a good employer."[370] Transaction costs also arise in the form of recruitment and selection costs. Temporary worker agencies specialize in the

[359] Hakim (1987), Hart (1990).
[360] Brewster (1998).
[361] Cf. Sect. 3.3.5.
[362] Lautsch (2002).
[363] E.g., Geary (1992), Smith (1994).
[364] Pearce (1993), Smith (1994).
[365] Matusik and Hill (1998).
[366] Lautsch (2002).
[367] Uzzi and Barsness (1998, p. 976).
[368] Davis-Blake and Uzzi (1993, p. 197).
[369] Pfeffer and Baron (1988, p. 286).
[370] Matusik and Hill (1998, p. 682).

functions of recruiting, selecting, and staffing workers and may, thus, contribute to a reduction in transaction costs. Effective temporary worker agencies and their institutionalization are an enabling factor in the increasing use of contingent workers.

Beyond transaction costs, frequent adjustments to the regular workforce size may also affect the attitudes of the workers. As was elaborated in Sect. 2.3.4, perceptions of employment security are an essential prerequisite for the functioning of the high-commitment employment practices of SMWTs. Hence, functions that are subject to large demand fluctuations and that do not require organization-specific competencies are often staffed using casual workers in order to minimize transaction costs and to protect the psychological contracts of core workers.[371] Casual workers have, however, been argued to not represent a viable option for the staffing of positions that require organization-specific competencies.[372]

Direct labor cost savings and numerical flexibility demands are generally seen as the core drivers of an increased utilization of casual workers. A number of **other explanations** are mentioned in the literature, which may add on to the trend. For example, some US firms also want to "take advantage of tax laws that favor smaller core workforces."[373] Further, contingent workers may be hired to cover for temporary leave of absence such as maternity leave. "Politics of manpower budgeting in many organizations, particularly those in the public sector" are also mentioned:[374] Requirements to obtain authorization for the hiring of additional employees but not for the hiring of contingent staff may be a consequence of numerical flexibility considerations. Bureaucratic authorization procedures may constitute an additional deterrent, however, resulting in the hiring of contingent workers simply because it is easier for the responsible manager, even though a permanent position would have likely been authorized. Such rules of manpower budgeting do not occur only in the public sector. A case study of the Irish dependency of a large American production company reports a requirement to have all regular staff positions authorized by the US headquarter, resulting in 70% of production workers being contingent during the time of the study.[375] There may furthermore be perceptual biases where senior managers are concerned with managerial accounting measures such as sales per employee. That is, sales results may be regarded more highly if they are accomplished with fewer regular employees, likely also reflecting flexibility considerations, though.[376]

The increased use of contingent workers has further been argued to be a means of avoiding or weakening collective labor organization. A curvilinear relationship

[371] Contingent work was found to be correlated with the perceived level of job security in firms with cyclical demand fluctuations (Matusik and Hill, 1998).

[372] Handy (1989), Peffer (1994).

[373] Smith (1994, p. 289).

[374] Pfeffer and Baron (1988, p. 271).

[375] Geary (1992).

[376] Pfeffer and Baron (1988, p. 272).

between unionization (as an indicator of union power) and the use of contingent workers has been established.[377] According to that, powerful unions are able to limit the use of casual workers in an organization. Where unions are weak, employers may achieve labor cost savings and numerical flexibility objectives by making adjustments to the terms and conditions of the regular workforce, resulting in a diminished need for using casual labor. With medium levels of unionization, so the argument goes, firms cannot easily adjust the terms and conditions of regular workers and it is less likely that unions are able to prevent the use of casual workers. In that case, there is an incentive for employers to use contingent workers and they have the ability to do so, resulting in the curvilinear relationship between unionization and use of casual labor that was found in a representative sample of UK establishments.[378]

Role Design

The literature is replete with examples of casual workers being assigned the most simple, narrowly defined tasks.[379] For example, temporary call center operators may be responsible for calls related to only one product whereas regular operators may respond to calls on the whole range of products of their company.[380] The exchange relationship of casual workers is transactional, with neither side in the employment relationship being expected to act beyond **narrowly defined obligations**.[381] Nevertheless, organizational citizenship behavior of casual workers has been reported where they were hoping to be taken over permanently if they displayed behaviors normally only associated with regular employees.[382] This kind of imbalanced exchange relationship is enabled by an unequal distribution of labor market power. A study of professional contractors whose specialized skills are in demand has found them less likely to unilaterally exceed the expectations of a transactional employment relationship.[383] The authors interpreted their findings as follows: with greater bargaining power, contingent workers may contribute or withhold discretionary behaviors at work, depending on their attitudes toward the organization. "[. . .] we speculate that involuntary contingent workers will exhibit positive attitudes and organizational citizenship with the hope that the employing

[377] Uzzi and Barsness (1998).

[378] The findings may be generalizable to UK and US but not to German establishments, where trade union power does not depend on levels of unionization within a firm. German unions and works councils have far reaching powers per legislation. According to the above line of reasoning, powerful labor representation would explain a generally more moderate use of casual workers in German companies.

[379] E.g., Davis-Blake and Uzzi (1993), Pearce (1993), Uzzi and Barsness (1998).

[380] Lautsch (2002).

[381] E.g., Handy (1990), Rousseau and Wade-Benzoni (1993).

[382] E.g., Geary (1992).

[383] Van Dyne and Ang (1998).

organization may offer them regular employment because of their exemplary behavior at work."[384] Other studies support this interpretation, reporting higher task and contextual performance of traditional temporary workers compared to boundaryless ones.[385] The findings of these studies are interpreted similar to the one above, suggesting "that traditional types may feel compelled to work harder in the hope of transitioning to a permanent job; whereas for the boundaryless temporary, this is not the incentive."[386]

Related to, and an important antecedent of, organizational citizenship behavior is **organizational commitment**. A number of studies seeking to measure the commitment of contingent workers relative to that of regular employees yielded mixed results.[387] These studies must partly be criticized for a lack of differentiation between different types of contingent employment and between different kinds of commitment, such as attitudinal and continuance commitment. Differing definitions of an already elusive concept such as commitment may explain some of the contradictory findings. Correlations between the amount and type of fringe benefits and organizational commitment of contingent workers[388] indicate that their commitment may be primarily calculative. It has been stated that "[in] essence, the temporary worker can hold a commitment to the client organization by 'staying' until the completion of the contract, a commitment that is characteristically continuance or normative-based commitment."[389] Temporary agency workers may not only develop commitment to the hiring firm but also to their agency (or agencies if they are listed by more than one).[390] Again, the commitment is thought to be calculative: "[. . .] it is entirely possible that a temporary worker would become more committed to the THS firm that was the most effective in regularly placing the worker in quality assignments. Thus, commitment may be primarily calculative."[391] In any case, the implication relevant for the purposes of the present work is that casual workers are not attitudinally committed to the hiring organization and that, hence, they cannot be managed and controlled on the basis of trust and

[384] Van Dyne and Ang (1998, p. 701), cf. Sect. 2.3.6.

[385] Marler et al. (2002), cf. Feldman et al. (1995), Ellingson et al. (1998).

[386] Marler et al. (2002, p. 447).

[387] Connelly and Gallagher (2004).

[388] Klein and Hall (1988).

[389] Gallagher and McLeanParks (2001, p. 195).

[390] There are different types of temporary worker agencies. Some of them hire workers as regular employees, i.e., they pay them a regular income regardless of assignments to client organizations. Others act as intermediaries between the hiring firms and listed workers without employing those workers. Often, agencies have some employed workers as well as lists of independent contractors.

[391] Gallagher and McLeanParks (2001, p.197). The attitudes of temporary workers toward agencies which hire them as regular employees may be different. Those workers are contingent from the point of view of the "client" organization while they may be core from the point of view of the temporary agency (Smith, 1994). Indeed, it has been argued that agencies should discourage their best workers from accepting regular employment with client firms and that they should foster commitment to the agency while discouraging the development of attitudinal commitment to client firms (McClurg, 1999).

attitudinal attachment to the organization or to a work group as it has been proposed for staff groups closer to the organizational core. Various studies illustrate how a lack of trust among regular workers and supervisors toward the abilities and reliability of casual workers necessitates a close supervisory regime over the activities of the latter.[392]

Many organizations support systematically the **differential treatment** of casual and regular workers. This has partly economic reasons. In line with human capital theory, organizations must minimize the training time of casual workers; for example, in the telemarketing call center of a large service conglomerate: "Minimizing training time for temporary workers in the RSC [Retail Sales Center] was a concern, both because a full training period of 12 weeks would have exceeded the period for which the contingent workers were needed and because it would have entailed high costs."[393] A lack of training contributes to low trust perceptions of casual workers among regular employees. In the case of a large American company that manufactures photocopy and computer equipment and sells copying and other business services: "The permanent workers believe that temporary workers have little reason to care about their work because they are not trained in 'thinking quality.'"[394] Economic reasons for the differential treatment of casual workers also include competitive pressures resulting in their lower compensation as one primary raison d'être of casual workers.

Beyond economic reasons, status differentials also appear to satisfy a psychological need among regular workers, confirming their position in the organizational hierarchy, as for example in the customer inquiry call center of the above-mentioned service conglomerate: "Despite the lack of a perceived threat to their jobs, regular workers favored the maintenance of status differences between themselves and the temporary workers. For example, union representatives explained that they ensured that temporary workers would not get better schedules than regular workers. In one case, the work shifts of all contingent workers in a site were altered because they had been arriving earlier than regular workers and claiming the most desirable parking spaces. Management reinforced the distinctions by more closely supervising the contingent workers than the regular workers in the site."[395] The underlying cause of such sentiments appears to be a latent threat of the casual workers to the regular workers' existence, especially where the jobs are similar and the pay inequality is high.[396] Mistrust, animosities, and conflict are less likely where jobs are clearly separated, as is typically the case with professional contractors.[397] Contingent employment is thought to have a *rivalry elimination effect* at the professional level while taking away opportunities at the worker level.

[392] E.g., Smith (1994), Geary (1992), Thomas (1994, p. 123), Graham (1995, pp. 131–135).
[393] Lautsch (2002, p. 31).
[394] Smith (1994, p. 299).
[395] Lautsch (2002, p.30).
[396] Ibid., also Pearce (1993), Geary (1992), Smith (1997).
[397] Davis-Blake et al. (2003).

That is, worker jobs tend to be homogenous, so that each casual worker position is perceived a potential substitute for regular positions. Professional jobs, by contrast, tend to be specialized and in areas that are not so significant for the career tracks of core workers. The rivalry-elimination effect of contingent work at the professional level and the opportunity-reduction effect at the worker level have been empirically supported by a longitudinal study of 6,850 workers.[398]

The managers who are responsible for the role design of regular and casual workers must then carefully balance the desires of contingent workers to feel part of the team, the desire for job security among regular workers, and a potential desire among managers to exert pressure on their regular workers by signaling to them that they are replaceable. Two aspects should be considered in balancing these conflicting goals. One is the relative power of casual and regular workers and how likely each group is to put up with the roles they are assigned to. The other aspect is related to the function of the regular workers. If they fit in the team worker category described in Sect. 2.3.4, it is essential that the team workers perceive job security. They should be motivated by their commitment to team goals, not by a perceived threat from casual workers. It is feasible to differentiate casual worker from team worker roles, as the latter include responsibilities for managerial tasks and flexible performance of different productive tasks. Team workers may be involved in the supervision of casual workers, reinforcing the status differences. In contrast, if the regular workers fit in the industrial/clerical worker category, they may be performing narrowly defined tasks akin to those of casual workers. The ramifications of not sufficiently separating the roles and status of casual and regular workers are highlighted by two case studies in which regular workers sabotaged the casual worker function to such an extent that it had to be discontinued.[399] Arrangements in other parts of the studied organizations which delineated the responsibilities of casual workers more clearly from those of regular workers were found to be more effective.

Creating separate economically and psychologically viable roles may be more challenging logistically in the case of casual workers than in the case of professional contractors. The theory and the case study evidence indicate, however, that overcoming such challenges is likely to make the difference between functioning core–periphery arrangements and ongoing conflict between all the parties who are involved.[400] One more reference to the above-mentioned customer inquiry call center of a service conglomerate is intended to illustrate how such logistical challenges may be overcome.[401] The *customer inquiry* call center faced seasonal demand peaks in the summer, necessitating the employment of contingent workers. In another call center of the conglomerate (its *telemarketing* call center), casual

[398] Barnett and Miner (1992), see also Pfeffer and Baron (1988), Belous (1989).

[399] Lautsch (2002), Geary (1992).

[400] The above studies also provide evidence for heightened levels of conflict between regular workers and managers as a result of failure to delineate regular and casual worker functions.

[401] Lautsch (2002).

workers were hired throughout the year in order to promote specific products, that is, products different from those promoted by regular workers. In that case, it was possible to separate the functions of regular and casual workers along product lines. Such a clear-cut functional separation was not feasible in the case of the customer inquiry call center, as it would have meant taking away a job from the regular operators once a year for the summer and having it performed by lower paid workers. It was thought that this would have provoked resistance among regular operators as it could have proven that their type of job can be performed at a lower wage. Furthermore, there was a concern about the possible deterioration of the regular workers' product knowledge during the summer months. Consequently, the managers went to quite some lengths to simplify the jobs of the temporary operators such that they could be trained on a restricted range of products. With the aid of call routing technology, regular workers continued to handle all types of calls during the summer while a limited range of simpler call types were simultaneously handled by temporary staff.

Hence, following this economic–behavioral analysis, organizations would have to actively promote the establishment of **a new underclass of workers**. Some may argue that there has always been differential treatment of workers even before the proliferation of contingent work, for instance, between white- and blue-collar workers. Nonprofessional contingent work is associated with higher levels of psychological stress and subjectively reported health problems.[402] Some may argue that there have always been differences in health and life expectancy, say, between workers and managers and that the Western economic market system inevitably entails differences in status and also in welfare between different groups of citizens for the sake of greater overall welfare of the system. The essential difference is, perhaps, that for the first time since the industrial revolution – leaving war periods aside – a large group in the system experiences a significant, permanent, and system-immanent deterioration in welfare while other groups in the system and the system as a whole seem to gain or at least remain stable.

The affected groups are primarily the low-skilled or unskilled workers because it is their kind of abilities which are in excess supply globally. The reorganization of how work is performed at the bottom of the hierarchy has also affected the demand for and welfare of middle managers.[403] The social and moral concern is primarily with the low-skilled, however. A deterioration of their welfare status means that standards which have to date been regarded minimum are being undercut – in particular the receipt of health care, pensions, and unemployment insurance. The group of low-wage workers is further disproportionately represented by female workers,[404] arguably because "their domestic obligations prevent them from pursuing full-time permanent jobs,"[405] and by ethnic minorities.[406] Perceptions of differential

[402] Connelly and Gallagher (2004).

[403] American management association (1995, p. 4).

[404] Kalleberg (2008, p. 35).

[405] Hunter et al. (1993, p. 402).

[406] Kalleberg (2008).

opportunities in life on the grounds of ethnic membership or being a woman may affect the perceptions of procedural fairness and equal opportunity, which are factors that contribute to social and economic stability. It may be for all those reasons that contingent work is also referred to as *precarious work*[407] and that the associated organizational practices are labeled "uncaring and maladroit."[408]

In European countries such as Germany and the UK, the law currently still prevents employers from undercutting social standards to the same extent as their American counterparts. Yet, the global economic forces operate in those countries in the same way they do in the US, pressing for low-cost, flexible employment practices at the bottom of the organizational hierarchy – either within those countries or somewhere else. Economic actors in the US, UK, and Germany face the same decision, that is, whether to yield to those forces and to what extent. This decision must be partly made for them by the economists and politicians who influence and constrain the economic systems in their countries. Discussing the options available to governments and the analyses they would have to conduct would go beyond the scope of the present work – the level of analysis of this text is that of the organization, albeit taking into account the economic forces the organizations are exposed to. It is hoped, though, that the kind of analyses and insights that are developed by this work would also have to represent part of the inputs needed by decision makers at the macroeconomic system level.

Returning to the organizational level of analysis, it is sometimes argued that individual managers should assume responsibility beyond legal requirements by heeding to what they perceive as social and moral obligations, even if they and their organizations are punished by the markets. It is quite possible that there is value to such moral actions at the individual, family, societal, and human (species) level – even if it costs employment at the level of the national economy. Pinning down the value of morality would require a sociological or even (evolutionary) biological discussion which, again, would exceed the scope of this work. Within the scope would be instances in which the market pays for social or moral organizational activity beyond legal requirements. If, for instance, a significantly large group of consumers was willing to pay (and thus forsake some of their own welfare) for products or services of firms that do not exploit casual workers, it might be economically viable for a certain number of firms to function without 'uncaring and maladroit' practices. To a limited extent, such mechanisms operate where consumers locally and temporarily buy fewer products of companies which have closed down regional production locations, triggering companies to seek compromises and go about plant closures more carefully in countries such as Germany. It would be interesting to see if there was a sufficiently large market for some companies promoting more proactively products and services produced with worker friendly practices, akin to the emerging market for expensive environment-friendly goods.

[407] E.g., Isaksson and Bellagh (2002).

[408] Geary (1992, p. 261).

Finally, casual work practices may be avoided if private owners decide to do so or do not press for such practices. This may be due to their company operating in not very competitive markets or it may mean that they give up some of their own welfare. At the level of the economy, it means that more resources (ultimately human resources) are bound in whatever that company does and that those resources are not available to the economy. This may represent a competitive disadvantage compared to economies such as that of the US, which has always been benefiting from an influx of low-cost immigrant labor or that of China with its large underutilized rural workforce.

Majority worker ownership of companies may also result in the nonutilization of low-cost contingent work practices. The John Lewis partnership, a retail chain, represents an example. In this case, it is the entire workforce which must either forsake some of their own welfare or work harder and longer hours than workers in other companies if they choose to do without casual labor. Ultimately, the problem with this will be to find enough qualified employees who are willing to permanently possess less or work harder than other people and resist the temptation of moving on to a job with better terms and conditions with another employer. Additionally, the majority employee ownership must be financed by someone, presumably through deductions from the lifetime income of the worker-owners, further reducing their available income. Hence, instances in which contingent work on exploitative terms is avoided through majority worker ownership are likely to remain the exception unless they are subsidized by consumers who are in favor of the concept of worker ownership, as it may be the case for John Lewis in the UK.

In summary, it has been argued that casual workers perform simple, narrowly defined tasks in the context of fluctuating demand or inflexibilities at the lower end of the labor market. Their tasks are defined such that they require a minimum of generic and organization-specific competencies, enabling them to perform on-the-job immediately and minimizing conflicts with regular workers. They pursue their own interests or, in some cases, that of a temporary worker agency. Thus, the exchange relationship with the hiring firm is purely transactional, encompassing the temporary performance of deskilled work in return for a low hourly wage. Casual worker positions may represent an entry point into internal labor markets, which may result in casual workers unilaterally exceeding the expectations of a transactional exchange by displaying organizational citizenship behaviors normally associated with the team worker mode. Nevertheless, given a limited understanding of organizational or functional requirements, control is exercised on the basis of closely prescribed output or behavior standards, akin to the industrial/clerical system.[409]

[409] The casual worker employment system relates to Hendry's market system (2000, 2003), Rousseau's independent contractors/temporaries (1995), Lepak and Snell's contractual work arrangements (1999, 2002), Osterman's secondary subsystems (1982, 1984, 1987, 1988), Lawrence's market system (1985), Doeringer and Piore's external labor markets (1971), and Kerr's structureless labor markets (1954).

2.3.6 *Professional/Occupational Contractors*

Professional contractors perform specialized technical functions that are not required by an organization on an ongoing or frequent basis, that do not require organization-specific development, and that can be monitored without close integration into the organization. They are contingent workers with a set of specialized generic competencies, contracted either as individuals or as members of a business service organization.[410] A wide range of contracted professions and occupations are referred to in the literature, including job-shop engineers (mechanical as well as chemical engineers), lawyers, project managers, management consultants, coaches, and other training specialists. Nurses and other medical staff, accountants, and computer software programmers are among the most commonly contracted professionals.[411] Within a trend of increasing contingent employment, contingent work in "professional technical functions" has been said to be "the most rapidly growing."[412] In the absence of systematic longitudinal evidence, this growth is sometimes illustrated by comparing cross-sectional studies conducted at different points in time. According to data by the US Commerce Department, 20% of temporary help worker usage was classified as professional in 1981 (as opposed to being classified as clerical, production, or service).[413] A publication in 1998 cited 43% of contingent workers being used in *professional and technical functions* from an unpublished paper by Matusik.[414] Ang and Slaughter refer to the US Bureau of Labor Statistics in order to state that "the number of IS [information systems] contractors increased more than 40% from 1995 to 1998" and that "[an] estimated 10–30% of software development professionals in large corporations are contractors."[415]

Focusing Organizational Competencies

Professional contractors meet temporary skill demands, not so much in response to market fluctuations (as in the case of casual workers) but to perform discontinuous organizational functions demanding a specialized, generic skill set. A typical example of such a discontinuous organizational function is the development and implementation of a new information system. It requires highly specialized skills, for example in programming or code testing, which are required by the organization

[410] Professional contingent workers may also be hired on the basis of a temporary employment contract. They are mostly hired based on service contracts, though. For the sake of simplicity, they are generally referred to as professional contractors in the following.

[411] Mangum et al. (1985).

[412] Matusik and Hill (1998, p. 680).

[413] Mangum et al. (1985).

[414] Matusik and Hill (1998).

[415] Ang and Slaughter (2001, p. 322).

only to a very limited extent otherwise.[416] The contracted specialists are usually staffed onto project teams together with regular employees "for the lifespan of a project."[417] The latter contribute the organization-specific knowledge required to build an information system that meets the organizational needs.

Managing the interface between contracted generic and organization-inherent competencies so that they contribute to a joint objective represents a key challenge in the management of respective discontinuous organizational functions, as will be elaborated in Sect. 3.3.6. At this point, it must be preempted that professional contractors are hired to **complement the competencies** of the regular workforce. This is, again, in contrast to casual workers, whose competencies can be said to supplement or substitute those of the regular workers.[418] It has also been argued that contractors are hired for the knowledge they contribute while temporary workers tend to be hired to increase the size of a workforce.[419] The contingent labor market is said to be bifurcated into high-skilled *boundaryless* and low-skilled *traditional* temporary workers.[420]

Examples of complementary generic competencies acquired through contingent employment also include those of job-shop engineers specialized in the design of a part of an automobile or its engine and those of management consultants. Specialized engineers are, for instance, hired temporarily by car manufacturers for the development of specific parts which are essentially the same in every car but must be adapted to the engine being developed. The term management consultant encompasses a variety of specializations including the management of mergers and acquisitions, project management in information technology projects, process redesign, organizational restructuring, and change management. In each of these examples, contractors and organizational staff are mutually dependent on their complementary competencies. Thus, an IT project manager is familiar with the particular challenges, risks, and chances associated with the implementation of a new IT system as well as with the challenges, risks, and chances of blending regular staff and contractors in project teams. Regular employees of the hiring organization are familiar with the expectations of the hiring organization, its culture, and the potential challenges related to that. They must provide input concerning the legacy systems and processes. And they may be needed to open doors and lend credibility to the project team with other members of the organization.

Elsewhere, management consultants have been said to "specialize in bringing best practices into individual firms."[421] *Best practices* are generic knowledge which has emerged from organization-specific practices, often through the involvement

[416] Even software development companies such as Microsoft use specialized contractors in the testing and debugging phase of their product development process (Cusumano and Selby, 1995).

[417] Matusik and Hill (1998, p.681).

[418] Cf. Cappelli and Neumark (2004), Davis-Blake et al. (2003).

[419] Harrison and Kelley (1993), Matusik and Hill (1998).

[420] Marler et al. (2002).

[421] Matusik and Hill (1998, p.686).

of consultants across different organizations or through studies of academic scholars.[422] Thus, management consultants may also be hired for their knowledge of and experience with best practices such as total quality management, employee share-ownership, or balanced scorecards. Again, their generic knowledge must be coupled with organizational knowledge and other expertise if best practices are to be implemented as functioning systems as opposed to systems resembling Potemkin villages that never accomplish what they were supposed to or systems that exist on paper only and never reach the implementation stage. Hence, albeit the competencies of management consultants are not as technical and codified as those of contracted engineers or programmers, they are also professionally specialized and generic in the sense that they are applicable to different organizations.

The use of professional contractors is associated with transaction cost savings, especially where the **half-time of knowledge** is short, such as in IT or the organizational function of updating internal management processes with emerging best practices. Theoretically, it would be conceivable that respective specialists are employed in-house to engage in a constant screening of professional publications, seminars, and conferences. Much of the new knowledge is developed during the process of applying it, though, and as contractors and regular employees stimulate each other by exchanging their ideas.[423] Maintaining the same level of currency for rapidly changing expertise in-house is, if possible at all, more costly, especially if it is needed only sporadically.[424]

The effectiveness of professional contractors depends on their degree of **institutionalization** in an industry or region. The more organizations participate in interorganizational professional networks the greater will be the competition among professionals, the more stimulation of innovation through exchange of ideas, and the more efficient the professional-organizational interfaces. The Silicon Valley, for instance, has been characterized as an area with institutional practices that favor the mobility of professionals and human capital in general, such as networking-intensive social forums, extensive interfirm cooperation, and spin-off formation.[425] This has led to the emergence of an industry-specific or regional specialization of contracted professions, that is, professional knowledge, skills, and interaction patterns are adapted to the needs of a relatively homogeneous industry or region while remaining generic from the perspective of the individual organization.[426] Foundations for regional firm network interactivity in areas such as the Silicon Valley are already laid in schools, universities, and other institutions where a common educational philosophy and infrastructure emerge.

[422] Cf. Kieser and Wellstein (2008).

[423] Matusik and Hill (1998, p.685).

[424] Christensen (1991).

[425] Matusik and Hill (1998), Saxenian (1990).

[426] Matusik and Hill (1998), Piore and Sabel (1984).

The Cambridge region in the UK has been suggested to represent a counter example, being a high technology region dominated by traditional large firms, constraining the exchange of knowledge and ideas to the inside of firm boundaries.[427] According to that, firms in the Cambridge region pursue a strategy of protecting the knowledge and the ideas they have already got by maintaining nonpermeable firm boundaries. Firms in the Silicon Valley, by contrast, appear to pursue a strategy of being the first to come up with new innovations. Given an industry with a very short half-time of knowledge, the Silicon Valley strategy seems to be the more promising one. The Cambridge strategy would appear more suitable for industries with a longer half-time of knowledge, where innovations are relatively rare, require a long time to be developed and brought to market, and, hence, need to be protected through a defensive approach to knowledge management.

The trend toward professional contracting is part of a broader trend toward the **outsourcing** of entire business functions.[428] One of the functions of the strategic leadership of organizations is to consider the different activities that are to be performed in the economy, divide them up between different organizations, so to speak, and allocate the available resources (ultimately human resources) to the different organizations and activities. Since the end of the last millennium, business leaders have been focusing increasingly on this job of theirs, as they have been seeking to focus their organizations on those activities that they are especially good at while spinning off activities that might be more effectively managed if clustered together with other activities performed by other organizations or if managed entirely separately. The management of activities that are outsourced and performed entirely separately from the organization is not of concern for the present work. The management of such activities is covered by the academic field of supply chain management, and venturing into that field as part of this dissertation would be spanning one boundary too many. Activities that are contracted out but continued to be performed on the organizational premises and in close cooperation with regular employees are of concern, though.

Hence, the use of professional contractors is associated with considerations about which entities in an economy should perform which functions in order to maximize the value contributions of the different entities in relation to the resources they use and, given efficient capital markets, the overall value generation of an economy. Consequently, the functions performed by professional contractors tend to be complementary to those performed by the regular employees of organizations. The selection of functions that can be performed by contractors is by default limited to those requiring only generic competencies. It is efficient in terms of transaction costs to contract those functions out if they are not required on an ongoing or frequent basis and if they can be controlled without the time-intensive development of social control mechanisms. It is also more effective to contract out functions that are in a continuous state of flux knowledge-wise. By contracting those functions

[427] Matusik and Hill (1998), Saxenian (1989).

[428] Handy (1990).

out, the contracting organization basically participates in an interfirm network or informal joint venture. It increases the likelihood that innovations made within its own organizational boundary spread throughout its industry segment and it decreases the likelihood that it misses out on any innovations within the segment, that is, within the community of organizations that are accessed by a given network of contractors. In other words, professional contracting is a means of efficiently dividing up labor within regional industry segments in response to global competitive pressures. Distinct, complementary functions signify to regular employees that professional contractors do not represent a threat to their existence, as it is described for the worker level in the previous section. Perceptions that professional contractors do not represent a threat to regular workers may be further enhanced as contractors tend to not desire regular employment status.

From the Contractors' Perspective

Unlike casual workers, professional contractors tend to engage in contingent work voluntarily.[429] In few instances, this may be so because their skills are "so rare and valuable that they can dictate the price and terms of their employment (currently, this is true for certain software engineers)."[430] The value of skills is evaluated more frequently in external than in internal labor markets.[431] Therefore, professionals with especially valuable generic skills are most likely to obtain the high price they deserve in the external market. In general, however, professional contractors earn less than equivalent workers in conventional employment relationships. The difference in wages of 7% is smaller than that of 18% at the casual worker level.[432] Given that the 7% figure is an average, it still represents a substantial difference, though. Moreover, contractors tend to receive fewer fringe benefits.[433] Hence, there must be some explanations for professionals voluntarily seeking boundaryless employment other than the compensation.

One of them may be that professionals seek to maximize their **lifetime income** rather than their current income. That is, the choice they perceive is not one between a relatively high income and employment security on the one hand and a

[429] Krausz et al. (1995), Marler et al. (2002), Arthur and Rousseau (1996).

[430] Matusik and Hill (1998, p. 686).

[431] Matusik and Hill (1998).

[432] Marler et al. (2002).

[433] Thorpe and Florence (1999), Chamber of commerce of the United States (1991). When hiring certain professionals such as management consultants through business service organizations, fees must be paid sometimes far in excess of the wages paid to regular employees. One must take into account, though, that the fees do not only cover the wages of the contracted professionals but also overhead costs for their administration (e.g., costs of recruitment and selection, development, and pay administration), office space, and the contracted firm's accumulated knowledge which is accessed through the contracted professional. Moreover, their wages must be compared to those of regular staff possessing the same level of up-to-date expertise as the contractor.

relatively low, instable income on the other hand. Instead, they may see a choice between a relatively high income for a limited number of years associated with a loss of marketability on the one hand and a somewhat lower income associated with continued marketability on the other hand. It has been argued that multiple employer experiences support the development of marketable generic competencies,[434] especially in professional occupations such as those of accountants, lawyers, and engineers.[435] Such marketability does not only derive from the currency of professional knowledge and skills but also from the skill and ability to acquire contracts with different clients as well as from a social network spanning organizational boundaries. Regular employees give up some of this marketability in lieu of organization-specific competency development, higher wages, and employment security. Under a 'new deal' of employment, their calculation may no longer tally up. Especially for professionals, it may often no longer be realistic to rely on secure employment.[436] Consequently, the relative attractiveness of regular employment diminishes. Professionals may no longer gain a sense of security from the commitments made by a single employer. Instead, if they become boundaryless, "their security is rooted in their own skills and ability to sell those skills in the external labor market."[437]

Another factor adding to the attractiveness of contingent employment of professionals is that it may be more easily fitted around **family and lifestyle needs** than regular employment. Female professionals in dual earner marriages have been shown to find contingent work especially attractive as it allows them to reconcile their work and family needs.[438] It has also been argued that women may prefer professional contracting after longer maternity absences, as it allows them to update their skills, increase their market worth, and sample different work environments before deciding to settle down with the organization that suits them most.[439] To a lesser extent than women, the elderly have also been found to be especially prevalent in the contingent workforce.[440] A growing market for contingent workers and professionals may represent a chance for older professionals who were made redundant. Although they may not have spent their work lives honing their generic professional competencies, they may at least seek to market the transferable competencies they have got. In such cases, the contractor lifestyle may not have represented a voluntary choice a priori. However, coming to terms with their situation, such contractors may 'choose' to no longer desire the regular jobs they ones had.[441]

[434] Becker (1992), Baker and Aldrich (1996), Marler et al. (2002).
[435] Tolbert (1996).
[436] Kissler (1994).
[437] Marler et al. (2002, p. 430), cf. Kanter (1989), Bridges (1995), Mirvis and Hall (1996).
[438] Rogers (2000), Marler et al. (2002), Steinberg (1994).
[439] Howe (1986).
[440] Pfeffer and Baron (1988).
[441] Ibid., p. 279.

Whether it is an espoused or genuine choice, professional contractors tend to convey that they prefer "to maintain their independence from any one organization" and that they wish "to separate themselves from organizational politics, incompetence and inequities."[442] Underlying this may be a shift in the lifestyle and values of employees away from material gains toward quality-of-life considerations as the ultimate currency.[443] People's self-worth is to a lesser extent defined by their jobs and the companies they work for. Working for multiple employers is no longer vilified by society but considered normal.[444]

A British study of former National Health Service (NHS) 'managers-turned-contractors' provides an example of professional contracting being experienced ambivalently.[445] The NHS provides state-funded health services to all residents of the UK and it represents the nation's largest employer. In-depth interviews were conducted with 25 former NHS managers between the age of 32 and 50. Three of them had been made redundant. The others had left for a variety of reasons including personal factors, family, and career development. "Featured strongly, however, was disillusionment with organizational life; changing values, cultures, structures. The decision to leave was taken with a great deal of reluctance in most cases, with individuals feeling that some form of self-employment was their best option given their organizational and personal circumstances."[446] In the same tone, the resulting experience of working as contractor was described as ambiguous. Most, although not all, of the contracts were with NHS organizations and arranged through former colleagues. The experience was described as one of a greater job variety but also of a loss of deeper attachment, a lack of structure and boundaries, and a feeling of turning inward and insular. These somewhat negative experiences may have been exacerbated by the fact that the contractors were not professionals in the narrow sense of the word but managers. As managers, they had been socialized into the NHS to define themselves through organizational membership and attachment, not through the development of a specialized generic set of competencies which would have enabled them to market themselves as self-employed contractors.

The literature partly supports the notion that the **role design** of professional contractors is narrower than that of regular employees. A case study by Ang and Slaughter of IT contractors in a transportation company, a hospital, and a government agency shows that the contractor jobs in all three organizations "are low in task variety, identity, significance, autonomy, and feedback, relative to those of permanent professionals."[447] The contractors in these cases were primarily responsible for programming tasks whereas professional employees were responsible for

[442] Marler et al. (2002, p. 429).
[443] Cf. Zuboff (1988).
[444] Kissler (1994).
[445] Mallon and Duberley (2000).
[446] Ibid., p. 38.
[447] Ang and Slaughter (2001, p. 342).

"analysis, design, user interaction, implementation, system integration, configuration management, vendor management, project management, and database design as well as socializing and mentoring the contract professionals on their teams."[448] The delineation of task responsibilities was supported by the fact that contractors received incentives tied to the completion of specific assignments. In a study by Pearce, the statistical analysis of a survey of 223 employed and contracted engineers in a large American aerospace company only partly supported the hypothesis that supervisors shift interdependent tasks to employees when contractors are present in their work groups.[449] In interviews, supervisors commented on that saying "that they tried, in fact, to give simpler jobs to contractors when they could."[450]

Usually, the tasks of professional contractors should be different from those of regular employees on the grounds that they are hired to perform a specialized function complementing the functions of the regular employees, as in the case of Ang and Slaughter's software programming experts. The function of the contracted engineers in Pearce's study was similar to that of casual workers in core–periphery systems, that is, to provide flexibility in response to demand fluctuations in the highly cyclical aerospace industry. Contracted and regularly employed engineers performed similar functions and their expertise was equivalent. Professional contracting represented "an alternative career path that all employees reported considering and some employees had tried."[451] Thus, the jobs of contractors were not demarcated from those of employees by functional default but supervisors had to make an effort to allocate simpler jobs to contractors "when they could."[452]

The cases described by Ang and Slaughter further found that the contractors exhibited lower in-role and extra-role behavior than the regular employees while at the same time perceiving a more favorable work environment than them. The contractors did not have to fear long-term repercussions in response to low loyalty as their attachment to the organizations was transitory and the labor market was favorable toward them.[453] Ang and Slaughter as well as other scholars have hypothesized that professional contractors may identify with their profession.[454] Marler et al. found lower levels of cooperation among professional contractors than among casual workers in their national sample of 614 and regional sample of 276 contingent employees. They concluded "that traditional types may feel compelled to work harder in the hope of transitioning to a permanent job, whereas for the boundaryless temporary, this is not the incentive."[455] A longitudinal study at a

[448] Ibid.
[449] Pearce (1993).
[450] Ibid., p. 1093.
[451] Ibid., p. 1086.
[452] Ibid., p. 1093.
[453] Ang and Slaughter (2001).
[454] Ang and Slaughter (2001), Gallagher and McLeanParks (2001), Defillippi and Arthur (1994).
[455] Marler et al. (2002, p. 447).

manufacturer of large vehicles in the UK monitored the effects of an alteration of employment status from involuntary temporary to regular in comparison to voluntary temporaries over an 18-month period. In interpreting their findings, the authors state that "highly qualified, and perhaps highly sought after, temporary contract employees might be less likely to experience stressful job insecurity."[456]

In summary, the available evidence suggests that professional contractors tend to be contractors because they choose to do so. Engagements with multiple employers help them maintain a marketable, generic set of competencies. Being a contractor may further allow them to reconcile a career with family and lifestyle needs. They display less organizational citizenship behavior than either regular employees or casual workers, reflecting the fact that they do not aim to become permanent members of the organizations that hire them. Their function is clearly differentiated from and complementary to that of regular employees. In line with that, their psychological contracts can be described as transactional as far as the relationship with the hiring organization is concerned. They do not identify with or develop attitudinal commitment to the organization that hires them. They may identify with a profession or occupation. They may also identify with the market or industry segment they are a part of. Professional contractors in the Silicon Valley region may, for instance, define themselves through being a member of a professional community in the Silicon Valley, adopting particular values associated with the regional business community. Their market segment may represent the entity they connect with and submerge into. Their social networks may spread throughout the market segment they operate in. If contractors are not a part of a professional community and if they 'navigate' through their market not as individual contractors but as members of a professional or business service organization, their allegiance may, as core employees, be with that organization. Clearly, there is scope for empirical research to test these hypotheses. For the analyses in the ensuing chapters, it can be concluded, though, that the professional contractors' allegiance is with some larger entity such as a profession or a market segment, with their own commercial interest, or with their employer if they are hired through another organization, but not with the hiring organization.

According to control theory, it should therefore be the outputs of professional contractors that provide the basis for control. As they are hired to perform specific technical functions, it should be possible to define performance specifications that can be characterized as crystallized. Given that their specialized functions are complementary to and, thus, separate from those of the regular staff of the hiring organization, their functions are perceived to be complex from the perspective of the regular employees and supervisors. The knowledge of cause–effect relations is incomplete. Consequently, professional contractor control is to be based on outputs, not on behaviors.[457]

[456] Parker et al. (2002, p. 715).

[457] Previous publications on ILM theory referred to this staff category as networked/guest workers (Rousseau, 1985) and alliances/partnerships (Lepak and Snell, 1999, 2002).

2.3.7 Overview Archetypal Employment Systems

Table 2.1 Employment relationship of generalist managers

Generalist managers	
Function	Alignment of productive work with market demands
Generic competencies	Broad generic competencies; elite generalism, usually academic degree, e.g., liberal arts, law, business administration
Organization-specific development	Extensive organization-specific development; architectural knowledge, trainee program
Allegiance	Employing organization
Control	Input; competency selection/monitoring/development, institutionalized socialization, broad networks
Exchange	Consummate effort and commitment to organizational goals in return for career in organization

Table 2.2 Employment relationship of professional/occupational employees

Professional/occupational employees	
Function	Specialized technical functions performed on an ongoing or frequent basis, occurring across different organizations in similar form
Generic competencies	Specialized generic competencies developed and controlled by profession and professionals themselves
Organization-specific development	Moderate organization-specific development focused on processes and expectations surrounding the professional function
Allegiance	Profession
Control	Output; professional autonomy in pursuit of task strategies
Exchange	Ongoing/regular delivery of specified outputs in return for monthly salary

Table 2.3 Employment relationship of industrial/clerical workers

Industrial/clerical workers	
Function	Performing simple, narrowly defined tasks in scientific management systems
Generic competencies	Basic; e.g., physical prerequisites for manual work, language speaking ability for call center operators
Organization-specific development	Moderate; processes to be performed in scientific management system
Allegiance	Worker collective
Control	Output/behavior; close supervision, including electronic surveillance
Exchange	Ongoing performance of narrowly defined task behaviors in return for hourly wage and fringe benefits

Table 2.4 Employment relationship of team workers

Team workers	
Function	Performing various productive and managerial activities in self-managing work teams
Generic competencies	Basic; similar to industrial workers
Organization-specific development	Extensive; various tasks to be performed by SMWT; planning and operating processes; values, norms, rules
Allegiance	Work group
Control	Output (group level), behavior (individual level)
Exchange	Consummate effort and commitment to team goals in return for a secure job

Table 2.5 Employment relationship of casual workers

Casual workers	
Function	Temporary performance of simple, narrowly defined tasks
Generic competencies	Minimal
Organization-specific development	Minimal
Allegiance	Self or temporary worker agency
Control	Output/behavior
Exchange	Temporary performance of deskilled work in return for hourly wage; display of extra-role behavior if transfer to ILM desired

Table 2.6 Employment relationship of professional/occupational contractors

Professional/occupational contractors	
Function	Specialized technical functions not needed on an ongoing or frequent basis, occurring across different organizations
Generic competencies	Specialized generic competencies developed and controlled by profession and professionals themselves
Organization-specific development	Limited organization-specific development focused on knowledge integration with regular employees
Allegiance	Profession, business service organization, or self
Control	Output; professional autonomy in pursuit of task strategies
Exchange	Delivery of specified output in return for service fee

Chapter 3
Appraisal Context

Having characterized the six emerged employment relationships, the goal of this chapter is to derive configurations of HRM practices for each of the six employment modes as far as they relate to performance appraisal. It is argued that performance appraisals are conducted mainly for three purposes; that is, to exercise control over employees (for example, through the administration of performance-related rewards), to provide a basis for staffing (including promotion) decisions, and to provide developmental feedback. A fourth, less frequently occurring purpose may be to evaluate the effectiveness of organizational systems; for example, different sources of contingent workers. The functional requirements in terms of control, staffing, and development are described for each of the six employment modes. Requirements for performance appraisal are derived on that basis. Thus, as an output of this chapter, an HRM configuration of control, staffing and development practices is proposed for each of several performance appraisal purposes, which are associated with the different employment categories in the following. The HRM configurations can be seen as an extension of the employment relations systems proposed in the preceding chapter. At the same time, they provide the basis for the derivation of purpose-oriented performance appraisal systems in Chaps. 4 and 5.[1]

3.1 Appraisal Purposes

The appraisal purpose is a function of performance appraisal in the human resource management system. It is to be distinguished conceptually from appraisal objectives. The appraisal purpose states *why* appraisals are conducted, appraisal objectives state *how* they are to be conducted in order to meet the appraisal purpose and to support overarching objectives of the organization. Thus, it may be a purpose of

[1] The argument that different appraisal purposes require different appraisal system configurations has for example been made by Klein et al. (1985).

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appraisal to provide a basis for performance–pay administration (that is, ultimately, to exercise control over employees). A typical appraisal objective in that context is 'meeting legal requirements' or 'providing legal safeguards.'[2] Other examples of appraisal objectives include rating accuracy, gaining feedback acceptance, and minimizing appraisal costs. Appraisal objectives are discussed at the beginning of Chap. 5, which deals with the appraisal process, that is, with *how* appraisals are to be conducted. The delineation of the terms at this point intends to rule out confusion between the terms, which does sometimes occur in the literature.

A common function of appraisal is to provide a basis for administrative decisions related to the compensation and staffing of employees. Such decisions have been referred to as *between-person decisions* as opposed to *within-person decisions* (which are associated with developmental feedback).[3] The terms *evaluative* and *administrative appraisal purpose* are commonly used in the literature to denote this category.[4] In the present work, the discussion of appraisal purposes serves to derive requirements for the design of performance appraisal systems. In that context, it seems that purposes of pay determination and staffing entail different requirements. Determining the size of performance-pay awards may require an assessment of past performance. If promotions are to be seen as a reward, they may also require an evaluation of past performance. In other cases, staffing decisions may seek to accomplish a fit between the competencies and characteristics of the staff and the role requirements. A future-oriented assessment of likely performance capabilities would be required in that case. Likewise, the determination of competency-based basic salaries must be based on a (future-oriented) prediction of performance abilities. It will be elaborated in Chaps. 4 and 5 that appraisal purposes of control/monitoring performance and staffing/predicting performance necessitate different appraisal system designs. Hence, the category, *administrative purposes,* is divided up. Exercising control over employees and related monitoring purposes of appraisal are the subjects of Sect. 3.1.1. The staffing of employees and related purposes of predicting performance are explored in Sect. 3.1.2. Nonadministrative purposes related to the development of employees and systems evaluation are dealt with in Sects. 3.1.3 and 3.1.4, respectively.

3.1.1 Control/Monitoring Performance

According to expectancy theory, employees display desired behaviors or work toward desired outputs if they expect them to yield valued outcomes ranging from pay to the good will of managers and colleagues.[5] Thus, expectancy theory

[2] Cf. Welbourne et al. (1998), Fletcher (2002), Boswell and Boudreau (2002).

[3] Cleveland et al. (1989).

[4] E.g., Fletcher (2002), Greguras et al. (2003), Harris et al. (1995), Boswell and Boudreau (2002).

[5] Vroom (1964).

predicts that, in order to exercise behavior or output control, appraisers must not only be able to set desired standards of performance and monitor their accomplishment, but they must also be able to establish a perceived instrumental link between performance and outcomes valued by the appraisee.[6]

One means of establishing an instrumental link between performance and a valued outcome for employees is **individual performance-related pay** (IPRP), making part of the employees' compensation directly dependent on some measure of their performance. A British study has found the most common variant of IPRP to be merit pay,[7] which makes the size of a (usually annual) consolidated pay increment contingent on the overall performance rating. The alternative to merit pay is to provide nonconsolidated bonus payments, the size of which depends on the performance rating or output. IPRP increments or awards typically range from 3–10% of the basic salary, but can be higher depending on the role and rank.[8] IPRP is most commonly applied to senior managers, less commonly to other white-collar employees, and least commonly to blue-collar workers.[9]

IPRP impacts on productivity in two different ways. Compared with input-based compensation, such as fixed hourly wages or monthly salaries, it is predicted to elicit greater effort among employees[10] and to attract and retain more productive workers.[11] The effectiveness of IPRP is moderated by the costs of performance monitoring. It has been found to be most effective when performance can be objectively measured, less so when performance criteria are ambiguous, tasks diverse, and when evaluations involve the subjective assessment of a supervisor.[12] Lazear, for example, shows that the introduction of a piece-rate compensation system for 3,000 workers in a large auto glass company resulted in an average productivity gain of 44%, about half of which he attributed to workers exhibiting greater effort and the other half to the firm's improved ability to hire and retain more productive workers. He states that the case of the auto glass company "is one

[6] This argument is supported by empirical research which finds that the correlation between the valence attached to pay and performance is significantly greater in a sample of factory supervisors with a high degree of perceived performance-pay instrumentality than in a sample of low-instrumentality supervisors (Orpen, 1976). Elsewhere, it has been shown that the ability to mediate rewards impacted on supervisory influence and power within an organization (Greene and Podsakoff,1981). Generally, reviewers of expectancy theory have concluded that the theory is sound (Oliver, 1979).

[7] Williams (1998).

[8] Fletcher (1997).

[9] IMS (1992), Institute of Personnel Management (1992).

[10] Lawler (1971), Leventhal (1976), Locke et al. (1980), Jenkins et al. (1998), Stajkovic and Luthans (1997).

[11] This is an agency theoretical prediction: Cf. Jensen (2003); also Landau and Leventhal (1976), Levinthal (1978), Lazear (1986, 1996), Gerhart and Milkovich (1992), Gerhart and Rynes (2003), Trevor et al. (1997), Harrison et al. (1996).

[12] Brown (1990), Bishop (1987), Eisenhardt (1988), Bevan and Thompson (1991), Meyer et al. (1965), Lawler (1971), Medoff and Abraham (1980).

where the case for piece rates seems especially strong" whereas "managerial and professional jobs may not be as well suited to piecework."[13]

The inability of raters to make accurate assessments may spring to mind as an explanation for the limited effectiveness of IPRP in the context of subjective performance measures. According to the evidence, an inability to rate accurately may, however, not be the cause of the problem. Rather, raters would actually be in the position to make sufficiently accurate subjective performance assessments but they deliberately adjust their ratings upwards to avoid nonconstructive responses of ratees with **heightened self-images**. The literature indicates that, on average, people do not think of themselves as average. A survey of the employees of a large international corporation finds that, *on average*, people think they are outperforming 75% of their peers.[14] The survey also finds that they think of themselves more highly, the higher up they are in the organizational hierarchy. Similar results were obtained by other studies, including the finding that overestimation of one's own abilities is especially pronounced and prevalent among managerial and professional employees.[15] In a survey of 984 engineering employees of two large high-technology companies, 32% of the employees in one company and 42% of the employees in the other company "placed their performance in the top 5% relative to their peers in Company A or B. Only one respondent felt his or her performance was below average."[16] In another study, 75% of employees voted in favor of introducing IPRP in their company. Seventy percent of those voting in favor of IPRP were at that time rated as 'superior performers.' That is, people voted in favor of IPRP expecting that they were among the top performers who would receive a financial reward.[17]

Given a limited pay budget, the administrators of IPRP schemes usually cannot permit three quarters of the participating employees to be rated in the top category, as it would defeat the purpose of IPRP. Consequently, if the majority of employees believe that they perform better than average, accurate performance ratings for IPRP will clash with the self-images of a considerable number of employees and in the perceptions of inequitable pay. Such perceptions have been shown to result in nonconstructive responses including resistance, denial, aggression, and discouragement,[18] low effort, turnover, job dissatisfaction, poor interpersonal relations with colleagues, and sabotage,[19] as well as in significant and permanent decreases in organizational commitment.[20]

[13] Lazear (2000, p. 1358).
[14] Meyer (1980).
[15] Review by Meyer (1975).
[16] Zenger (1992, p. 202).
[17] Wright (1991).
[18] Drenth (1984).
[19] Literature review by Zenger (1992).
[20] Fletcher (1997).

If the appraisal system permits it, there is a tendency among appraisers to preempt such nonconstructive responses by accommodating to people's heightened self-images in the ratings. Such rating practices have been evidenced by studies that find administrative ratings to be significantly more lenient than ratings for other purposes.[21] Thereby, raters may avoid nonconstructive responses. However, they also defeat the purpose of performance-related pay. Employees who do outperform their peers will eventually realize that those putting in less effort obtain the same rewards as them. Not before long, they will cease to invest more than what is necessary to obtain the pecuniary reward.[22]

Another explanation for the limited effectiveness of IPRP in complex job environments has been said to be a substitution of intrinsic motivation through extrinsic motivation generated by paying for performance.[23] In the words of Slater: "Getting people to chase money . . . produces nothing but people chasing money."[24] Performance-related pay focuses employees on those aspects of performance that are rewarded – as intended – but it also leads them to cease exercising their judgment in weak context situations and, thus, to a neglect of any aspects of performance which are not rewarded. Baker et al. write that pay-for-performance systems "are not ineffective but rather too effective: strong pay-for-performance motivates people to do exactly what they are told to do."[25] The empirical literature also supports the notion that IPRP motivates in-role performance while discouraging behaviors not linked to rewards.[26]

Hence, according to the empirical evidence and the various reasons for why IPRP may not work under certain circumstances, it can be deduced that its use should be restricted to jobs for which all aspects of performance can be specified comprehensively and in advance and objectively evaluated ex post – jobs which resemble those of, say, blue-collar workers but not the complex, fluid roles of managers. Nevertheless, the empirical evidence indicates that IPRP is most commonly applied to senior managers and least commonly to manual workers.[27] This apparent contradiction warrants some further exploration.

One possible explanation for the widespread use of IPRP among senior managers is that the probability of future promotion is relatively low at the top of the organizational hierarchy. Hence, performance-related pay becomes more important as an incentive in lieu of promotion opportunities.[28] Another possible explanation is that the observed relative frequencies do not so much reflect the economic interests

[21] E.g., Jawahar and Williams (1997), cf. Sect. 3.2.

[22] Vroom (1964).

[23] Deci (1972).

[24] Slater (1980) cited in Baker et al. (1988, p. 596).

[25] Baker et al. (1988, p. 597).

[26] E.g., Wright et al. (1993), Oliver and Andersson (1995), Morrison (1996), George and Jones (1997).

[27] Williams (1998), IMS (1992), Institute of Personnel Management (1992).

[28] Lopez et al. (2006).

of the organization as the personal preferences of the respective employee groups. Studies on the preferences of employees with regard to different types of rewards support the notion that the propensity to take risks related to pay is conversely correlated with the rank in the organizational hierarchy. Employees at lower levels of the hierarchy value pay and security more highly and higher-order rewards such as opportunities for personal growth and promotion less highly than employees at higher levels of the hierarchy. Those at higher levels of the hierarchy are more willing to accept the risk inherent in pay-for-performance because they already have a relatively high level of regular income. They value potential gains more highly relative to potential losses than junior employees.[29] Hence, the personal interests of the different employee groups may result in pay practices that are not in the economic interest of the organization. Such arrangements may be viable where the market conditions are not so competitive that the product and capital markets would penalize (perhaps relatively minor) economic inefficiencies.

Trade unions may facilitate the limited use of IPRP among workers. An analysis of trade union agreements in Australia illustrates blue-collar unions' propensity to restrict pay increases to a job classification structure, finding performance-related pay difficult to embrace. White-collar unions merely appear to be "not totally opposed."[30] British and Irish studies have also suggested that pay-for-performance systems are seen to undermine trade union influence in the pay-bargaining process, adding to the unions' opposition to performance-related pay.[31]

In the light of this, the managers representing the organization in pay bargaining may regard an accommodation of the employees' preferences for fixed pay a relatively minor sacrifice – in particular, as the value of shifting the pay mix from fixed to performance-related pay may be difficult to measure. Likewise, those responsible for determining the compensation of senior managers may be tempted to grant them performance-related pay (on top of the fixed salary), despite the above-described ramifications, which, again, may be difficult to pin down anyhow. If it is the senior managers themselves who determine their own compensation package, it may also be easier for them to obtain the permission from the funders of the organization for increments that are performance-based than for fixed increments. Thus, IPRP is used when the theory suggests it should not be used and vice versa. If the theory is right, there are hidden economic gains which could be realized at no financial cost. The pressure to realize these gains will be greatest in competitive industries with no surplus profits or with capitalists who threaten to shift their capital to more economic organizations.

Group- and organization-performance–related pay systems are, on average, more effective in improving productivity than IPRP; for example, profit sharing, stock ownership, stock options, and bonus payments linked to group outcomes.[32]

[29] Lawler (1971), Lopez et al. (2006), Bellenger et al. (1984).

[30] Henley and Nguyen (2005).

[31] Heery (1997), IRS (1999), Gunnigle et al. (1998).

[32] Review by Ehrenberg and Milkovich (1987).

They relate to unit outcomes which can be objectively measured and the relevance of which is not debatable. The issue with this type of incentive is the free-rider problem; that is, employees who exert less effort obtain the same rewards as everyone else in the unit. The reason that these incentive systems, nevertheless, seem to be effective is that they encourage mutual monitoring among the employees. In some cases, they may result in an over-monitoring problem if "workers prefer monitoring others to working themselves" and if shirking behavior is "observed and reported by dozens of coworkers even when it is more efficient to appoint a single monitor."[33] Mutual monitoring may be especially apt where individual contributions are difficult to observe by a single supervisor while coworkers are in a better position to evaluate them, for example, if individual contributions are highly interdependent and cannot be disentangled by a supervisor. In contrast, if individual performance can be defined and observed by a single supervisor, the mutual monitoring processes induced by group- or organization-performance–related pay is likely to be less efficient than the targeted control processes associated with IPRP.[34]

Taking a step back from performance-related pay, **basic pay** is also to be considered a compensation or reward for the performance delivered by the employee according to explicit or implicit standards. The set of mutual expectations of what constitutes acceptable performance and material and immaterial rewards is conceptually captured by the psychological contract.[35] The expectations about mutual obligations may stem from various sources, including explicit statements in written and oral contracts, social cues given by members of the organization or wider society, industrial standards, and the actors' "internal interpretations, predispositions, and constructions."[36]

In industrial/clerical employment systems, for example, the standards for the employee's contributions have traditionally been defined in terms of a detailed description of the tasks that must be carried out and the amount of time to be spent on each task. This is referred to as *job-based pay*. An alternative to job-based pay is competency-based pay, "in which employees are paid for their demonstrated competencies,"[37] enabling a more flexible deployment of employees. That is, competency-based pay is used if it is not possible to specify the tasks of a job in advance.[38]

Hence, even without performance-related pay, performance appraisals may have material consequences. If employees do not meet the minimum standards associated with implicit or explicit contractual obligations, they may be dismissed, demoted, or denied a basic salary increment. Real wage decreases have been found

[33] Baker et al. (1988, p.606).

[34] Baker et al. (1988).

[35] Rousseau (1995, p.5).

[36] Rousseau (1995, p.34).

[37] Jahja and Kleiner (1997, p.24).

[38] Cf. Sect. 4.2.

to be not uncommon in practice; demotions, however, are rare.[39] Conversely, an employee who is seen to consistently exceed the obligations may be promoted, entering a new contract with different obligations on both sides. Promotions are associated with wage increases[40] and, therefore, can be considered a **deferred reward** – if the promotion decision is related to past performance, that is.

The effectiveness of promotions as an incentive depends on the likelihood of promotion for a given employee, which, in turn, depends on factors such as organizational growth, employee turnover, and the number of managerial positions and layers within the organizational hierarchy. The increased prevalence of IPRP during the 1980s must be seen in a context of flattened hierarchies and consequently fewer promotion opportunities. The promotion incentive had become less effective. Consequently, it was substituted by IPRP. The likelihood of promotion also depends on a number of personal, nonstructural factors, such as the age of employees one level above in the hierarchy and the abilities of individual employees compared to their peers who compete with them for promotion.

Regardless of any of these factors, generally, a smaller number of employees can be rewarded with promotion than with IPRP. There is no incentive to perform beyond promotion standards; and candidates who perceive their chances of promotion to be comparatively low may not be motivated by promotion incentives at all. Furthermore, promotion decisions may also have to take into account criteria unrelated to past performance, such as the competency requirements of the new job. They may sometimes differ from those of the old job, in which case the best performers on the old job may not necessarily be the best candidates for the new job.[41] An advantage of the promotion incentive is that it is less damaging than IPRP to the self-images of those who are not rewarded. Employees who are not promoted may always regard themselves top performers who have just come a close second in the promotion tournament.[42]

Besides monetary rewards and sanctions, managers should have a range of **nonmonetary rewards** (and sanctions) at their disposal. They may include recognition and praise, exposure to senior managers, increased responsibility and autonomy, prestigious foreign and project assignments, sabbaticals, enhanced job titles, 'employee of the year' awards, and photo posts of outstanding employees. Allowing participation in trainings and other development activities may also be understood as rewards.[43] It has been argued that nonfinancial rewards are advantageous compared to financial rewards and sanctions because they are less permanent, especially compared to merit pay increments, and therefore less likely to incur nonconstructive responses.[44] On the other hand, the fact that employees react less

[39] Baker et al. (1994a, 1994b), Gibbons and Waldman (1999).

[40] Medoff and Abraham (1980), Baker et al. (1994a, 1994b), Gibbons and Waldman (1999).

[41] Cf. Sect. 3.1.2.

[42] Baker et al. (1988).

[43] Cf. Sect. 3.1.3.

[44] Fletcher (1997).

intensely to the (non)receipt of nonmonetary rewards may also indicate that they do not value them as much as monetary rewards and that the impact on motivation is accordingly weaker.[45] Research on the valence attached to different forms of rewards by sales people supports this argument, showing that pay rises were among the most preferred and recognition among the least preferred rewards.[46] If it is true that extrinsic motivation substitutes intrinsic motivation, the value of recognition and other nonmonetary rewards may be lower for sales people than for other occupations, as the compensation of sales people typically includes a large commission-based component.[47]

The value attached to nonfinancial rewards may differ between individual employees. Ambitious employees may regard exposure to senior managers or foreign assignments as a step toward promotion and deferred compensation. Others may feel uncomfortable being exposed to senior managers or perceive foreign assignments as a burden to them and their families. Nonmonetary rewards may provide managers with a great deal of flexibility, but they also require sensitivity to the differing needs of people. If used sensitively, they may indeed have advantages over financial rewards in that the receipt of one type of reward by some employees is less likely to be experienced as a defeat by others who did not receive or desire the same treatment. Furthermore, if a manager has some imagination, nonmonetary rewards are not limited as an IPRP budget or the number of positions available for promotion. Some managers may devise a virtually unlimited number of different ways to please the idiosyncratic needs of their employees and signal appreciation of performance behavior. The flipside of this is a lack of ability to standardize these kinds of rewards and to integrate systematically their use into the design of appraisal systems. Moreover, not all managers may possess the sensitivity or judgment abilities required to effectively administer such rewards.

Managers and supervisors have different rewards and sanctions at their disposal to exercise control over their staff. What kind of sanctioning power a supervisor requires to exercise effective control, it has been argued, depends on the **stability of the authority structures** of an organization. The empirical evidence suggests that authority structures need to be strengthened by providing the supervisors with additional sanctioning powers if the flow of staff into, through, and out of the organization, unit, or team is rapid.[48] The sanctioning power of supervisors may be strengthened by making valued outcomes such as pay, promotions, or both depending on their assessment and by giving them discretion in the appraisal process, for example, by using a management-by-objectives system in which the supervisors have the final say about what constitutes desirable performance. By contrast, if the turnover of employees is slow, authority structures have been found to be stable.

[45] As it will be the case if a performance-related pay component is too small.

[46] Lopez et al. (2006), also cf. Chonko et al. (1992), Churchill et al. (1979), Ingram and Bellenger (1983).

[47] Cf. Deci (1972), Baker et al. (1988).

[48] Halaby (1978), Greene and Podsakoff (1981).

Under such circumstances, nonmonetary rewards may be quite effective, facilitating, for example, that promotion decisions are made on the basis of assessment center ratings rather than supervisory performance appraisals.

Thus, one purpose of performance appraisals is to monitor performance and exert control over employees, that is, align their behaviors and outputs with the goals of the organization. Appraisals used for this purpose must be linked to the administration of a valued reward, including deferred and immediate pecuniary rewards and nonpecuniary rewards. The choice of the type of reward depends on the availability of objective performance standards and measures, the personal preferences and market powers of the employees, the likelihood of promotion, and the stability of the authority structure.

3.1.2 Staffing/Predicting Performance

"Staffing involves linking human knowledge, skills, abilities, and dispositions to the demands of the work setting."[49] Staff movements into and out of the firm (supply flow) are distinguished from movements across job assignments and through positions within the firm (assignment flow).[50] Thus, the term "staffing" encompasses a wide range of activities, including the recruitment and selection of new hires, assigning jobs, planning career paths, promoting employees, demoting them, and dismissing them.[51]

The role of performance appraisal in the staffing process is twofold. Firstly, staffing decisions may represent valued rewards or sanctions, especially, if they involve vertical movements within or out of the organizational hierarchy. In that sense, they can enforce a control purpose of the appraisal. Secondly, performance appraisals may be used in the context of staffing decisions to assess the likely fit between different candidates and the requirements of the position that is to be staffed for.

Staffing on the basis of past performance may not result in optimal decisions with regard to future performance if the competency **requirements of the old and the new position** differ (Fig. 3.1). Distinct differences in skill requirements have, for example, been evidenced empirically for salespeople and sales managers, leading to performance deficiencies among salespeople who were promoted to sales manager on the basis of sales performance.[52] Promoting on the basis of past performance may also result in a problem which is illustrated in the chart below. In organizations such as law firms, the competency requirements are similar for entry-level employees (associates) and middle managers and are different between

[49] Ilgen and Pulakos (1999, p. 4).

[50] Sonnenfeld and Peiperl (1988).

[51] Cf. Heinzer (1976).

[52] Anderson et al. (1999).

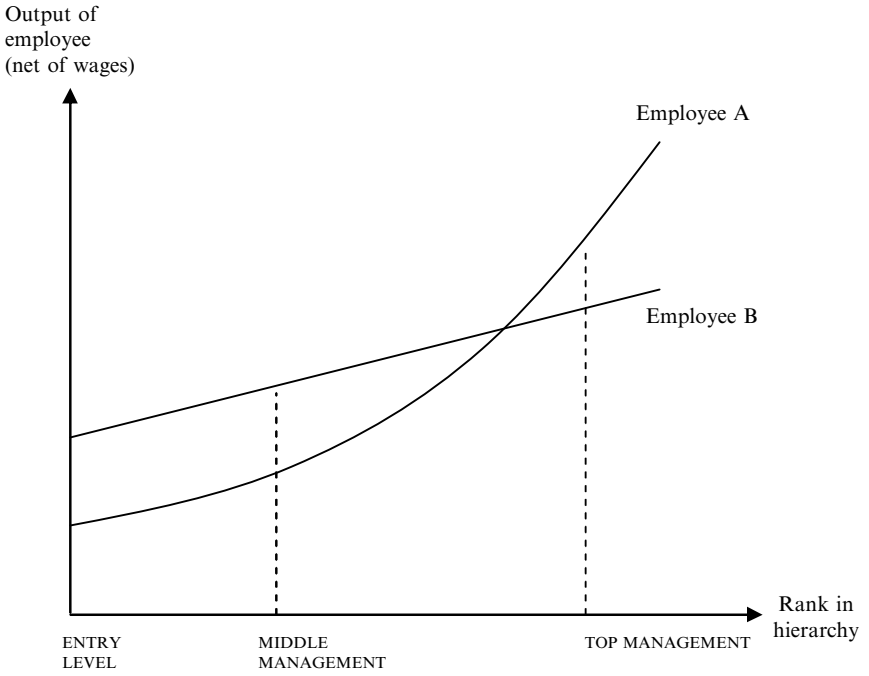

Fig. 3.1 Competency requirements and rank (Baker et al., 1988, p. 603)

associates and middle managers on the one and top managers on the other hand. If only top-performing entry-level employees were promoted to middle management and only the best-performing middle managers to top management, some employees with the competencies required for top management would be selected out of the promotion tournament already at the first promotion step. Consequently, law firms promote those associates to their middle management who are likely to be the best partners and not necessarily those who perform best at associate level. As a further consequence, associates may seek to display behaviors associated with effective partners rather than (or, ideally, in addition to) behaviors associated with effective associates and middle managers. It seems that it is preferable for those firms to optimize performance at partner level partly at the expense of performance at associate and middle manager level.[53]

The practice of promoting employees to their level of incompetence is referred to as the **Peter Principle**.[54] This practice was recently discussed in the personnel economic literature, as different interpretations of the phenomenon have been explored. The most common interpretation is that employees who are good at one job are not necessarily good at all other jobs, including the one which they are

[53] Baker et al. (1988).

[54] Peter and Hull (1969).

promoted to.[55] Another interpretation is that too many workers are promoted when promotions rather than immediate pecuniary rewards are used as incentives, resulting in too low standards for promotion.[56] Yet another interpretation is that the employee's effort plummets after the promotion tournament has been decided.[57] Finally, it has also been suggested that there is a transitory component to performance, which, similar to a random error term, is high in some performance periods and low in others. According to that interpretation, the Peter Principle would simply represent a regression to the statistical mean.[58] The problems that are associated with the Peter Principle are exacerbated as employees are rarely demoted after having been promoted to their level of incompetence. Whereas the 'competent' employees are promoted again soon, the 'incompetent' ones often remain in positions they are not suitable for over many years, affecting their own well-being and the effectiveness of the organization. Hence, following the most common interpretation of the Peter Principle, organizations should avoid making staffing decisions on the basis of past performance when the positions to be staffed require different competencies. According to the other interpretations, the decision makers of organizations may also want to avoid lowering standards for promotion in order to reward more employees with promotion and seek other forms of reward instead. If performance fluctuates over different performance periods, organizations may wish to minimize the impact of the transitory performance component by taking into consideration performance assessments over several performance periods as a basis for their staffing decisions.

If competency requirements differ between the levels in the organizational hierarchy, a fit between the competencies of promotion candidates and job requirements at more senior levels can be assessed using, for example, assessment centers or career review panels. *Assessment centers* usually take place over one or more days during which role plays, group exercises, case studies, and other tests are conducted to reveal the participants' competencies or their potential to develop certain competencies. Tests may simulate challenges of the role to be staffed for or they may observe performance on general learning tasks, predicting the candidates' ability to develop necessary competencies in future. *Career review panels* consist of senior managers and human resource managers who interview promotion candidates and review various documents about the candidates, such as reports written by their supervisors, performance ratings, their curricula vitae, and other inputs from people who are familiar with the candidates' performance. They convene typically annually or biannually to make promotion decisions and draw up long-term career plans for managerial staff. They are, especially, used for deciding about staffing and career development in the context of senior managerial positions.[59]

[55] E.g., Anderson et al. (1999).

[56] E.g., Fairburn and Malcolmson (2000).

[57] Lazear and Rosen (1981).

[58] Lazear (2003).

[59] Cf. Fletcher (1997, p. 122).

Organizations that staff with a view to optimizing the fit between job requirements and individual competencies must define the **job-requirements** prior to the assessment of individual competencies. If the tasks to be performed on a job are known in advance – that is, if the task fluidity is low – the task requirements can be defined by conducting a job analysis. Various job analysis methods are described in Sect. 4.1.

Jobs such as those of managers are nonroutine, involve a high degree of task fluidity, and can be approached differently by different incumbents depending on their idiosyncratic perceptions, experiences, and skills.[60] Staffing criteria that predict performance across different tasks must be defined.[61] The construct *contextual performance* encompasses interpersonal behaviors and organizational citizenship behaviors, which have been argued to be performance relevant across different jobs.[62] An appraisal of contextual performance on one job may represent a valid predictor of contextual performance on other jobs. It does not, however, cover task-related performance abilities. A broader predictor of all aspects of performance is cognitive ability and certain personality traits, including conscientiousness and, for managerial jobs, extraversion.[63]

Several studies have demonstrated a relation between performance and the personality fit of employees with their teams.[64] Fit is either supplementary or complementary.[65] Supplementary fit is given if employees possess characteristics or abilities similar to those of their colleagues, complementary fit if they contribute something which a team has previously been lacking. When it comes to personality traits, it is supplementary personality fit which has been shown to correlate with performance. That is, teams with a homogeneous personality structure perform, on average, better than teams with a more diverse range of personality traits.[66]

Personality fit is, especially, relevant in jobs such as those of a generalist manager, who has been argued to be "a skilled interpersonal actor in a complex web of political, social and economic ties."[67] Managers have been said to function less as individual decision makers than as members of a team.[68] The abilities to manage decision processes, maintain participation, and achieve consensus have been argued to be critical[69] and to depend on a manager's integration into the team.[70]

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[60] Szilagyi and Schweiger (1984).

[61] Murphy (1994).

[62] E.g., Williams (1998), Borman and Motowidlo (1993).

[63] Cf. Sect. 4.2.

[64] Sekiguchi (2006), Kerr and Jackofsky (1989), Murphy (1994), cf. Sect. 4.2.

[65] Muchinski and Monahan (1987).

[66] Ployhart et al. (2006), cf. Sect. 4.2.

[67] Kerr and Jackofsky (1989, p. 164).

[68] Hambrick (1987), Kerr and Jackofsky (1989).

[69] Bourgeois (1980), Dess and Origer (1987).

[70] Kerr and Jackofsky (1989).

In that context, it has been suggested that selection and staffing decisions should be replaced by 'classification decisions,' assigning employees to teams on the basis of personality fit and letting the teams work out specific role or job assignments.[71] Such an approach, which has been successfully adopted by the military, is suggested to offer potential for significant performance and productivity increments because of better personality fit.[72] A potential disadvantage of this approach may be that it is legally less defensible than approaches to staffing based on a purely task-oriented job analysis.[73] That is, it may be relatively costly if applied to staff categories with a high litigation rate.

Thus, the demands placed on appraisal systems by staffing processes hinge on the extent to which the competency requirements of different jobs within a given ILM system differ. Given differences in competency requirements, staffing systems may require future-oriented competency assessments rather than appraisals of past performance. Depending on the degree of task fluidity, they may require information either about concrete task-related performance abilities or about more task-independent abilities and traits, such as contextual performance, cognitive ability, conscientiousness, extraversion, and personality fit with a team or network. With high levels of task fluidity, it is also conceivable that observed performance, which may indicate competency, is transitory. To avoid promoting staff to their level of incompetence, competency assessment should be made robust, for instance, by basing it on more than only a single or few instances of observed, competency-indicating performance.

3.1.3 Development Feedback

Employee development is defined as the processes through which employees acquire new behaviors, skills, knowledge, attitudes, and motives, increasing their value to their organization and/or on the labor market.[74] Development may take place through formal training and education or on the job, possibly through a targeted sequencing of job assignments, that is, *career pathing*. The development of attitudes and motives is part of socialization processes, which take place on the job, during training, and social events.

Development processes may be initiated by supervisors and mentors of employees. If the importance of employee development is to be emphasized, supervisors may be required to conduct **regular and formal assessments** of the development needs of their employees. This not only prevents feedback and development activities being neglected by busy managers, but may also support the right

[71] Murphy (1994).

[72] Zeidner and Johnson (1994).

[73] Murphy (1994).

[74] Kerr and Jackofsky (1989), Boswell and Boudreau (2002).

development goals being pursued.[75] Development needs may be formally assessed as part of the regular performance appraisal or in a development center, which represents a systematic assessment of individual development potential and needs akin to assessment centers. Assessments of individual development needs may focus on the identification of the appraisee's strengths and weaknesses, the potential to further develop existing strengths, and the need to close any competency gaps. The competency requirements of current and possible future roles may have to be taken into account. Development plans and learning goals may be established as part of the appraisal.

As far as development activities contribute to the development of skills needed for promotions and future better paid jobs, they may be perceived as valued rewards. The development of generic, transferable competencies may explicitly be regarded part of an employees' compensation.[76] If employees value training activities as a nonpecuniary reward, supervisors may administer them in a competitive fashion, supporting a control purpose of performance appraisal.

Usually, however, developmental appraisals are seen to serve a **purpose** separate from exercising control over employees. The purpose can be circumscribed as exerting a systematic influence on the development of the competencies and the potential available in a firm. Similar to appraisals for staffing purposes, developmental appraisals serve to improve the fit between role requirements and available competencies. Unlike appraisals for staffing purposes, they are not concerned with the *allocation* of given competencies to jobs but with *shaping* the competencies to optimize the match with current and future job requirements. There are links between staffing and developmental appraisals. Development plans may, for example, be made in response to staffing decisions, preparing employees for designated job postings. Vice versa, some staffing decisions may be made as a reaction to the specification of development needs, for example, management trainees requiring exposure to a particular function or environment in order to overcome specific competency deficiencies.

Appraisals used for developmental purposes have been suggested to provide a basis for *within-person decisions* as opposed to the *between-person decisions* that are made on the basis of administrative appraisals.[77] One could argue that strengths and weaknesses are always relative to the performance of everyone else and that, therefore, there is always a comparative element to assessments made for so-called within-person decisions. Nevertheless, it is probably fair to say that administrative appraisals place a greater emphasis on the comparative element while developmental appraisals focus more on how individual capabilities differ across different performance dimensions. Developmental appraisal purposes have also been said to emphasize a forward-looking perspective and deemphasize retrospective assessment.[78]

[75] Cascio (1987).

[76] Becker (1962).

[77] Cleveland et al. (1989).

[78] Fletcher (1997).

Development has further been suggested to represent an alternative to hiring people from outside the organization and matching them with jobs.[79] Elsewhere, development and selection are regarded alternative means of aligning managers with corporate strategies.[80] It is predicted that development will be the preferred means of aligning managers with corporate strategies in environments exhibiting a high level of interdependence and fluidity. Constantly changing role requirements and different approaches of individual managers based on personal experiences and strengths make the specification of tasks difficult, rendering the matching of persons and jobs through selection inhibitively expensive. Conversely, it is proposed that developmental activities such as mentoring and socialization may undermine objectivity and inhibit coordination flexibility where there is little need for cross-fertilization of employees specifically in the case of functional experts. In such instances, an *attraction–selection–attrition* approach is suggested to be most likely to be effective and cost efficient.[81]

The demands placed on the appraisal system by the employee development system of an organization depend on the value attached to individual development. The more value attached to it, the more likely it is that the firm invests in regular and formal assessment of development needs. Formal developmental appraisals may be conducted in environments with a high degree of fluidity and interdependence. According to human capital theory, organizations should also invest more in the development of employees if the developed competencies are organization-specific. If the job context is less fluid and interdependent, and if the developed competencies are generic, the organizational competency alignment can be expected to rely to a greater extent on attraction–selection–attrition processes.

3.1.4 Systems Evaluation

A fourth purpose of conducting performance appraisals is the evaluation of organizational systems and practices, for example, validating selection instruments or assessing the impact of training.[82] Selection instruments are assumed valid if performance levels predicted by the instrument correlate with actual performance. The impact of a training course can, for instance, be evaluated by comparing performance ratings before and after the conduct of the training. If one finds a statistically significant increase in the course participants' ratings on relevant performance dimensions, one may assume that the course was effective – provided the increase has set in only after the course and that the same increase in performance ratings is not found among employees who did not participate in the course.

[79] Campbell (1999).

[80] Kerr and Jackofsky (1989).

[81] Schneider (1987).

[82] Cleveland et al. (1989).

Using appraisals in this way places demands on the appraisal system design. Performance must be rated on a numerical, cardinal scale for each performance dimension and for aggregate performance.[83] Performance ratings must be reliable; that is, each rater must apply the rating system in the same, consistent manner. This may be given either if performance is objectively measurable or if raters are effectively trained for consistent use of the appraisal system, for example, using frame-of-reference training.[84]

Systems evaluation is the appraisal purpose which is used least frequently in practice,[85] possibly owing to a lack of reliable performance measures and cardinal scales. Appraisals conducted for systems evaluation purposes differ from the previous appraisal types in that they do not have an immediate impact on individual employees.

3.2 Appraisal Purpose Conflict

In practice, appraisals are often conducted for both administrative and developmental purposes at the same time.[86] A survey of 106 US firms finds that in 70% of the firms "performance appraisal had at least a moderate impact on both between- and within-individual comparisons."[87] Only 17% responded "that appraisal had a somewhat substantial impact on one type of comparison (e.g., between-individuals) and a small impact on the other (e.g., within-individual)."[88]

At the same time, there is an extensive body of research suggesting that administrative and developmental appraisal purposes are in conflict and that using one appraisal system to cater for both purposes will affect the achievement of at least one purpose for the following reasons.[89]

Whenever there is an administrative purpose involved, appraisees are less likely to respond to criticism in a constructive manner. **Nonconstructive responses** to negative evaluations range from denial and aggression through poor interpersonal relations and decreased commitment all the way to sabotage.[90] They have also been

[83] On cardinal scales, the value difference between rating categories is equal. On a cardinal scale from one to three, for example, a difference between one and two is equally valued as a preference between two and three. This contrasts with an ordinal scale from one to three, on which a difference between one and two is not necessarily of equal value to a difference between two and three.

[84] Cf. Sect. 5.6.

[85] Cleveland et al. (1989).

[86] Drewes and Runde (2002).

[87] Cleveland et al. (1989, p. 133).

[88] Cleveland et al. (1989, p. 132).

[89] Bernadin and Beatty (1984), DeNisi et al. (1984), Longenecker et al. (1987), Murphy et al. (1984), Murphy and Cleveland (1995), Williams et al. (1985), Zedec and Cascio (1982).

[90] Drenth (1984), Zenger (1992), Fletcher (1997).

found to impact on attitudes toward the appraiser, work group, and (less likely but significant) attitudes toward the organization. Reduced feelings of association have, in turn, been found to negatively affect individual, group, and organization performance.[91]

To avoid such consequences, appraisers tend to rate especially leniently if ratings are used for administrative purposes.[92] A meta-analysis of 22 studies on appraisal purpose found that the ratings for administrative purposes were, on average, one-third of a standard deviation above those for other purposes.[93] One of the reviewed studies, involving 223 supervisors in a Fortune-500 company finds that the **differential leniency effect** does not affect the ratee rank order, suggesting that leniency does not matter that much after all.[94] However, even if it does not affect the ratee rank order of aggregate appraisal ratings, leniency leads to systematic range restrictions and criteria contamination.[95] In other words, only a small range of different performance levels are distinguished at the top end of the rating scale, which may result in dissatisfaction among good performers who are rated in the same performance category as average performers. Furthermore, in order to arrive at a lenient aggregate rating, raters have to fudge ratings on the constituent performance criteria. This is usually not done such that ratings are raised in equal measure across all performance dimensions. Instead, the raters selectively overrate performance dimensions that involve subjective judgment, that are not observable by outsiders or that allow for distortions to go unnoticed for other reasons. Hence, range restriction and criteria contamination affect the appraiser's ability to assess accurately the appraisee's strengths and weaknesses for developmental purposes.

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[91] Drewes and Runde (2002), Boswell and Boudreau (2002).

[92] Differential leniency effects contingent on the appraisal purpose have been supported by numerous studies. Taylor and Wherry (1951) were the first who hypothesized that ratings obtained for administrative purposes are more lenient than ratings obtained for research or developmental appraisal purposes.

[93] Jawahar and Williams (1997). Some individual studies find mixed results with regard to a performance appraisal effect on leniency. For example, Kraiger and Ford (1985) and Murphy et al. (1986) do not support such an effect. The deviating findings of these studies can be attributed to the study design. Kraiger and Ford, for example, use appraisal purpose as a moderator in a study examining the effects between race and appraisal ratings. The fact that appraisal purpose does not moderate the relationship between race and ratings does not permit the conclusion that there is no effect of appraisal purpose on leniency in general. Murphy et al.'s findings are based on "paper people" in an experimental study. Of course, raters do not expect the same non-constructive responses from paper people which raters expect from real subordinates they have to work with on an ongoing basis. Jawahar and Williams' (1997) review provides strong support for the notion that the research setting moderates the appraisal purpose effect on leniency, with the effect being considerably stronger for field settings than for experimental designs (cf. also Bernadin and Villanova, 1986). Evidence for the differential leniency effect is also provided by studies on multi-source feedback: Multi-source feedback ratings given as input to administrative appraisals were found to be more positive than those solely used for developmental purposes (McEvoy and Buller, 1987; Pollack and Pollack, 1996).

[94] Harris et al. (1995).

[95] Jawahar and Williams (1997).

Researchers in cognitive psychology propose that appraisers use **different cognitive processes** depending on which of the two primary appraisal purposes they have in mind. Observation, storage, and integration processes seem to differ depending on whether the information is used to identify strengths and weaknesses of performers with a view to helping them improve future performance, or whether it is used for comparative purposes, distinguishing different levels of overall performance in hindsight. Appraisers who process performance information with an administrative purpose in mind will be accurate in making comparisons between different performers and less accurate in identifying strengths, weaknesses, and development potential. If appraisers expect a developmental use of the ratings, they will process information such that they are accurate in identifying potential for development but not in distinguishing overall performance levels of different employees. The evidence indicates further that one of the cognitive processing modes will always dominate and deemphasize the other purpose. It is not possible for appraisers to process the performance information in a way that optimizes both evaluative and developmental appraisals. In the majority of cases, the administrative purpose seems to be the dominant purpose, with the administrative consequences of appraisal looming large. A neglect of developmental actions is perceived to be less consequential. Hence, with a dual appraisal purpose, information is likely processed in ways which affect the accuracy of development need assessments.[96]

In summary, a dual appraisal purpose is especially likely to affect the developmental uses of appraisal, fostering nonconstructive responses to critical feedback, range restriction, criteria contamination, and inaccurate assessments of development needs, because cognitive processes are focused on the administrative purpose. Thus, if an organization declares that its appraisal system should be used equally for administrative and developmental purposes, it is likely that the resulting appraisal system will, in practice, primarily serve the administrative purpose.

Given the evidence for conflict between administrative and developmental appraisal uses, it seems surprising that 70% of the firms in the above-mentioned study used appraisal for both purposes.[97] Apparently, the managers of these organizations perceived a need to make both administrative and developmental decisions based on formal appraisal. Assuming that a dual appraisal purpose is inevitable at least for certain staff categories, one may consider **separating the conflicting purposes**. A separation is conceivable with regard to one or more aspects of an appraisal system, including the assessment dimensions, the assessment environment, the appraisers, and the timing of different types of appraisals.

Concerning a separation of assessment dimensions, it is, for example, conceivable that developmental feedback is based on an assessment of behaviors and competencies whereas performance-related pay may be based on results. If flexible

[96] E.g., Murphy et al. (1982), Longenecker et al. (1987), Murphy and Cleveland (1985), Wiggins (1973), Williams et al. (1985), Lewis (2000).

[97] Cleveland et al. (1989).

goal setting systems are used, learning goals may be set relating to behaviors and competencies and separate performance goals relating to work outputs or outcomes.[98] Potential assessments may provide a basis for promotion and staffing decisions, conducted, for instance, in assessment centers or by career review panels. Usually, assessment centers and career review panels involve assessors other than the line managers of the participants. Thus, if unexpected low ratings in the assessment center cause negative sentiments toward the appraiser, they will neither affect the regular performance feedback nor the dyadic relationship between line managers and their staff. Assessment centers that focus on developmental purposes are referred to as *development centers*. Their outputs include career and development plans for all participants but not immediate promotion decisions. They may be used to separate developmental assessments from regular performance appraisals with an administrative focus.

Assessment centers and career review panels may aid in preventing appraisal conflict by separating the appraisal dimensions and by involving different appraisers. Alternatively, developmental and administrative appraisals may be conducted by direct supervisors and supervisors one level removed, respectively. A study of an organization with such an arrangement concluded that "direct supervisors and supervisors once-removed may be equally effective in providing reviews."[99] Supervisors once-removed are also less likely to be directly affected by any nonconstructive responses and, thus, less likely to rate leniently. A prerequisite for dividing up appraisals this way is that performance is measurable or observable by the senior managers. If their assessment depends on information passed on to them by direct supervisors, nonconstructive responses may be directed to the latter anyway. This approach is likely to be most beneficial where the direct superior's role is focused on development, coaching, and facilitating team processes. On the downside, it may also weaken the authority of supervisors, rendering this solution less suitable in the context of high levels of turnover and weak authority structures. It further increases the work load of the managers once removed, making it less practicable when there are large spans of control. Furthermore, senior managers may regard it their prerogative not having to play the unpopular role of the evaluator and make themselves a target for negative sentiments in response to low ratings.

Upward delegation of evaluative appraisal may result in a reduction of appraisal training costs. One of the stated objectives of the firm in the above study was to minimize the number of managers who need to be trained in conducting appraisals. As a result of making the supervisors once-removed responsible for all formal annual appraisals, the total number of (administrative) raters was reduced by 73%. The fact that only administrative raters participated in the rater trainings indicates that the importance attached to developmental appraisals was low. If appraisal purposes had been separated to strengthen employee development processes, the direct supervisors could also have been exposed to respective trainings. In the

[98] Seijts and Latham (2005), Fletcher (1997).

[99] Boswell and Boudreau (2002, p. 408).

studied organization, the approach was applied to production and distribution workers, customer service clerks, and staff-level personnel such as accountants and computer administrators. Managers were not subject to the same appraisal system.

A final means of separating administrative and developmental appraisal purposes is to conduct administrative and developmental appraisals at different points in time. Developmental feedback may be given more frequently and on a more informal basis, while administrative appraisals may be more formalized and given in regular intervals, for example, annually or biannually. A performance appraisal system which separated purposes in this way was tested by General Electrics in the 1960s. A much-cited study by Meyer et al. provides evidence of the advantageousness of this so-called *work planning and review method*, which led several companies to adopt this approach, albeit General Electrics decided not to adopt it on a wider scale.[100]

Thus, it has been argued in this section that organizational control, staffing, and development systems may place different demands on the appraisal system. The demands of control and staffing systems may be in conflict with those of the development system. As administrative purposes dominate developmental purposes, dual appraisal purposes will be detrimental primarily to the needs of the development system, generating nonconstructive responses to developmental feedback and reduced accuracy in determining the development needs of employees. Hence, if employee development is of primary concern to an organization, developmental appraisals should be separated in one of the ways outlined above.

3.3 Performance Management Configurations

The aim of this section is to derive demands of the control, staffing, and development systems on the appraisal system for each of the six employment modes described in the previous chapter. To that end, the control, staffing, and development systems are described for each of the employment modes, defining six configurations of HRM practices. The configurations represent a part of the overall HRM system in so far as they focus on subsystems of it that relate to the performance appraisal system and only touch on other HRM subsystems such as recruitment and selection systems. In that sense, the described system can be referred to as a performance management configuration. The six performance management configurations represent an extension of the six employment modes defined in Sect. 2.3. They are based on the theories used in Chap. 2 as well as on the concepts introduced in the current chapter so far. Additional concepts are introduced where they are relevant to the derivation of configurations for individual employment modes.

[100] Meyer et al. (1965), Lawler (2003).

3.3.1 Generalist Managers

According to the previous chapter, the function of generalist managers is to align the productive forces of their organization with the demands of the markets. This requires extensive organization-specific development. They have been referred to as the organizational memory as they harbor the implicit knowledge related to its competitive advantage and raison d'être.[101] They also require generic competencies associated with elite generalism to cope with the complexity of the architectural knowledge of an organization and broad and fluid job definitions. The recommended mode of control is focused on performance inputs. It involves the monitoring, selection, development, and maintenance of competencies associated with effective managerial performance and the socialization into broad organizational networks, providing direction and eliciting attitudinal commitment to the goals and values of the organization.

Developmental Appraisals of Management Trainees

The traineeship of generalist managers is a period of accelerated development and learning related to organizational processes at the beginning of their career within the organization. By being exposed to different functions and subsidiaries of the organization, they absorb information related to the functioning of the organizational architecture and build up their organizational network. Management trainees typically join the organization as university graduates. They not only need to learn about the particularities of their organization but also how to cope with the realities of the business world at large.

During such early stages of development, it has been argued that behaviors oriented toward the exploration and discovery of different task strategies have a positive impact on performance. Explorative behaviors, in turn, have been said to be elicited by so-called **learning goals**, that is, goals that focus on improving one's skills, knowledge, and abilities (SKAs) rather than on exerting effort. Learning goals have, for example, been shown to result in higher levels of performance than performance goals in a business strategy game conducted with students nationally by the US cellular telephone industry.[102]

Elsewhere, the SKAs required to perform a job have been identified as a moderator of the correlation between performance goals and performance.[103] The job-related SKAs are low during the early development stages on a job. Challenging performance goals have been argued to increase performance with learnt tasks, but also to increase stress, burnout, and unethical behavior when people lack the task strategies required to achieve the goals.[104] Hence, performance goals can

[101] Rousseau (1995, p. 96), cf. Nahapiet and Goshal (1998).

[102] Seijts and Latham (2005), cf. also Kanfer and Ackerman (1989).

[103] Locke and Latham (1990).

[104] Seijts and Latham (2005).

be expected to be less effective during early stages of development. In contrast, learning goals encourage individuals to take "the time necessary to acquire the knowledge to perform the task effectively."[105] Once the requisite performance strategies have been discovered and automated, performance goals become more effective than learning goals.[106]

Combining performance and learning goals during early stages of development, it is argued, does not result in effective learning or performance behaviors either. Due to limited cognitive and attentional resources, people are not able to attend to both the exploration of task strategies and the exercise of effort at the same time. They then typically spend too little time on exploring effective task strategies and focus on the performance goals too soon. The effect of setting combined goals during early development stages on a job is, hence, similar to that of setting performance goals only. It is suggested that learning instead of performance goals should be set during the generalist managers' trainee program – a period of intense learning for usually inexperienced junior employees. Learning goals are being used in the leadership development programs at companies such as Goldman Sachs, Coca Cola Foods, and Price Waterhouse Coopers. [107]

It has furthermore been suggested that, under conditions of task complexity, **proximal learning goals** are more effective than distal learning goals.[108] Proximal learning goals are goals related to specific, narrowly defined competencies, the development of which may be accomplished within a relatively short period of time. Distal learning goals are goals relating to competencies defined in more abstract terms, the development of which usually requires a longer period of time. Distal learning goals, such as the goal to develop leadership abilities, may be broken down into proximal goals, for example, by specifying concrete leadership behaviors which are relevant in a given functional environment the trainee is assigned to and which have not yet been mastered by the trainee. A sequence of proximal goals leads to the accomplishment of a distal goal. Proximal goals are associated with a shorter time span for completion than distal goals, which entails that they must be set, monitored, and reviewed more frequently. Research on cognitive processes indicates that people can cognitively attend to seven plus or minus two items at a time.[109] The number of proximal learning goals set for a performance period should not exceed that.

The frequent setting, monitoring, and reviewing of role- and person-specific proximal learning goals is best accomplished by the immediate supervisors of the trainees. They are familiar with the particular functions and processes of their units and in a position to observe the progress of the trainee on a frequent if not ongoing basis. Mentors represent a potential alternative as reviewers of the trainees' learning

[105] Seijts and Latham (2005, p. 127).
[106] Seijts and Latham (2005).
[107] Seijts and Latham (2005).
[108] Latham et al. (2002).
[109] Miller (1956).

process. They tend to be more senior and more removed from the specific processes of the units the trainees are assigned to. Their function is to guide the overall development progress of the employee across the different functional assignments. They may, for instance, help to decide on the trainee's next assignment and they may set, monitor, and review distal learning goals and development milestones. In doing so, they depend on the information they receive from the trainees and their various supervisors. Hence, it is suggested that the immediate supervisors set and monitor proximal learning goals. If a mentoring program is operated, the mentors should oversee the development in relation to distal learning goals.[110]

Theoretically, it would also be conceivable that the development progress of the trainees is structured and reviewed using development centers. They are, however, resource intensive, as they require the participants to take off time from work, usually at least 1–2 days, and the assessors to prepare the event and the tests. The desired frequent setting and reviewing of proximal learning goals would be rather costly if it was to be done through a development center every time. Moreover, the fact that the tests carried out in development centers are largely standardized, applied consistently to different employees, and, therefore, relatively generic does also not make them more suitable as an instrument for providing structure to the trainees' development. Proximal learning goals should relate to unit-specific circumstances and idiosyncratic strengths and weaknesses of the trainee. Development centers may be suitable for reviewing distal learning goals and drawing up longer term career and development plans. They are too costly and inflexible an instrument to be suitable for attending to the idiosyncratic development needs and opportunities of trainees in the way a supervisor-based coaching process may do, though.

To ensure that busy supervisors devote sufficient time to the trainees' development, it is proposed that the setting and reviewing of proximal learning goals should be integrated into a formal appraisal process. Appraisal sessions should take place on a regular basis. A monitoring of the overall development progress and achievement of distal learning goals by a mentor requires the collaboration between the mentors and the managers that supervise the trainee at the different stages of the trainee program, for example, for deciding which functions the trainee should be assigned to. The staffing of the trainees to different functions serves a developmental purpose. That is, it should be based on assessments of the trainees' idiosyncratic development needs rather than on the expected fit in terms of competencies and personality with functional requirements of a job. Thus, staffing decisions during the trainee period are based on within-person analysis, taking account of the relative strengths and weaknesses of the trainee.

Appraisals for Staffing/Predicting Performance

Upon completion of the trainee program, staffing decisions should no longer be based on within-person but on between-person analysis. What has been termed the

[110] See Sect. 5.5 on mentoring.

'early stage of development' above is completed and the young managers enter the achievement stage in the managerial development process.[111] They seek to position themselves within the managerial hierarchy. From an organizational perspective, this positioning process entails the matching of the managers' competencies with the requirements of different positions. Staffing decisions must be made which are no longer only about the development of the employee but about maximizing organizational effectiveness. The different positions may also be associated with different consequences for the managers, some of which are more coveted than others. Thus, the staffing decisions to be made at this stage can be classified as administrative.

Appraisals with administrative consequences are ideally based on objective, nondisputable performance measures to minimize the likelihood of nonconstructive response. It was elaborated in Sect. 2.3.1 that such measures may not be available for managers, who are acting as part of dynamic networks. Even in the case of top-level managers, who may be held personally responsible for the financial results of their division or the organization, a substantial amount of interpretation may be required to define what would constitute a desirable standard of performance, taking into account the current market position, the stage of a division's product in the product life cycle, and growth rates prior to the tenure of the current manager. Views may differ on how much time should be allowed for a new product to become profitable, how much market share can feasibly be gained within a given period of time, or how much time is required to turn around an ailing business. Sometimes it may be the right decision to sell or close down a division. Financial results may not be a comprehensive measure of managerial performance, especially, if the expected tenure is short. Short-term financial results do not reflect activities with a lagging effect on results or may even be affected negatively by them, for example, by organizational restructuring that is necessary to sustain profitability in the long run. Thus, observed facts must be interpreted in context to arrive at accurate judgments of a manager's performance abilities or competencies. Judging competency based on observed facts may be even more complex for the majority of managers who work below the top tier of the organizational hierarchy and for whom no single financial output measure is available. Given a high level of task fluidity, nontask specific competencies may have to be assessed, including contextual performance competencies, cognitive ability, conscientiousness, extraversion, and personality fit. Competency assessments should be based on a series of competency-indicating performance observations rather than single observations to avoid judgments that are based on transitory performance. Competency indicators are also subject to interpretation and may be influenced by factors other than the performance of the manager. Hence, **competency perceptions** should be altered gradually as relevant observations are made.

[111] Cf. Sect. 2.3.1.

In line with control theory, the primary purpose of assessments of generalist managers who have completed the trainee program is to monitor their competencies, to make predictions regarding the likely performance of individuals in different roles and, on that basis, to staff, promote, and, if necessary, dismiss managers. Based on the appraisal, further developmental feedback may also be given. However, while the focus during the trainee period was primarily on development, the manager's development continues at a slower pace thereafter. Competency assessments of trained managers serve a **dual purpose**, resulting in the subordination of the developmental to the administrative purpose.

After the completion of the traineeship, it can be argued that, while the development of managers should continue, the primary focus of organizational systems should be on ensuring that managers contribute to the organization. If it was perceived, though, that the assessments and views of supervisors *during* the trainee period affect later administrative decisions, it could have a negative effect on the development progress of the trainees. Instead of exploring different task strategies, they would struggle to demonstrate what they would then consider competent behavior, engage in impression management, and react defensively to critical feedback. Hence, the developmental assessments during the traineeship should be seen to be unrelated to decisions at later stages.

The first permanent staffing of trained managers is likely to be more consequential than subsequent ones, as they develop expertise in that function and are likely to remain there for a considerable period of time. It may impact on their further career development. Those staffed as assistants of executive managers, for example, are considered to have the best chances of obtaining a senior position themselves at a later stage of their career owing to their special perspective on the organizational architecture and senior network contacts. If the first competency assessment following the trainee program is seen to be with special consequences attached, it adds on to the necessity of **separating this assessment** from any judgments made during the trainee period.

The developmental appraisals of trainees could be separated from later administrative decisions simply in terms of timing. One could, for example, base the initial staffing of the fully trained manager on the supervisor rating of the final assignment of a trainee. Thereby, the final stage of the traineeship would no longer serve a developmental but an evaluative purpose. The previous stages could serve a purely developmental purpose. The disadvantage of this solution would be that much would hinge on the judgment of a single supervisor in a context of task fluidity and concerns about transitory performance. Each stage of the trainee program should expose the trainee to different kinds of organizational processes and also develop different kinds of competencies. An assessment of competencies by only a single supervisor would likely not cover a broad range of competencies and entail the risk of being based on transitory performance. Moreover, a single supervisor working in an operational function or division may not be sufficiently familiar with the performance of other trainees who compete for coveted positions. A staffing decision is a between-person decision, requiring familiarity with the different candidates.

It is also conceivable that the first staffing of a trained manager is based on the joint judgment of all supervisors during the traineeship, possibly coordinated by the trainee's mentor. While this takes weight off the judgment of a single supervisor, it also means that the assessments of the trainee's supervisors are officially assigned an administrative purpose. Furthermore, this approach entails the challenge of integrating the judgments of different assessors who observed different stages in the development of the trainee. More competent displays of behavior during the latter stages of the trainee program may indicate either development progress or that the competency requirements of the latter assignments were more accommodating to the trainee's particular talents. Finally, this approach would compromise the developmental role of the mentor if he or she is seen to be responsible for the administrative decisions.

The most clear-cut separation of administrative and developmental assessments can be accomplished by conducting an **assessment center upon completion of the traineeship**. After a cohort of trainees has been exposed to different experiences across the organization, they may be assessed against a common standard of distal learning goals to take stock of available competencies and provide a basis for optimally matching those competencies with the demands of available roles and functions.

A comprehensive assessment exercise at the end of an intense development program could represent a crucial milestone in the career of young managers. To the extent that it is seen as objective and detached from the views of the trainees' supervisors, it could signal to the trainees that exploratory behavior is encouraged during the trainee period and not penalized in subsequent staffing decisions. The competency standards used in the assessment center may also serve as a guideline to mentors and supervisors of trainees, representing the distal learning goals that they should work toward. The detachment of the supervisors from the final assessment allows them to act as coaches who may openly take sides with the trainees in preparing them for the assessment center and their future roles as managers (as opposed to having to act as impartial evaluators). The trainees, in turn, are more likely to view feedback as constructive even if it is critical. The use of a broad managerial competency framework as assessment standard and development guide permits supervisors to specify idiosyncratic proximal learning goals at each stage of the traineeship.

In summary, it is proposed that the appraisal purpose of generalist managers should be purely developmental during their traineeship. Proximal learning goals should be set to structure the development process of the trainee. Subsequently, a dual appraisal purpose seems inevitable, with a primary need to make staffing decisions on the basis of competency evaluations and a secondary need to support the continuous development of competencies. An assessment center is proposed to separate the traineeship from the first permanent assignment of trained managers, avoiding appraisal purpose conflict and the associated negative effects on the trainees' early development progress. The elaboration of the appraisal system for generalist managers is continued in Sect. 4.3.1, building on concepts introduced in Chap. 4.

3.3.2 *Professional/Occupational Employees*

Professional/occupational employees perform complex functions that are required on an ongoing basis and across different organizations, including IT administration, legal, and engineering functions. These functions require a specialized generic expertise which is typically developed within the context of professional institutions. In contrast to professionals hired as contractors, professional employees also undergo some limited organization-specific development, which primarily concerns the immediate context of their professional function. Because this organization-specific development is only limited, they may fairly easily transfer to other organizations, performing the same professional function. Professional functions are not as immediately exposed to the markets as managerial functions. Hence, task fluidity is lower in such functions. High levels of task complexity and low levels of task fluidity favor output control, which also leaves discretion to professional employees in approaching their jobs, satisfying autonomy demands in the context of professional value systems.

Professional Systems Embedded in Organizations

"Professionals [...] tend to respond to authority based upon expertise, while organizations rely upon the authority of hierarchy."[112] Yet, professionals also work within bureaucratic organizations, both professional and other organizations. Within organizations, professionals must exercise power over other professionals, nonprofessionals must exercise power over professionals, and the exercise of power is usually structured on the basis of formal hierarchy, even when professionals are involved. Thereby, the activities of the different actors in organizations are coordinated and ongoing struggles for power avoided, reducing transaction costs. Thus, the above citation ought to be amended – professionals also rely upon hierarchy, a hierarchy which is predominantly based on professional expertise, affords individuals ample discretion, and is complemented by a system of supraorganizational professional norms and values. One could argue that this is not so different from the hierarchies of generalist managers, since it was suggested in the previous section that promotions of managers should be based on their competencies (the 'professional' expertise of managers), that managers should be afforded discretion not only in how to pursue goals but, to some extent, also in what goals to pursue, and that the control of managers should be based on the elicitation of commitment to organizational values. It seems that professional authority is not fundamentally different from managerial authority, except that the object of commitment and the valued expertise are different.

In **professional organizations**, one typically finds two distinct, insulated hierarchies, one for professional and one for administrative employees. For instance,

[112] Aranya et al. (1981, p. 273).

"in the case of accounting firms, there is a noncertified public accountant hierarchy that runs parallel to that of the certified public accountants, its head being not a partner in the firm but a 'principal.'[113] Professionals in accounting firms, law firms, schools, and hospital-based clinics have been found to accept "some but not all administrative constraints" as well as "technical supervision so long as it was carried out by a respected practicing professional."[114] Hierarchical systems in professional organizations have further been demonstrated to differ across professions. Engineers and scientists, for instance, are granted a relatively high degree of job autonomy.[115] Nurses, by contrast, work within an elaborate system of "occupational division of labor," creating "constraints on individual discretion that are greater than appears to be the case for most other professions that either are superordinate in the division of labor or function in a fairly simple division of labor."[116]

It has been argued in the previous chapter that rank-and-file professionals in "**heteronomous professional organizations** – that is organizations directly controlled by nonprofessional employers"[117] – should not be forced into bureaucratic organizational systems but operate within their own insulated professional hierarchies, allowing them to adhere to the professional value systems that they have been socialized into and that are most conducive to the effectiveness of their professional function. There is evidence suggesting that managers do support professional systems being embedded within heteronomous professional organizations as they "may find it convenient to accept occupationally formulated standards for filling its positions and establishing its work procedures rather than to create its own managerially 'rational' system."[118] This means that the generalist managers who are responsible for the overall organizational system must tolerate the existence of multiple rationalities and systems within their organization as professional systems differ among each other and from the generalist managers' own system.

When begging professional systems into their organizations, generalist managers, as nonmembers of the profession, will not be able to grasp the rationality of the professional system in its entirety – just like professionals will not grasp the rationality of a given organizational architecture. Trying to capture the features of professional systems, making them explicit in documents and part of formal organizational procedures, or possibly even attempting to reengineer them would only be a mistake on the ground that it would be less convenient for the managers than simply taking the professional management and interaction processes on board. Managers can describe only the parts of the systems they observe from their generalist manager's perspective. With their perception geared toward the

[113] Freidson (1986, p. 162).
[114] Freidson (1986).
[115] Meiksins (1982, p. 137), Zussmann (1985, pp. 104–111).
[116] Freidson (1986, p. 165).
[117] Freidson (1986, p. 164).
[118] Freidson (1986).

absorption of information relevant to their own system, they will not be able to judge the significance of different observed parts of the system, how they interrelate, or whether they perceived all relevant aspects of the system. The generalist manager would have to rely on the professionals to make their values, processes, and standards explicit, who, however, would likely be reluctant to give away the control over their processes to managers, unless they were able to pin down the institutions governing their behavior themselves in the first place. Assuming, hypothetically, that the managers of an organization were able to overcome all these obstacles and convince the professional employees to 'hand over' their system to management, the costs of capturing and maintaining professional systems are likely to outweigh the benefits of doing so. Depending on the number of professions within the organization, several different systems would have to be understood, depicted as formal processes, and maintained as the professions evolve. Professionals would be unlikely to accept changes to their system enforced by generalist managers. Hence, it is proposed that it is in the interest of organizational effectiveness to have professional systems embedded within organizational systems.

Managing the Organizational–Professional Interface

Organizational–professional value conflicts, transferable competencies, relatively short expected tenures, a lack of power over resources, a lack of ability to influence organizational decision-making processes, and the attribution of rewards to competencies obtained through professional membership rather than to the good will of the organization have all been argued in Sect. 2.3.2 to contribute to the professional employees' limited commitment to the goals and values of their organization. It was stated earlier that the functioning of professional hierarchies does not seem fundamentally different from the functioning of the generalist managers' hierarchies. The only difference lies in which entity's goals and values their commitment and efforts are directed to. Employees who have been socialized into a profession may claim authority not only in choosing *how* to go about their tasks but also in deciding *what* tasks and goals are worthy of their professional attention. Again, this is not so different from the behaviors envisaged for generalist managers, only that professionals pursue the goals and interests of their profession rather than those of the organization. There is then a risk incurred that professional systems embedded in organizations pursue goals that are not aligned with organizational interests, that is, with the purpose that the professional function is expected to serve within the organizational system.

If it is not possible to commit needed expertise, one must engage it in an exchange relationship. Professionals are hired into organizations to perform functions defined in terms of deliverable outputs at the functional level – that is, at the interface between the profession and the organization. The organization is represented at the **organizational–professional interface** by its generalist management, for instance, by a dedicated manager with a relevant professional qualification or a former professional who has joined the managerial ranks. Depending on the

importance of a professional function, it may be linked to the managerial system at different levels of the hierarchy. It is, for example, sometimes postulated that the importance of the HR function for the competitiveness of the organization should be reflected by its representation on the management board through a designated HR director. This director would act as a member of the organization's generalist management rather than as a HR professional. He or she would need to be able to gauge what an organization's professionals can and cannot contribute, represent issues related to the professional function in the decision-making processes of the board, specify outputs to be delivered by the profession, monitor their delivery, and manage the relationship with the professionals. The profession is represented at the interface by the principal professional or professional administrator, who gauges the needs of the organization, makes suggestions with regard to output deliverables that seem achievable from the professional point of view, and is held accountable for the delivery of professional outputs. In the above example of the HR profession, this role would be held by the personnel manager.[119]

For output control to be effective, the delivery of outputs must be tied to valued rewards. The most immediate and universally valued form of reward is performance pay. The major disadvantage of it is that the administrative appraisals that are linked to it may negatively affect development processes. Development processes of professional employees are, from the perspective of the organization, of lesser concern, as the development of their transferable competencies must take place outside the organizational boundaries anyhow. Other types of **incentives** are less suitable for eliciting a focus on organizationally relevant outputs among professional employees. Promotions, for instance, would represent a deferred reward. The expected value of deferred rewards is low in contexts of relatively short expected tenures, however, as the professionals may have moved on by the time a promotion slot becomes available. Furthermore, the smaller the organizational function, the more infrequent the promotion opportunities within it. In other words, the chance that a promotion opportunity is available at a given point in time decreases statistically with the size of a unit within which one can be promoted. Thus, compared to managers, who may be staffed across different managerial subfunctions, professional employees would likely remain unrewarded for prolonged periods of time if promotions constituted the primary form of reward. The motivational effect of the reward would be relatively low, as, using the terminology of expectancy theory, its instrumentality would be low. High performers would search for employment arrangements elsewhere which offer a more immediate reward for their performance. Finally, using promotions as a reward in the organizational–professional exchange relationship would also require the organizational

[119] It needs to be noted that some organizations regard their HR function a professional function, some as part of their management (Lepak and Snell, 2002). This may be due to HR actually performing its function in different ways in different organizations; or it may indicate that the HR function may in practice be located somewhere between a professional/occupational function and generalist management, as it requires specialized expertise and also a good deal of common sense which may partly be contributed by nonprofessionally-trained generalists.

system to encroach on the professionals' hierarchical system, which is based on professional competence as assessed in relation to professional values rather than on organizationally relevant outputs.

Performance-related pay may represent one factor contributing to the profile of professional career tracks, which cannot provide the same salaries, employment security, and development opportunities as managerial career tracks.[120] IPRP may signal that professionals are immediately rewarded for good performance, providing *a fair day's pay for a fair day's work* – a catch phrase used during the early stages of industrialization in the UK to characterize the then highly regarded system of craft workers.[121] For this kind of employment system to be attractive, pay must actually be perceived as fair. A prominent example of a 'fairly' rewarded professional career track is that of investment bankers, whose results-based bonus awards are often larger than the pay package of the top managers in their organization – at least they have been before the crisis of the American banking system in the autumn of 2008 and they will be again after the system has recovered. Investment bankers incur high levels of risk. Nevertheless, many of them have declined offers to transfer into generalist management. Of course, the size of the PRP award must be in proportion to the value added by a professional function for an organization. If the importance of a particular professional function is low, organizations will pay smaller rewards, accepting lower levels of competency and effort as long as the function is performed at the required levels of effectiveness and cost efficiency.

Thus, it is proposed that a focus of embedded professional systems on organizationally relevant results will be achieved by tying pay incentives to the delivery of defined outputs. Desired outputs are to be defined at the functional level between the dedicated representative of generalist management and the principal professional. A focus on organizational interests can be established throughout the professional function by breaking the outputs to be delivered at the functional level down into constituent output deliverables at the subordinate levels of the professional hierarchy. Every professional employee is assigned an output target, the achievement of which is financially rewarded. Given the complexity and specialization of professional functions, it is not possible to define and monitor output standards from outside the profession. It is proposed that a **goal-setting system** is used; that is, output deliverables should be defined and evaluated at each level of the professional hierarchy in supervisory performance appraisals. The principal professional engineer of the engine development unit of a car manufacturer may, for instance, be tasked by generalist management to design and develop a new engine with certain performance, size, and fuel consumption specifications. This engineer exercises discretion in breaking down this output goal, providing specifications to his professional employees who are individually responsible for different constituent parts of the engine at different stages of the development process. The professional employees, in turn, exercise discretion in deciding how

[120] Cf. Sect. 2.3.2.

[121] Cf. Bamber and Lansbury (2005).

to achieve their output goals and, if applicable, what goals to set for any junior professionals working under them. The accomplishment of goals is to be evaluated by the supervising professionals and linked to financial rewards at all levels.[122]

In summary, appraisals of professional employees' outputs are to be conducted for purposes of control/monitoring performance, providing the basis for the administration of monetary rewards. Professional employees are committed to and work as part of the professional systems which are embedded within organizational systems. A dedicated generalist manager and the professional principal define the intersystem exchange relationship at the interface of the systems. The intraorganizational professional system is an open system, allowing for the interaction between members of the two systems. Professional staffing and development processes are outside the remit of organizational systems, heeding to professional autonomy demands, to a lack of insight of managers into complex professional systems, and to economic demands having to do with the transferability of their competencies.[123]

3.3.3 Industrial/Clerical Workers

Industrial/clerical workers are employed to perform simple, narrowly defined tasks in Taylorist systems of work organization. This requires limited generic competencies and a moderate degree of organization-specific development, as standardized processes and tasks must be learnt. The close monitoring of outputs or behaviors, personally or through electronic surveillance, serves to exercise control over these workers but also enables the collective negotiation of specifically defined standards of behavior that are to be performed in return for hourly wage rates and fringe benefits in the wage–effort bargain. Given a large supply of unskilled labor and only a moderate degree of organization-specific development, these workers seek to monopolize the labor supply by organizing collectively. Trade unions may, thus, raise the price of this kind of labor and reduce the employers' resource and coordination flexibility. The internationalization of the business world and the growth of employment in labor market sections which have traditionally not been well organized have been facilitating a shift from industrial employment to core–periphery arrangements.

Piece Rates

According to Taylor's principles of scientific management, the close monitoring of workers should be complemented by IPRP, so that they may benefit from and be supportive of any plans for improving productivity devised by their managers. In

[122] Cf. Sect. 4.3.2.

[123] Becker (1962), cf. Sect. 2.1.

the presence of potent labor organizations, performance-related pay is mostly limited to entirely objective, quantity-based piece-rate schemes. The flexibility associated with performance pay based on subjective supervisory performance ratings has traditionally been resisted by organized labor out of concern that employers may obtain an advantage in the wage–effort bargain through the assessment situation. Even piece-rate systems which are based on objectively measurable production outputs are micromanaged by workers for fear of downward rate adjustments as a result of individual workers consistently exceeding standard performance.[124]

Taking *call center operators* as an example, unions would likely oppose incentives based on differential supervisory ratings of service quality. Performance-related rewards are typically based on the quantity of calls performed that adhere to a minimum standard. The minimum standards must be defined unequivocally and verifiably. This may be done on the basis of a detailed script, enabling the classification of operators who do not provide the specified information or who do not adhere to the prescribed style and tone. Call center operators have become subject to Taylorism fairly recently, facilitated by recording and information technology. Complex scripts cover all possible issues that callers may have and are presented to the operators on-screen as they speak with customers. Call-routing technology further allows that individual, unqualified operators need only deal with a relatively narrow set of issues and that they can familiarize themselves with their scripts relatively quickly. Thus, large numbers of callers can be processed in call centers without a large number of qualified experts, also allowing for the flexible relocation of entire call centers to English-speaking countries with lower wages such as Ireland and India.

Scientific management has been widely applied in *industrial manufacturing* since the beginning of the twentieth century. Hence, the process of setting and monitoring narrowly defined standards may seem more natural and straightforward in that context. The division of labor may be taken further in manufacturing compared to white-collar environments such as call centers. The equivalent of answering a phone call on one type of issue a caller may have would in assembly-line production systems be dealt with by more than one worker. As individual workers deal with smaller chunks of the production process, the adherence to specified standards of quality can be monitored more easily and cost efficiently. Control of workers who sequentially perform different tasks on assembly lines is built into the process.

Nevertheless, the process of incentivization does correspond to the one described for call center operators. That is, it is based on the quantity of output that meets **clearly defined quality standards.**

Detailed process and output definitions are in the interest of both the scientific managers and the workers and their representatives, enabling mutual control, litigation-proof personnel administration, and the optimization of performance

[124] E.g., Henley and Nguyen (2005), Heery (1997), Gunnigle et al. (1998).

according to the principles of scientific management.[125] The nature of appraisals required in that context can be characterized by referring to a typology of the strategic HRM literature which classifies jobs according to the range of distinguishable levels of performance. According to that, the performance scale of the so-called *star jobs* is biased toward positive outcomes. In such jobs, contributions above standard performance are differentiated more than the extent to which performance deviates below standard. In *guardian jobs,* by contrast, "below standard performance" matters more than "above standard performance." The range of conceivable performance levels is biased toward the negative end of the scale. A third category, *soldiers*, is distinguished, for which the range of performance levels is distributed evenly.[126] Industrial/clerical workers managed according to Taylor may be classified as guardians. The process standards defined by management represent the optimal way of performing the job. The workers cannot exceed the standards, but they can only avoid deviating from the standards.

Hence, performance appraisals of industrial/clerical workers need to ascertain the production quantity and whether the quality standards are met. The appraisals serve a control purpose, whether they are linked to a performance-related pay reward or whether they provide the basis for dismissals on the grounds of performance or behavior.

Staffing and Development

Promotions of industrial/clerical workers are **upgrade promotions** as opposed to vacancy promotions. With vacancy promotions, the promoted workers are taking on a new role, becoming responsible for tasks and functions other than those they were responsible for before their promotion. Vacancy promotions require either that a position is vacated by the previous incumbent or that a new job is created. In contrast, upgrade promotions may be granted regardless of vacancies and without a fundamental change in the duties of the promoted employee. They normally entail a gradual expansion of job duties before and after the promotion, a change in job title – for example, from *machine operator I* to *machine operator II* – and a pay increment. They may depend on an assessment of the worker's competencies. More typically, they are closely associated with seniority. A machine operator may, for example, be expected to be promoted from level I to level II after, say, 3 years of service, give or take some depending on whether he possesses the requisite experiences and maturity as perceived by his colleagues and supervisors.[127]

The traditional, largely **seniority-based progression** through industrial/clerical pay bands defined through collective bargaining reduces the competition among

[125] Various studies demonstrate that the bureaucratic industrial system has not been unilaterally imposed by management but that it also reflects the interests of labor. For example: Jacoby (1984), Steiber (1959), Kahn (1976), Rubery (1978), Elbaum (1984).

[126] Baron and Kreps (1999).

[127] Barnett and Miner (1992).

workers for what would be a limited number of vacancies in the stable industrial system. In line with the Taylorist production philosophy, workers may be likened to 'identical building blocks' of the production machinery. All workers must perform their deconstructed tasks according to the prescribed standard. Beyond that, the system caters for little individual differentiation in performance, let alone individual strengths and weaknesses, competencies, or personality. Pitching workers against each other in a promotion tournament where management decides on who wins the promotion reward and where rewards are permanent (rather than nonpermanent piece-rate bonuses) would not only conflict with the interests of labor but also affect the predictability of worker performance required by the scientifically engineered production machinery – that is, a machinery geared toward stability rather than flexibility, which originated in a preglobalization industrial era.

Promotions out of the industrial/clerical system into the professional/occupational, managerial, or team worker systems tend to be rare but not ruled out in principle. A worker who appears to possess an aptitude for a profession, an occupation, or for a career as a manager may be nominated to participate in the selection processes for the respective trainee programs or apprenticeships. If workers do possess such aptitudes, they should not be nominated only when they emerge on the top of the seniority-based worker hierarchy, as they will be too old by then. Such nominations are likely to be exceptional. The occasional worker who made it as manager or in an occupation may, however, offer prospects to the more ambitious among the industrial/clerical workforce and, thus, social stability. Provided an organization runs an industrial/clerical and a team worker system in parallel, suitable industrial workers may also be nominated for the selection processes of self-managing work groups. Usually, team worker systems are used in combination with casual worker systems rather than industrial/clerical systems, though.

Dismissal on the grounds of performance or behavior also represents a staffing decision and, as a matter of fact, the only one which may involve an appraisal of the industrial/clerical worker's performance. Nevertheless, it cannot be claimed that the purpose of this type of workers' performance appraisal falls into the category referred to as *staffing/predicting performance* in Sect. 3.2. Managers dismiss underperforming workers because they anticipate that the performance will remain insufficient in future. However, if they wish to dismiss a worker on the grounds of performance – that is, legally terminate an open-ended contract – they can do so only if they can prove that the worker has not delivered the contractually agreed minimum standards of performance *in the past*. Similarly, in order to dismiss workers on the grounds of behavior, they must prove that acceptable standards of behavior have been violated in the past, not that they expect them to be violated in the future. Given collective representation and given the difficulty for dismissed workers in this category to find new employment, it is especially likely that dismissals of industrial workers are tried at court if they are not absolutely 'waterproof.'[128] Thus, an objective of making the resulting administrative decisions legally defensible can

[128] Cf. Sect. 2.3.3.

be associated with the appraisals of industrial/clerical workers. This requires the meticulous recording of (past) performance. The purpose of the appraisal falls into the category *control/monitoring performance*.

Finally, any organization-sponsored development of this type of worker is restricted to the **learning of standardized processes** that are to be performed. Depending on the job, a formal introductory training session may be offered. Call centers may, for example, let new operators familiarize themselves with their scripts off the job as a minimum. Larger call centers which have a number of new operators starting together may group them according to their area of specialization and conduct a formal training session. Assembly-line workers or workers in a fast-food restaurant may only receive as much as a brief, informal introduction by their coworkers or a supervisor. Following the formal or informal introduction, there will be some continued development on-the-job before workers reach their regular levels of productivity. The regular administrative appraisals may, as a side effect, help to accelerate this limited development process. A separation of a secondary developmental appraisal purpose during this initial development phase from the control appraisal purpose is not required – given the unequivocal definition of performance standards and the emphasis on verifiability, any nonconstructive responses to substandard ratings are likely to be less pronounced; or, at least, the impact on an anyway limited process of development is less likely to be to the detriment of the organization in the same way it is with some other employment modes. Vice versa, any investments into separate developmental appraisals would likely not be justified by a commensurate productivity increase as a result of an additional acceleration of the brief development process.

In summary, the primary appraisal purpose of industrial/clerical workers is to monitor performance and exercise control. Performance is defined in terms of output quantities meeting defined quality standards. The appraisal process must be able to identify deviations from the prescribed standard. The output evaluation may provide the basis for a piece-rate pay system. In any case, it must provide a legally defensible basis for dismissing on the grounds of performance or behavior and any other administrative decisions. Promotions in the industrial/clerical worker system are upgrade promotions; that is, there is a seniority-based progression through typically collectively agreed pay bands. Prerequisites for upgrades are that workers have performed according to a normal standard over a set number of years. No separate appraisal system is required to assess, for instance, whether a worker possesses competencies of the next grade. Any additional responsibilities are taken on gradually over time, before as well as after the upgrade. The appraisals that are conducted for control purposes may, as a secondary effect, also aid the initial development progress of new workers, which again does, not require adjustments in the appraisal design.

3.3.4 Team Workers

Team workers perform both managerial and productive functions as part of self-managed work teams (SMWTs) in flexible production systems and in clerical

environments. It has been written in the context of SMWTs that "high-discretion jobs used to be confined to the upper echelons of the organization, the managers and professional workers, at the time of the dominance of scientific management. Now, they can include operational employees working in teams in some part of the 'lean organization.'"[129] In many respects, the team worker mode may be seen to emulate the managerial employment mode, only that the team worker's horizon is his or her team and not the organization. Team workers are offered the same employment security as managers in return for consummate effort and commitment to the goals of the team. Identification with the team and its goals triggers mutual monitoring processes. Strict behavioral norms and rules are owned and enforced by the members of a team. The omni-presence of constantly observing coworkers has been referred to as 'the tutelary eye,' which may inflict considerable levels of stress on the workers.

Little has been written specifically about the conduct of performance appraisals in SMWTs. It is clear from case study evidence that team workers monitor and evaluate their coworkers' performance. The consequences attached to these evaluations, seem to range from respect and status to dismissal. It is not clear from the available literature to what extent evaluations are formal. One case study describes how teams record instances of lateness and absenteeism on an openly visible flip chart.[130] It is stated elsewhere that SMWTs' responsibilities include "recording quality-control statistics (subject to audit), [. . .] and participating in assessments of the job performance of fellow group members."[131] The same study reveals that workers are tested once they have mastered another one of the tasks to be performed by the team. It is not stated how and by whom the test is conducted; however, the number of tasks mastered affects the workers' pay.[132] The study also documents that coordinators of SMWTs encourage self-observation/evaluation and self-goal–setting. No further details are provided, for example, on whether self-goal–setting and self-evaluation relate to group or individual performance. Another study refers to a particular training and development need of team workers and "considerable" pressure on the management hierarchy in that context.[133] Again, it is not stated whether any systematic assessments of development needs were undertaken. Thus, the literature only alludes to a variety of assessments and evaluations that must be conducted for self-managed team workers.

Given the dearth of evidence on appraisals in SMWT structures, each of the theoretically conceivable appraisal purposes – monitoring/control, staffing, development, and systems evaluation – shall be discussed in the context of SMWTs in turn. Control of workers in SMWTs and potentially ensuing requirements for performance appraisal are discussed first.

[129] Boxall and Purcell (2002, p. 122).

[130] Baker (1993).

[131] Manz and Sims (1987, p. 112).

[132] See also Walton (1977), Poza and Markus (1980), Cordery et al. (1991), Adler (1991).

[133] Cordery et al. (1991, p. 473).

Mitigating the Free-Rider Problem

The control processes for team workers are unique in that tasks are assigned to the entire team rather than to individual workers. The management does not define the contributions of individual workers. It is up to the team to decide how the tasks are to be completed best. Hence, management is neither positioned well to thoroughly understand cause–effect relations nor to assess how individual workers complete their tasks. In genuinely self-managed teams, managers set and evaluate standards for team-level outputs and leave team-internal processes largely to the team. As has been illustrated in Sect. 2.3.4, this seems to result in the emergence of mutual monitoring processes among team members and strict behavioral norms.

The emergence of mutual monitoring is the team's response to the **free-rider problem**. Free riders or social loafers are team members who contribute less than others while reaping the same benefits. Free riding is especially prevalent among nonprofessional, nonmanagerial employees, who are more intrinsically motivated than the former.[134] It can have several detrimental consequences, ranging from reductions in effort by high performers to their leaving the organization. To prevent this, some monitoring mechanism is required, ensuring that all workers contribute equitably to the team. Theoretically, there are two options for monitoring team workers at the individual level, (a) through vertical and (b) through horizontal incentive mechanisms.[135] In both cases, it is the coworkers who do the monitoring. Under option (a), they report their observations to a supervisor who rewards or penalizes individual workers. Under option (b), it is the coworkers who directly and laterally provide feedback and administer rewards or sanctions as they see fit. Workers who report their coworkers to a supervisor incur social costs, as they may be labeled whistle blowers. Sanctioners face the resentment of sanctioned colleagues.[136] This results in a second-order free-rider problem; that is, workers may be unwilling to bear the costs of acting as whistle blowers while everyone else in the team reaps the benefits from it, too.[137] The second-order free-rider problem occurs also in the context of lateral control regimes, as the provision of direct critical feedback, sanctioning, or the withholding of praise or reward may impact negatively on peer relations as well. There appears to be a greater reluctance among workers to report peer evaluations upward, especially, if the receipt of a reward is contingent on them.[138] "Thus, the use of vertical reports of peer observations for incentive contracting purposes, as conceptualized in economic theory, is not common practice."[139]

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[134] Harkins and Petty (1982), Gomez-Meija & Balkin (1989).

[135] Towry (2003).

[136] Lazega (2000).

[137] Cartwright (1965), Hechter (1984), Heckathorn (1989, 1990), Kandel and Lazear (1992), Oliver (1980), Yamagishi (1986).

[138] Antonioni and Park (2001a), Jackson and Greller (1998), Thatcher (1996), Wells (1999).

[139] Towry (2003, p. 1073).

Lateral control is perceived to be less costly socially, enabling sustained collegial working.[140] A case study on partners in a corporate law firm demonstrates how lateral monitoring and sanctioning mechanisms may be used to reduce costs of control.[141] That is, social ties may be used for gradual sanctioning of deviant coworkers, including unobtrusive and unsolicited advice, spread of gossip, and stopping exchanges at various levels. "Lateral control would, thus, tend to create clique-like formations of friends who choose one another to solve their difficulties in a 'privatized' way, so as to better control the process and make it work."[142] Lateral control processes have been described for various, including blue-collar, environments.[143] Lateral or horizontal systems of control have been shown to result in higher levels of team identification than vertical ones.[144] Team identification, in turn, has been argued to result in the workers' focus turning away from their individual interests toward those of the team and cooperation, further reducing the imminence of the free-rider problem.[145]

Although the social costs of lateral control are lower than those of vertical control, there are still costs associated with it. Hence, there must be some benefit for workers to engage in mutual control.

The free-rider problem has been conceptualized as workers having to bear the full costs of their own effort while receiving only $1/N$ of the benefit in a unit with N workers.[146] With regard to the second-order free-rider problem, workers must bear the social costs of controlling their coworkers while receiving $1/N$ of the benefits from a *potential* increase in the coworker's effort. If the unit is relatively small (as for example in the case of an SMWT as opposed to an entire organization in the context of a profit-related pay system), $1/N$ of the total benefit may well represent a sizeable reward and incentive, sufficient for some individual in the group to take the initiative to exercise social control, even more so if the rewards are noneconomic, as those are not divisible between team members in the same way as economic benefits. Consequently, free riding is more likely in larger groups, an argument which is supported by meta-analysis.[147] Nevertheless, it may also occur in smaller units, as loafers will always have an incentive to not act and wait until someone else acts as social infractor, entailing the risk that necessary sanctions are not provided. At the opposite end of the spectrum, there is also a risk that overmonitoring takes place, or that certain workers are overmonitored and others undermonitored. It is therefore suggested that the facilitators or coaches of SMWTs foster norms regarding the monitoring and sanctioning of coworkers. These could include that

[140] Waters (1989).
[141] Lazega (2000).
[142] Lazega (2000, p. 203).
[143] Cf. Levi (1988), Barker (1993), Heckathorn (1990), Mintzberg (1979).
[144] Towry (2003).
[145] Taijfel and Turner (1986), Brewer (1979).
[146] Kandel and Lazear (1992).
[147] Karau and Williams (1993).

coworkers who are structurally close – that is, with good social access to each other – must engage in mutual monitoring and sanctioning. Alternatively, it could be specified that senior or more experienced workers should be responsible for sanctioning junior workers.[148] Furthermore, it may be specified that failure to sanction a coworker according to the stipulated norms is also to be penalized. According to economic analysis, someone "who permits a shirker to go unpunished must be punished himself by an increased amount, and so forth" and "[if] there is an end to the chain so that someone believes that he will not be punished for not disciplining another who let another go without punishment, then there is no reason for anyone to discipline anyone."[149]

Thus, one of the prerequisites for the triggering of mutual monitoring is that there is some economic or noneconomic benefit at the team level of which each worker receives at least 1/*N*, offsetting the social costs incurred by mutual monitoring. Some of the case studies on SMWTs report the use of **noneconomic rewards**, which seem to effectively trigger the described monitoring processes in those cases. The reported noneconomic benefits include group status as a result of intergroup comparison fostered through the review and publication of team results[150] and the award of special luncheons, ribbons, plaques, and trophies.[151]

There is little concrete evidence of SMWTs obtaining team-performance incentives of a financial nature. In the literature on teams (not specifically SMWTs), it has been stated that many organizations adopt **team-based rewards**[152] and that they are more likely to be effective for teams working together over longer periods of time (in contrast to project teams, for example),[153] for self-contained teams with stable membership,[154] when the nature of work demands close cooperation,[155] and for high degrees of task interaction.[156] All of these characteristics apply to SMWTs, indicating that team-performance–based rewards might be effective. On the other hand, the above examples indicate that commitment to the goals of SMWTs may effectively be elicited simply by fostering intergroup social comparison. This ties up with research showing that particularistic or noneconomic rewards are effective when autonomy structures are stable.[157] Thus, it is possible but not established that team-performance–based financial rewards bring about even higher levels of effort than noneconomic incentives, compensating for the additional costs of administering team-performance pay. In any case, there is evidence to back the criticality of

[148] Cf. Lazear (2000).

[149] Kandel and Lazear (1992, p. 813).

[150] E.g., Barker (1993), Singer and Duvall (2000).

[151] Buckenmeyer (1996).

[152] DeMatteo et al. (1998).

[153] Ancona and Caldwell (1992).

[154] Lawler and Cohen (1992).

[155] Carroll (1987), Gomez-Mejia and Welbourne (1988).

[156] DeMatteo et al. (1998), Carroll (1987).

[157] Halaby (1978), Greene and Posdsakoff (1981).

the existence of some form of team goal in eliciting effort among the team members.[158] Consequently, there is a need to conduct performance appraisals at the team level for control purposes, whether they provide the basis for pay, intergroup comparison, or other nonpecuniary rewards.

The literature is much more expressive about the use of **skill-based pay** (in lieu of job-based pay) for SMWT workers.[159] The requirement that team workers must flexibly take on different jobs within their team renders job-based pay infeasible. The expectation that team workers remain with their teams in the long run makes skill requirements predictable and, hence, skill-based pay feasible.[160] Various studies have reported about team workers being remunerated based on the number of tasks in the production process they can perform.[161] If this kind of remuneration system is to be legally defensible, a formal assessment of the team members' ability to perform the various tasks in their team must be conducted. The above-mentioned studies report on tests being conducted once a team member has mastered a new task without getting more specific about the nature of the test. In the theoretical literature, it has been suggested that a work sample test would be suitable.[162] If such an assessment or test is to be classified as one of the appraisal purpose categories proposed at the beginning of this chapter, it would have to be the *staffing/predicting performance* purpose.

Group Leadership and Development

Team workers share an equal status in the sense that no formal hierarchy is imposed.[163] It is inevitable, though, that informal hierarchical structures develop in groups of people interacting continuously and working toward a shared goal. Seniority, for instance, is considered to be a substitute for formal hierarchical structures.[164] As far as seniority relates to experience and skill, it may also be reflected in the (skill-based) pay structures, which may corroborate emerging informal hierarchical structures. Likewise, senior workers aiding in training more inexperienced workers may further strengthen informal hierarchy. The informal hierarchical structures are organic. They may change as elements of the team-internal balance of power changes, for example, if new workers join the team.

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[158] Welden and Weingut (1993), Mitchell and Silver (1990).

[159] Cordery et al. (1991), Manz and Sims (1987), Walton (1977), Poza and Markus (1980), Lawler (1986, 1988, 1991, 1994) O'Dell (1987), Lawler (1986), Pasmore and Mlot (1994), Gomez-Mejia and Welbourne (1988), Tosi and Tosi (1986).

[160] Lawler (1986).

[161] E.g., Walton (1977), Poza and Markus (1980), Cordery et al. (1991), Adler (1991), Manz and Sims (1987).

[162] Lawler (1991).

[163] Cordery et al. (1991), Manz and Sims (1987).

[164] Black and Baumgartner (1983).

The equivalent of an SMWT's supervisor is a facilitator or coach, who advices the team on its internal managerial processes.[165] In addition, some SMWTs also possess an **internal team lead**, whose responsibilities may include supplier and customer management, planning and scheduling, and other coordination activities. The team lead works alongside the rest of the team, performing the same tasks as them in addition to his or her coordination activities. The team lead is not hierarchically superior; that is, does not possess reward or sanctioning powers or a final say in decisions about work processes. The designation of the team lead is a staffing decision which is handled differently by different SMWTs. They are designated by management, elected by the team, emerging with internal team structures, or rotating among the team members. One publication has made a case for rotating team leadership, as it yields an improved understanding of the team processes and of potential problems and needs across the team, greater team flexibility, greater involvement by all team members, and more effective continuous improvement processes.[166] The rotating leadership principle may have to be imposed on the SMWT by management, as it requires additional effort by all team members. If the decision of designating a team lead is left to the team, the literature indicates that they may prefer a solution that is more convenient to them, such as permanently assigning someone for this role. Junior team members may be exempted from the rotation scheme until they have learnt a specified number of tasks. No further appraisal for staffing purposes is required if the role of internal team lead is staffed on a rotating basis.

One must bear in mind that, albeit referred to as team lead in the literature, the role descriptions suggest that this is not actually the role of a leader but that it merely entails a number of liaison activities to be performed in addition to the regular tasks. Actual leadership responsibilities such as decisions about how work is performed, monitoring and controlling performance, and development decisions remain the prerogative of the team collective. In the previous subsection, it is described how coworkers may use informal social control mechanisms to subtly 'nudge' each other back on track. Such mechanisms are effective and efficient especially for early warning and control. In addition, a formal sanctioning procedure is needed in cases of more grave violations of norms and rules, even if informal sanctioning processes may in most cases preempt its use. If the sanctioning procedure is to be legally defensible, a formal appraisal process is required.[167] In the absence of a supervisor and given collective responsibility for performance processes, the performance appraisal must be conducted by the collective, in other words, through **peer evaluation**. If the primary purpose is to make formal sanctions legally defensible, the purpose would have to be classified as *control/monitoring*.

Given the extensive organization-specific development of these workers, there is also a requirement for developmental feedback, which must be based on a formal or

[165] Boswell and Boudreau (2002), Manz and Sims (1987, 1993).

[166] Erez et al. (2002).

[167] Gomez-Mejia (1989).

informal assessment of development needs. Including formal developmental feedback in the peer evaluation may produce some benefits. It would provide some legitimized space for developmental judgment and activities to take place, preventing their neglect given the performance pressures of the *tutelary eye*. Combining evaluative and developmental assessments may, on the downside, result in the aforementioned appraisal purpose conflict, especially affecting the developmental purpose. The appraisal purpose conflict could be alleviated somewhat by separating appraisal dimensions for development from those for evaluation. The appraisal system design could be such that for each of a group's tasks, there must be either an evaluative or a developmental assessment. Team workers who have not yet mastered a task could be evaluated on the developmental dimensions only, which could, for instance, involve open-ended feedback comments. Those who have mastered a task could be evaluated on the evaluative dimensions relating to that task but not on the developmental ones. Each worker would receive a combination of evaluative and developmental feedback, where the amount of evaluative feedback would increase and the amount of developmental feedback decrease with the number of tasks mastered. Generally, critical evaluative comments or ratings should only be provided where informal, social feedback mechanisms have failed, which should further contribute to reducing appraisal purpose conflict under this kind of arrangement.

A **work sample test** is used to ascertain if a worker has mastered a task. A risk of performance appraisal conflict would be incurred if this test was conducted by the coworkers themselves. Developmental assessments during the test preparation phase should be perceived to be unrelated to the later evaluation in order to facilitate an optimal development process. It is, therefore, suggested that the team members should be collectively responsible for the assessment criteria of the work sample tests for the various tasks. However, the conduct of the test itself should be left to a team outsider, for example a human resource manager.

At the group level, output goals must be set to provide direction to the team and trigger mutual monitoring processes. Group goals have been shown to result in higher levels of performance on the dimensions the goals relate to.[168] The parallel setting of individual performance goals does not appear to lead to additional performance increments.[169]

Goals are not really goals if they are not associated with some kind of feedback and valued consequences. In the case of team workers, consequences of goal accomplishment may include status as a result of intergroup social comparison and, potentially, additional financial rewards. A **group performance appraisal** is required as a basis of the intergroup comparisons and for the determination of the size of any group rewards. In cases in which the assessment of the group output involves an element of subjective judgment, group performance appraisals may have to be carried out by the supervisor once-removed, avoiding the compromising

[168] Weldon and Weingart (1993).

[169] Mitchell and Silver (1990).

of the coach/facilitator's developmental role, especially, if financial rewards are tied to them. The purpose of the group-level appraisal is to monitor and control performance.

The SMWTs receive development feedback as a group from their coach/facilitator about their internal managerial processes. This feedback should aid the SMWTs in the accomplishment of their output goals but should not be seen to directly affect the evaluation of the output in any way. If the supervisor-once removed cannot be involved, the feedback and evaluation may also be separated according to the work planning and review method, whereby feedback is provided continuously and informally and the output evaluation more infrequently and formally.[170]

Finally, at the systems level, group outputs may also be used to **evaluate systems configurations**. As the SMWT collectives perform the same functions as the respective units in industrial systems, the group output may be used to monitor the relative effectiveness of SMWT pilots. As different work process designs emerge across different SMWTs in an organization, intergroup output comparison may help to define the most effective designs. Teams trailing too far behind other teams may be advised to adapt their process designs with the help of their facilitator, improving their position in the pursuit of coveted group rewards.

In summary, three kinds of appraisal need to be conducted at the individual worker level. First, a peer evaluation of performance on those tasks that have been mastered serves a primary control purpose. Second, linked to the peer evaluation, systematic developmental feedback should be provided for tasks that have not been mastered yet. This feedback should be perceived as benevolent, resembling improvement suggestions and avoiding any associations with evaluative ratings. Third, a separate skill examination is to be conducted for purposes of skill-based pay categorization. Representing the equivalent of job categorization in traditional industrial systems, the purpose of this examination would have to be classified as *staffing/predicting performance*. If there is an internal team lead role with responsibility for various boundary management activities, it should be rotated within the team.

A formal output evaluation at the group level triggers mutual monitoring and lateral social control regimes. Group-level coaching provides assistance with internal managerial processes. In an attempt to avoid appraisal purpose conflict, group level evaluation and coaching processes may be separated according to the work planning and review method or by having the evaluative appraisal carried out by the supervisor once-removed.

3.3.5 Casual Workers

Casual workers perform simple, narrowly defined tasks like those performed by industrial/clerical workers. They are hired in order to lower the costs of labor where

[170] Meyer et al. (1965), cf. Sect. 3.2.

the wages of regular employees are inflexible as a result of collective labor organization and other institutions. They are also used to flexibly adjust the size of the workforce in response to market fluctuations. Thereby, they represent a buffer enabling credible organizational commitments to a small group of core workers. The terms and conditions of casual workers can be circumscribed as precarious. Suffice to say that they accept those jobs because they have no other choice while desiring regular employment. Many organizations use their casual workforce as a selection pool for recruiting into the regular workforce and thereby add to the motivation of casual workers. Regular workers will see them as a threat if they perform the same tasks as them at a lower price. Conflicts may result, some of them may be so severe that they bring the entire production system to a halt. Organizations have been shown to go to great lengths to simplify the jobs of casual workers and, thus, differentiate them from those of regular workers. Core–periphery arrangements with team workers performing enlarged and enriched jobs and with casual workers performing deconstructed tasks supervised by team workers would be a typical example of clearly differentiated, sustainable job responsibilities.

Behavioral Standards, Promotion Incentives, and Temporary Worker Markets

A clear delineation of casual worker jobs enables a sufficiently peaceful coexistence of regular and casual workers. The early days of industrialization also showed that "simplifying and standardizing jobs is a classic technique for dealing with turnover."[171] Simplified jobs can be learnt quickly by new hires. Standardization of jobs enables the seamless integration of new casual workers into ongoing operational processes. Seamless integration is facilitated by detailed behavioral scripts and monitoring and by control systems tracking the adherence to behavioral scripts. Increasingly sophisticated computerized production systems track the location of products, quality, and worker performance at all stages of the production process.[172] Customer relationship software is used to record the histories of customers for call center agents, "allowing them to sound intimate with accounts they know nothing about."[173] Expert systems project a situation-specific script onto the operator's computer screen, responding flexibly to the course of the conversation with the customer. The operators' adherence to the scripts is monitored using electronic recording technology. In the absence of such electronic monitoring facilities, it has been proposed that customer surveys may be used to monitor the behavior of call center operators.[174] Thus, 'intelligent' information systems enable new workers to adhere to **detailed behavioral standards** and the monitoring

[171] Cappelli (2000, p. 17).

[172] Skorstad (1991), Sewell and Wilkinson (1992), Taplin (1995).

[173] Cappelli (2000, p. 18).

[174] Fuller and Smith (1991).

thereof, and they contribute to a simplification of jobs, to the deskilling of workers, and to an increased prevalence of casual labor.[175]

Expectancy theory suggests that behavior control does not only require the ability to monitor behavior but also the ability to control some valued outcome of the worker. Given their precarious situation, continued employment is a benefit that casual workers are more aware of than regular employees. It has been shown that their wish and need to remain employed alone may be a strong motivator and also may give some managers the opportunity to exploit people who have little choice but to do what they are being told to do.[176] It has been shown that casual workers are motivated to work especially hard despite low wages because they hope to be taken over as regular employees and that some companies recruit systematically a certain percentage of the best casual workers into the regular workforce.[177] Although the literature is replete with examples of companies adopting what is essentially a **promotion incentive**, hardly any reference is made to organizations that use pay incentives such as piece rates to manage their casual workers. A possible explanation for this may be that the promotion incentive is considered a sufficient and better motivator than piece rates. The administration costs of using piece rates on top of a promotion incentive may not be expected to lead to a commensurate increase in productivity.

The evidence demonstrates that the majority of casual workers is employed on a contingent basis involuntarily and would rather be employed on a regular basis.[178] There is, however, also a minority of them who is content with the situation, in particular among temporary agency workers. Some core employees of temporary agency firms have "relatively secure employment futures" with their employers, albeit "unpredictable work assignments."[179] Being taken over as regular staff by a contracting organization may not be an incentive for these core employees of temporary agency firms. Indeed, it has been argued that temporary agency firms "must discourage their best workers from leaving the service firm to accept jobs with clients."[180] It may only be a minority of casual workers who do not respond to the contracting firms' 'casual-to-regular' promotion incentive. Nevertheless, the contracting organizations may wish to build some control mechanism into their systems to also cover these workers. After all, these workers are under their administrative control, even though they receive their pay checks from the temporary agency.[181]

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[175] Reskin and Roos (1990), Uzzi and Barsness (1998).

[176] Geary (1992).

[177] E.g., Lautsch (2002), Cohen and Haberfeld (1993), Henson (1996), O'Reilly (1994), Smith (1996), Geary (1992), Maguire (1988), Collinson et al. (1990), Smith (1994), Parker et al. (2002).

[178] Hardy and Walker (2003), Isaksson and Bellagh (2002), Polivka and Nardone (1989), Krausz et al. (1995), Rogers (2000).

[179] Smith (1994, p. 297).

[180] McClurg (1999, p. 6).

[181] Sias et al. (1997), Gallagher and McLeanParks (2001). According to non-academic press publications, temporary worker agencies in Germany have about three quarters of their workers on their permanent pay roll.

Three options for accomplishing some kind of control over such workers spring to mind. Firstly, a performance-related pay arrangement may be negotiated with the temporary worker agency. This seems complicated and expensive in terms of transaction costs. The worker receives a wage from the employing agency; the agency receives a fee from the contracting organization. The agency would have to incorporate a performance-related pay component into the compensation package of its workers, with the payment being contingent on performance assessments carried out by (different) contracting organizations. Given that this employment mode is intended to reduce the costs of unskilled labor, such a complicated and costly system does not seem viable for this type of worker.

Secondly, the contracting organizations may **negotiate contract terms** with the temporary worker agency which allow them to have workers replaced if they are not satisfied with their performance. Thereby, they pass on the responsibility of rewarding or penalizing performance to the temporary agency, which may or may not resort to performance-related pay. Thirdly, the effectiveness and efficiency of workers may be monitored at the aggregate level for different labor sources, for example for different temporary agency firms. If the average productivity of an agency is low at a given cost, the contracting organization may shift its demand to other sources. Thereby, the contracting organization may take advantage of the increasing competition in the temporary worker market. Options two and three are complementary in that temporary worker agencies have an incentive to get involved in the rewarding and penalizing of their workers only if they are penalized by the market for not doing so. As different firms form an opinion about the quality of workers of different sources, temporary agency firms will develop market reputations, which are difficult to correct once they are established, especially, if the reputation is not a good one. Thus, to the extent that the temporary worker market is becoming more competitive, temporary worker agencies should be increasingly willing to accept contractual arrangements that cater for unmet expectations of their clients and to get involved in the rewarding and penalizing of their workers. Thereby, the responsibilities for the administration of casual workers are further shifted from the contracting organization to the temporary worker agency.

Consequently, there is a twofold requirement to evaluate the performance of casual workers. It must be evaluated at the individual level in some way to identify candidates for recruitment into regular employment and to provide a basis for premature engagement terminations due to underperformance. And it must be evaluated at the aggregate level for different sources of workers to be able to make effective sourcing decisions in future. Labor source cost effectiveness evaluations and comparisons may not only cover different temporary or agency firms but also directly hired temporary workers and regular staff. The purpose of appraising casual workers is, thus, to monitor and control their performance and to evaluate system effectiveness. Minimizing the costs of appraisal should be a primary goal in conducting the appraisal, as the costs of transaction should be minimized for this mode of employment.[182]

[182] Cf. Sect. 5.1.

In, Up, and Out

Given the limited skill requirements of casual worker jobs, their selection should be based on the expected productivity per cost. Given a cost minimization goal and little differentiation among individual workers beyond the minimum competencies required to perform the deskilled tasks, the selection decision is most effectively made at the **source** level, that is, based on expected productivity–cost ratios and possibly the expected variability of productivity of different temporary agencies and of directly hired casual workers. The latter may further be differentiated into workers responding to job postings published in different media and workers that are part of an internal pool of contingent workers (including, for example, former regular workers who retired early).

The relative costs of temporary agency workers and directly recruited workers may vary regionally. From an economical perspective, the idea of temporary worker agencies is that they specialize in the recruitment, selection, and administration of particular groups of workers such as unskilled ones and, as a result of their specialization, become more efficient in recruiting, selecting, and administering them than the hiring organizations. The size of the efficiency advantage will depend on the maturity of the temporary worker agency market. Agencies which must compete with many other agencies will develop cost-efficient procedures. Their relative cost efficiency also depends on the size of the hiring organization and the number of workers hired. Small organizations are often not able to purchase fringe benefits at a low cost. The hiring of temporary agency workers is especially attractive to them if they wish to provide fringe benefits. Also, organizations that regularly hire large numbers of casual workers may become very efficient in the hiring and administration of such workers themselves, in which case the relative cost advantage of temporary agency firms diminishes. Generally, however, as temporary worker agencies become more institutionalized and their markets more competitive, one can expect that the majority of casual workers will increasingly be hired through agencies rather than through direct recruitment.

Following the systematic sourcing of casual workers, the staffing process should also involve considerations about the right **mix** of casual and regular workers. The literature offers only tentative information on this subject. Case study evidence indicates that teams do not function if casual workers have majority membership in a team or work setting.[183] Beyond that, there is little prescriptive information about the regular–casual worker mix. In one case study, the proportion of casual workers was reduced from 70% to 30%.[184] Another study describes a company with 20–25% of its workforce on temporary contracts.[185] Lacking any systematic research on the issue, it can only be hypothesized that the right proportion of the

[183] Lautsch (2002), Geary (1992).

[184] Geary (1992).

[185] Parker et al. (2002).

casual workforce may depend on factors such as the nature of the tasks to be performed and the extent of demand fluctuation.

There is only little more descriptive or prescriptive research on the **duration** of casual worker assignments. One survey revealed that 56% of assignments lasted almost 3 months, 11% of assignments ended after approximately 1 year.[186] In some case studies, workers remained on their assignments as long as 2–5 years.[187] One case study conducted in a Finnish hospital refers to "[contingent] employees with over 6 years' job contract with their employer."[188] Recent European Union legislation limits the maximum total duration of (successive) fixed-term employment contracts or relationships.[189] Beyond legal requirements, organizations may wish to generate some strategic guidelines on the duration of casual worker assignments given the tasks and demand fluctuation. If the primary rationale for hiring casual workers is to be able to pay low wages, it may be economically rational to employ them as long as the law permits. If the primary purpose is internal labor market flexibility, the uninterrupted employment of large numbers of casual workers for as long as 5 years may indicate that the mix of regular and casual workers is not right. Some firms set limits for the maximum duration of *professional* contracting because, if contractors are in the firm long enough, they will be able to comprehend and absorb the architectural knowledge, which represents the ultimate competitive advantage of a firm.[190] Although the protection of the firm's competitive advantage may not be an issue with casual workers, it may become increasingly difficult to differentiate the function of casual workers from those of regular employees if they remain part of a team for several years. If casual workers gradually learn to perform all the tasks of regular workers, the latter may be concerned that, once the market demand declines, management will make them redundant rather than the cheaper casual workers. It was shown in the second chapter how such a perceived threat may lead to excessive levels of conflict in mixed teams of regular and casual workers and how it would undermine the functioning of the team worker employment mode.

Considerations about the duration of casual employment may coincide with considerations about **rules for promotion** into regular employment. A longitudinal case study of casual workers at a "large vehicle manufacturer" describes the rising frustration among casual workers who were promised that they would be taken over but had not actually been taken over after the expected period of contingent employment of 6 months.[191] They felt that they were left "in limbo" and that "no one from higher management or the union is prepared to answer questions about job

[186] Caudron (1995).

[187] Lautsch (2002).

[188] Virtanen et al. (2003, p. 31).

[189] The EU Council Directive 1999/70/EC states that the maximum total duration must be limited, leaving it to the member states to specify that limit. The German legislator, for instance, has set the limit to two years (TzBfG 2000, §14).

[190] Cf. Sect. 3.3.6.

[191] Parker et al. (2002).

security for temporary workers."[192] The announcement that casual workers are taken over after a set period of time results in those workers experiencing a protracted trial period and an increased level of physical stress symptoms.[193] If a stressful 6-month assessment period is perceived to be further prolonged without being commented on, frustration and the loss of the motivatory effect appear to be the consequence. Clear-cut rules for casual-to-regular worker promotion that are adhered to by the management may avoid frustration among casual workers and bolster a sustainable motivatory effect. A study of a Fortune-1000 organization illustrates what such a promotion rule might look like. In this company, casual workers work on a contingent contract for 3 months before "being hired permanently, continuing to work as a temporary employee for a maximum of 9 months longer, or being let go."[194] The company essentially operates an 'up-or-out' staffing system with an evaluation being conducted after 3 months that classifies the workers into three categories that could be labeled *up, in*, and *out*. Thus, if the casual worker system is to feature a casual-to-regular promotion incentive, an appraisal may be conducted for the purpose of staffing/predicting performance. It is argued in Sect. 4.3.4 that members of SMWTs should be carefully selected. If promotion from casual to regular worker means promotion to team worker rather than promotion to traditional industrial/clerical worker, it would be too costly to subject all casual workers to the team worker selection process proposed in Chap. 4. Moreover, additional performance criteria for selection purposes might distract the casual workers from their performance tasks. One key purpose of the promotion incentive is to motivate task performance after all. Therefore, it is suggested that a preliminary selection be made based on the productivity data that is collected anyway. The top performers after a set period of months may be nominated to participate in the team worker selection process.

As was explained before, perceptions among regular workers that casual workers represent a threat to them may prove an obstacle to the effective deployment of casual workers. Care should be taken that casual-to-regular promotion rules do not add to a perceived threat among regular workers. Any set promotion contingents could, for example, be chosen such that the number of casual-to-regular upgrades corresponds to the natural fluctuation among regular workers. Fixing a set number of casual-to-regular upgrades will also render any sabotaging of casual workers futile. That is, if a fixed proportion of relative top performers among the casual workforce regardless of the overall level of performance of the casual workforce is upgraded, the regular workers should perceive that they will have to get on with some of them in the long term and that destructive activities will not change anything about that.

In concluding this section, it needs to be added for the sake of completeness that the literature is unequivocal about the fact that casual workers have no access to

[192] Parker et al. (2002, p. 698).

[193] Bauer and Truxillo (2000).

[194] Bauer and Truxillo (2000, p. 340).

systematic training and development activities conducted by the hiring organization because no long-term payback can be expected.[195] Thus, performance appraisals of casual workers focus on their productivity for the purposes of monitoring and controlling performance and evaluating the effectiveness of different sourcing strategies. On the basis of the evaluation of their (past) productivity, casual workers may be promoted to regular worker status or, if applicable, be nominated to participate in the selection procedure for SMWTs.

3.3.6 Professional/Occupational Contractors

Professional contractors are hired temporarily on the basis of service or limited-duration employment contracts, either individually or through a business service firm. They perform functions that occur in an organization's value-adding process only temporarily and irregularly that require a high level of generic and a low level of organization-specific competencies, and that can be controlled without ongoing social integration into the organization. By staffing these functions externally, organizations avoid having employees the specialized competencies of whom are only rarely needed on their payroll. In addition to efficiency savings, effectiveness considerations may also play a role when quickly evolving expertise is externalized, for example, relating to information systems or best practice consulting. Contracted professionals in such functions continuously develop their expertise through projects with different client organizations. They achieve levels of generic competency that permanently employed professionals, who get to apply their generic expertise less frequently, may hardly achieve. Economically, the externalization of quickly evolving functions can be regarded as an informal joint venture among the organizations in a region or an industry segment. The participating organizations open their boundaries to a shared professional network and lift their expertise in the respective function onto a common platform. The competition in the shared function is limited to fairly subtle differences as in which firm is quicker to implement the latest technical developments. The organizations can focus their processes, culture, and cognitive capacities on the competition in their core functions. Thus, the functions performed by professional contractors can be said to complement those performed by regular employees. Of interest to the present work are those contractors who perform their functions at least partly on the premises of the hiring organization, necessitating interactions with regular employees. Functions that are wholly outsourced are outside the scope of this work.

[195] E.g., Hanratty (2000), Hunter and MacInnes (1992), Pfeffer and Baron (1988), Feldman et al. (1995), Feldman et al. (1994), Kochan et al. (1992), Morris (1999), Tregaskis (1997), Smith (1994).

Knowledge Management Strategy and Tactics

Professional contractors work side by side with regular employees, integrated in a team for the duration of a project.[196] The challenges of coordinating the activities of contractors and regular employees are different from those of coordinating casual and regular workers. The function of casual workers is supplementary to that of regular workers. The challenge is that regular workers may regard casual workers as a threat to their existence and, hence, refuse to support the casual worker function or even sabotage it. The proposed strategy for overcoming this challenge is to differentiate systematically the function of casual workers from that of regular workers, mainly by making it simpler. In contrast, the function of professional contractors is distinct from that of regular employees by default. Professional contractors are not seen as a threat to their existence by regular employees, also because the majority of contractors voluntarily choose not to be attached to a single organization. Thus, the challenge is not to separate supplementary functions but to integrate complementary functions so that they collaborate to achieve a shared goal. Professional contractors, such as consultants or IT experts, depend on the organization-specific competencies of the core members of the organization, who in turn depend on the contractors to update their functions.

Several challenges in integrating professional contractors and regular employees have to do with managing knowledge. Firstly, the temporariness of professional contractor placements represents a challenge to the continuous development of the respective functions in an organization. There is a risk that contractors reinvent solutions that have previously been invented by a different team of contractors or that the direction of the functional development is inconsistent. One way of mitigating such risks is to use standard systems and processes which are recognized and understood by all professionals in the same way. Professional associations may represent one source of generic standards and practices. Hiring only contractors certified by a certain professional association may be conducive to a continuous functional development. A continuous development, specifically, of the IT function may also be supported through the use of a standard enterprise software package by one of the large software development companies in the industry, provided the software can cater to organization-specific functional requirements.[197]

A perhaps obvious means of ensuring continuous functional development is to always employ contractors in a team with regularly employed professionals. The professional employees may be made responsible for the continuous development of the function and for its alignment with organizational needs, while the contracted professionals are responsible for contributing the latest professional thinking. Contractors such as management consultants are not part of an institutionalized profession. Their regularly employed counterpart could be a team of managers dedicated to organizational design and development. Whether it is a team of employees and

[196] E.g., Matusik and Hill (1998), Olsten Corporation (1997), Pearce (1993), Smith (2001).

[197] Cf. Kanter (1989) on trends of occupational skill standardization and credentialing.

contractors in the same profession or a team of managers dedicated to a function and consultants, it is important that their respective roles are clearly defined and understood. That is, the contractors import the latest generic knowledge related to the function; employees ensure continuity and help to put the contractors' knowledge to the best use for the organization.

The different roles of the two parties are associated with different types of knowledge. Understanding how their knowledge contributions differ will help both parties to act so as to complement the other party. Matusik and Hill propose a **taxonomy of knowledge** which distinguishes between two dimensions, *private versus public knowledge* and *component versus architectural knowledge*.[198] The distinction between private and public knowledge corresponds to that between organization-specific and generic knowledge: "Private knowledge is unique to the firm, whereas public knowledge resides in the public domain."[199] Best practices such as total quality management and team-based incentives serve as examples for public knowledge and to illustrate that "at one point in time, many best practices started out as private knowledge."[200] The second dimension, component versus architectural knowledge, is concerned with the granularity of knowledge. Component knowledge "is the knowledge that relates to a subroutine or discrete aspect of an organization's operations," such as its new product development or customer billing processes.[201] Architectural knowledge is concerned with how the various components of an organization interact in order to generate desired outputs and outcomes. It is "organization-wide" and "often no one individual is in a position to see, comprehend, and articulate the totality of architectural knowledge."[202] It is the result of "a path-dependent evolutionary process" and consequently "no two firms have the same architectural knowledge. [. . .] [Over] the long run, it is architectural knowledge that contributes most to an organization's long-run competitive position."[203]

Thus, competitive advantage arises from private knowledge. Private knowledge may leak into the public domain, in which case it ceases to generate competitive advantage. Private knowledge may be either architectural knowledge or component knowledge. Competitive advantage arising from architectural knowledge tends to be path-specific, that is, only applicable to the organization and the market mandate it relates to. Because of its complexity, it tends to be understood intuitively. It is mostly tacit and normally not understood in its entirety by a single individual. Private knowledge that is architectural knowledge is then less likely to leak into the public domain than private knowledge that is component knowledge.

[198] Matusik and Hill (1998).
[199] Matusik and Hill (1998, p. 683).
[200] Matusik and Hill (1998).
[201] Matusik and Hill (1998, p. 684).
[202] Matusik and Hill (1998).
[203] Matusik and Hill (1998, p. 685).

Private knowledge leaking into the public domain represents a potential loss of competitive advantage. Several publications describe a concern among managers about valuable **private knowledge being misappropriated** by contracted professionals.[204] Architectural private knowledge may be protected simply by limiting the duration for which a given contractor can be hired, so that, "even if they are exposed to architectural knowledge, their levels of absorptive capacity are too low to actually assimilate it and then transfer it out into the public domain."[205]

It is more challenging to **guard private component knowledge** from misappropriation. A first step is to create awareness among the regular employees. It should be defined which component knowledge is to be kept private and which should be readily shared with contractors. A lack of awareness in that regard may result in employees being overprotective about knowledge which contractors need to have access to and in an ensuing lack of trust and cooperation. Alternatively, it may result in employees being not careful enough, readily giving away private knowledge which would not have been needed by the contractors to complete their jobs. Knowledge which has been declared as public may be captured systematically in explicit form in documents, handbooks, and files of knowledge management databases. Knowledge declared as private should not necessarily be documented, unless there are specific reasons such as a high level of fluctuation among regularly employed professional employees. Keeping private component knowledge deliberately tacit does not mean that it cannot be managed systematically. A directory with contact details and outline descriptions of the expertise of professionals and other experts within the organization may be published on the intranet. Communities of practice may foster the exchange and enhancement of knowledge.

Defining which knowledge is central to an organization's competitive advantage and which knowledge should be integrated with the 'functional industry platforms' that professional networks represent can be considered part of an organization's knowledge management *strategy*. Following the definition of the knowledge management strategy, *tactics* may be devised to protect private component knowledge. Explicit component knowledge can be protected through nondisclosure agreements, limited access to databases, documentation, and users, and by prohibiting contractors from staying behind beyond normal working hours without prior permission.[206] Emerging reputational markets constitute another increasingly effective mechanism to prevent the dissemination of any kind of private knowledge by contracted professionals. Matusik and Hill hypothesize that there might also be a market for contractors who have a reputation for "supplying good competitor intelligence"[207] but that markets for professionals with a reputation for being discreet will dominate those because firms value their own confidentiality. Similarly, Defillippi and Arthur

[204] Ang and Slaughter (2001), Hoffman (1992), Matusik and Hill (1998).

[205] Matusik and Hill (1998, p.691).

[206] Ang and Slaughter (2001), Matusik and Hill (1998).

[207] Matusik and Hill (1998, p.692).

suggest that a reputation "for promiscuous know-how sharing is likely to be detrimental to career prospects both within one's current employment setting and among other employment contexts that value discretion in communications with outsiders."[208]

Against the backdrop of a strategic approach to knowledge management, contractors should be valued who have a reputation both for being discreet in the handling of private knowledge and for possessing the latest professional knowledge. Contractors with a reputation for being discreet must have a good understanding of what kind of knowledge their clients consider private. Contractors who at the same time have a reputation for possessing the latest professional knowledge must also be good at extracting the knowledge that relates to their function. Accordingly, business rational markets should value a reputation for being sensitive to clients' differentiated expectations regarding the handling of different kinds of knowledge.

Those representing the interest of the organization should not obstruct the professional networks' access to relevant functional knowledge. There is some tentative evidence indicating reluctance among some regular employees to share their knowledge with contingent staff.[209] Despite a functional separation, contractors may offer a new, possibly critical perspective on practices for which the employees are accountable, potentially making them vulnerable in the micropolitical games of the organization. Vice versa, there is also some evidence to indicate that some contractors may "purposely avoid sharing any valuable or rare knowledge with their permanent colleagues, in order to encourage their employers to engage their services for a longer period of time."[210] Contractors have also been shown to expend less effort and to be less committed to the organization than regular employees, being aware that they are with the organization only for a limited period of time.[211] It seems that their perceived dependence on their clients' judgment of them is limited, indicating either that effective reputational markets have not yet emerged for all types of professional contractors, that the contractors are not sufficiently aware of them, or that the labor markets are so much in their favor that they simply do not have to bother.

Professional contractors are paid to import new knowledge into the organization. If contractors are reluctant to deliver what they are paid for, it may also indicate that the incentives are not set right. Knowledge integration should represent, at least, an implicit goal in the design of control, staffing, and development systems of professional contractors. Their control may, for instance, focus on outputs at a level that reflects the integrated efforts of contractors and regular employees rather than on the isolated contributions of the contractors. In the case of management consultants, this could mean that incentives are tied to the accomplishment of desired outcomes

[208] Defillippi and Arthur (1994, p. 319).

[209] Connelly and Gallagher (2004, p. 971).

[210] Connelly and Gallagher (2004, p. 972).

[211] Ang and Slaughter (2001).

rather than to the delivery of reports on solutions that have yet to be implemented. In the same vein, IT professionals may be rewarded not solely upon the delivery of a functioning IT system as indicated by a successful 'go live' but also on the achievement of agreed operational targets for the new system. That is, contracts should be negotiated which grant contractors **outcome-based performance rewards**, which they may be awarded in some cases only a considerable amount of time after the completion of a project. Thereby they have an incentive to cooperate with regular employees and reveal whatever knowledge is necessary to accomplish the incentivized goals, regardless of a high labor market demand for their competencies.

Sometimes, it is suggested that rewards should be tied directly to knowledge transfer goals. Because the transfer of knowledge can only be inferred, such goals may result in excessive impression management activity, detracting from the tasks at hand. Further they may result in 'bean counting' of instances of knowledge transfer, that is, people paying attention to the quantity of information that is passed on without being able to accurately distinguish between relevant and irrelevant information. What can be evaluated is the adherence to minimum standards that may be agreed contractually, for example, that contractors must make entries into a knowledge management database at certain project milestones or that community of practice forums and events must be attended. Beyond that, motivation to share knowledge should be the result of a desire to accomplish outputs and outcomes linked to a desired reward.

A lack of integration between contractors and regular employees may also be the result of the parties lacking the ability rather than the willingness to integrate. Regular employees are socialized into the organization, to a greater extent if they are managers, to a more limited extent if they are professional employees. Over the years, they have learnt to understand the 'ins and outs' of their particular organizational context. They may intuitively understand why some solutions would not work in their organization but may find it difficult to communicate that to outsiders. Some of their knowledge may be tacit. Some may be private; that is, they may not be permitted to reveal it to outsiders. Thus, effective communication may require some degree of trust from the contractors.

Contractors have not developed the organization-specific competencies of regular employees. Instead, they have been focusing on the ongoing development of their professional expertise. Their professional insights may surpass those of employed professionals and managers in depth and width. Hence, the representatives of the hiring organization may not always be in the position to fully comprehend the contractors either. Some mutual trust is required for successful collaboration.

Given a limited contract duration, it is not possible to elicit deep structure identification among contractors. A certain amount of **socialization** should, however, at least help to eradicate some of the more simplistic stereotypes about the other party and preempt attempts on both sides to guard their knowledge and to engage in time-consuming games of extracting knowledge not volunteered by the other party. Socialization may further help to establish a common use of professional language,

a common understanding of the latest professional concepts, and of the organization-specific context.[212] It has been proposed elsewhere that social interaction facilitates the development of trust and increases the willingness to share knowledge;[213] and it has been said to make employees "more knowledgeable about their colleagues' potential for being knowledgeable sources."[214] It has been suggested that the encouragement of informal communication contributes to the integration of employees and that informal communication can be encouraged by making available 'talk rooms' for employees, as it seems to be good practice in some Japanese companies.[215] If contractors and employees are to be part of a project team for at least several months, one may organize an introductory social event and community of practice events that are of professional interest to both groups. The community of practice events could include talks by professional employees about the particular challenges of their profession in their organization and talks by contracted professionals about the latest professional developments in their area of specialization.

The need to integrate generic and organization-specific competencies contributed by contractors and employees, respectively, places certain demands on the organizational control and development systems for professional contractors. According to control theory, the control of professional contractors should focus on the outputs they are contracted to deliver. Cause–effect relations cannot be fully understood by the supervising organizational representatives: contractors are hired because of their specialized expertise which is not available within the regular workforce.[216] On the other hand, they are hired to accomplish a function which must be specified in advance by the hiring organization's representatives.[217] To comprehensively define the standards for the contractors' output, it may be necessary to specify the effects that the output is supposed to have. A disincentive should be provided for contractors to find a 'short-cut' solution which ignores organization-specific parameters. Hence, there is a need to conduct appraisals of outputs and outcomes generated by the professional contractors for purposes of control. The development processes of professional contractors are affected by the challenges of knowledge management in so far as some moderate socialization activity is proposed for members of blended project teams.

[212] Cf. Connelly and Gallagher (2004).

[213] Connelly and Kelloway (2003).

[214] Connelly and Kelloway (2003, p. 295).

[215] Connelly and Kelloway (2003).

[216] For instance, Gallagher and McLeanParks (2001, p. 200): "From a practical perspective, 'independent contractors' are often hired by organizations for the purpose of providing a specific service for which the organization lacks the expertise among its current workforce (e.g., installation of a computer information network, preparation of annual tax returns, diversity trainer, or plumbing repair)."

[217] Uzzi and Barsness (1998), for instance, state that "contractors normally have full administrative control over their work assignments, and are therefore accountable to the firm for the quality and timing of their output rather than for the process by which that outcome is produced" (p. 971; cf. Davis-Blake and Uzzi, 1993; Gallagher and McLeanParks, 2001; Ang and Slaughter, 2001).

Joint Functional Platforms

Economic organizations will not invest in the development of the generic competencies of professionals, be they employees or contractors.[218] The contractors are responsible for the development and maintenance of their own skills.[219] If they are members of a professional or occupational association, they may acquire, maintain, and update their competencies by attending trainings, seminars, and other events organized by their association. Otherwise, they may study and attend development programs at their own initiative and expense. If they are employed by a business service organization that competes on the grounds of the currency of its professional employees' skills, that firm may take care of the training and development of the professionals that it markets.[220] Examples include skilled engineering firms and the *big-five* public accounting firms.[221]

Although the hiring organizations do not get involved in the contractors' training and development, they may encourage employed and contracted professionals to participate in their respective professional communities, as professional or occupational networks "provide a context for tacit know how to emerge."[222] They may support intraorganizational professional practice communities to increase their attractiveness as an employer for professionals, especially, where there is competition for professional talent, and to facilitate the integration of contracted professionals. Companies such as Bell Atlantic Corp. operate *Centers of Excellence* around functional areas such as marketing and accounting, "where functional skills are maintained in depth and where employees can turn for help in developing their skills."[223] The organizations may not exercise active influence over professional networks. The establishment of **intraorganizational professional hubs** may, however, increase the likelihood that the particular professional challenges of the organization are noted and that, as far as possible, the development path of the profession accounts for these challenges.

Not all functions staffed with skilled contractors are associated with an institutionalized profession. Nevertheless, the hiring organizations may wish to benefit from the interorganizational functional exchanges described above. In an attempt to support the development of professional structures, organizations may engage in joint ventures to establish common standards for the training and certification of specialists in a given occupation and region. They may provide support to institutions that educate and train according to desired standards. Cappelli gives an example of companies establishing the joint initiatives *Talent Alliance* and *Consortium for Supplier Training* to support common training curricula and standardized

[218] Marler et al. (2002).

[219] Gallagher and McLeanParks (2001), London (1998).

[220] Defillippi and Arthur (1994).

[221] Defillippi and Arthur (1994).

[222] Defillippi and Arthur (1994, p. 314).

[223] Cappelli (2000, p. 22).

course work.[224] Kanter notes a trend toward the standardization of skills and certifications in nonelite occupations such as nursing assistants.[225] Another case example by Cappelli involves a union which reached an agreement with 12 hotels in the San Francisco region to fund the training of apprentices in the hospitality industry. The standardized training and credentials allow workers to "move more easily across employers in the region," resembling "a craft occupational labor market."[226]

The fact that the employers funded the generic skill development of these workers represents a fringe benefit bargained by the union on behalf of these workers who were (yet) on contracts of employment as opposed to service contracts. If contractors had been involved, it would likely have been stated more explicitly that training expenses are part of their compensation. One case study, for instance, describes how professional contractors at the British National Health Service "have managed to come to informal arrangements with managers about training in return for reduced fees."[227] Thus, it may not be in the interest of employers to fund the generic skill training of professional contractors, since that would represent a prepayment for services they may never obtain. They should prefer to refund through wages only a share of the investments in generic competency development which is proportionate to the share of the benefits they accrue. What may be in the interest of the employer are investments in an infrastructure – together with other employers who will benefit from it – which enables the operation of a joint functional platform among the members of a region or industry segment and which would not be set up without an upfront investment of the employers.

Mature professional institutions encompass, beyond training and credentialing, also **career paths**. Young accountants, for instance, ideally begin their career with one of the big-five public accounting firms. Most of them remain with their first employer only for a few years. During that time, they gather experiences with different client firms, which they seek to leverage by obtaining employment with one of those firms. Successful software firms and investment banks have also been noted to support transfers of some of their specialists to clients. From the perspective of large business service organizations, a certain number of employee transfers to clients helps build informational networks which may be conducive to future business. From the point of view of the client firm, contracting such accounting, IT, and banking professionals represents an opportunity for recruiting regularly employed professionals.[228]

The evidence that was cited in Sect. 2.3.6 suggests that the majority of professional contractors does not desire employment with a single employer. Thus, the

[224] Cappelli (2000).
[225] Kanter (1989).
[226] Cappelli (2000, p. 20).
[227] Mallon and Duberley (2000, p. 41).
[228] Defillippi and Arthur (1994).

systematic transfer of accountants and some other professions contracted through large professional service organizations may not be representative of the career paths of professional contractors. Even among contracted accountants, it may only be the young accountants of the *big five* for whom a transfer to client firms is inherent to the system. Nevertheless, the minority of professional contractors that is willing to accept regular employment constitutes a potential recruitment source for client organizations with vacancies in their professional rank and file.

It is conceivable theoretically that a systematic contractor-to-regular employee promotion system is operated akin to that proposed for casual workers. On the other hand, it is argued in Sects. 3.3.2 and 4.3.2 that the staffing of professional employees should be based on the professional credentialing system, which requires that multiple perspectives on the competencies of the professional are taken into account. Thus, the control of professional contractors is based on a different assessment (that is, of output) than the selection of professional employees, which is based on an assessment of credentials. A network of current and past professional contractors may represent one source among others for locating potential candidates for recruitment. It is, however, not suggested that a fixed contingent of contracted professionals is upgraded systematically to regular employment as it has been suggested for casual workers. Casual workers are upgraded, and professional contractors would have to be promoted into vacancies. The number of contractors and professional employees in a given professional function of an organization is likely to be smaller than the number of regular and casual workers. Hence, the number of vacancies for contractor-to-regular professional promotions would likely be limited. Additionally, the number of professionals to whom the prospect of regular employment is an incentive is smaller, because the majority of professional contractors does not desire regular employment. Hence, operating a systematic contractor-to-regular professional promotion rule would likely not be economic for most organizations. No regular appraisal is required for *staffing/predicting performance* purposes.

In summary, professional contractors are part of professional systems or networks. Contracted into an organization, they connect the organization to these systems. Like employed professionals, they are selected on the basis of their professional competencies. Additionally, their reputation for being discreet and sensitive about organizational requirements regarding the management of different types of knowledge should be taken into account. The integration of the complementary knowledge and abilities of regular employees should be incentivized by rewarding contractually agreed, distal, and comprehensive output/outcome goals. The integration should further be facilitated through some limited socialization activities, including social events and the support of professional community of practice forums within the organization. Hiring organizations may instigate the development of joint functional platforms where contractors are not part of formally organized professions. The professional contents of community of practice events are to be decided by the professionals. The definition of individual professional development needs is not subject to organizational systems. Hence, there is only

one kind of formal appraisal to be conducted, which is the evaluation of the contractor's deliverables defined in terms of outputs and outcomes.

3.3.7 Overview Archetypal Performance Management Systems

Table 3.1 Performance management configuration of generalist managers

Generalist managers	
Control	Input; competencies; interest alignment
Staffing	Assessment center; nontask-specific managerial competency appraisals
Development	Proximal learning goals during trainee period; ongoing monitoring of competencies
Appraisal purpose	Dual: staffing/predicting performance and developmental; sole developmental purpose during trainee program

Table 3.2 Performance management configuration of professional/occupational employees

Professional/occupational employees	
Control	Output; goal setting; individual performance-related pay
Staffing	Professional competency assessments based on credentials (assessment outside remit of organizational systems)
Development	Professional development within professional systems; limited organization-specific development on-the-job
Appraisal purpose	Control/monitoring performance

Table 3.3 Performance management configuration of industrial/clerical workers

Industrial/clerical workers	
Control	Behavior/output; quantity; adherence to quality standards; piece rates
Staffing	Seniority-based progression through pay bands
Development	Learning of standard processes on-the-job
Appraisal purpose	Control/monitoring performance

Table 3.4 Performance management configuration of team workers

Team workers	
Control	*Group level:* output; supervisor once-removed or work planning and review method; intergroup comparison; possibly financial incentive *Individual level:* behavior; mutual monitoring; peer evaluations for mastered tasks
Staffing	Pay and task responsibilities based on competencies (as indicated by work sample tests); rotation of internal team-lead role
Development	Task-related peer feedback informally and formally for tasks not yet mastered; feedback on group managerial processes at team level by coach/facilitator
Appraisal purpose	Control/monitoring performance (group output evaluation and peer evaluation of mastered tasks); secondary developmental purpose (peer evaluation of tasks not yet mastered); secondary staffing purpose (work sample tests)

Table 3.5 Performance management configuration of casual workers

Casual workers	
Control	Behavior; casual-to-regular worker promotion incentive; market control
Staffing	'In, up, or out' decision based on productivity/cost evaluation
Development	Minimal; on-the-job
Appraisal purpose	Control/monitoring performance; systems evaluation

Table 3.6 Performance management configuration of professional/occupational contractors

Professional/occupational contractors	
Control	Output/outcomes; incentive linked to delivery of contractually agreed specifications; references for future employment/reputational markets
Staffing	Professional competency assessments based on credentials
Development	Ongoing professional development within professional networks; socialization with regular employees to facilitate knowledge integration
Appraisal purpose	Control/monitoring performance

Chapter 4
Performance Theories

Choosing a dimension of performance as a basis for reward, staffing, or development decisions implies that it is important for an organization because it affects its current and future performance. Perceived relationships between different performance dimensions and organizational performance are referred to as performance theory. Performance theories may be spelled out explicitly in company documents. More often, they only exist in the minds of individuals throughout the organization – consciously or subconsciously. They evolve over time as the individuals observe performance and its effects throughout their careers, and they provide structure whenever these individuals assess performance, formally or informally.

Personal performance theories have been shown to vary substantially across individuals and to deviate from the performance criteria officially embraced by their organizations.[1] Official appraisal criteria reflect the performance theories of those individuals who devised the criteria. This poses two different challenges. Firstly, it needs to be decided whose performance theories are to be considered and how to integrate the performance theories of different people in defining performance appraisal dimensions. The remainder of this chapter addresses this challenge by discussing possible elements of performance theories (Sect. 4.1), alternative ways of defining performance dimensions (Sect. 4.2), and by illustrating the process

[1] *Personal construct theory* by Borman (1987) – supported by empirical evidence – states that people develop theories of performance based on their experiences and perceptions of what it takes to be successful in a job. These perceptions can differ significantly between people, resulting in what Borman refers to as "folk theories of work performance." The performance theories of inexperienced managers tend to be one-dimensional. Statements such as "The key to this (sales) job is thinking on your feet with customers" or "Show me a person who comes to work on time and I'll show you a good customer" reflect simplistic, one-dimensional views of performance (Borman, 1987, p.310). With growing experience of managers, their personal performance constructs tend to become more sophisticated and multidimensional.
Personal performance constructs have been shown to vary significantly among managers, even within relatively homogeneous samples such as a unit of US Army officers (Borman, 1987). They have also been shown to differ considerably from the performance theory espoused by the organization (Longenecker et al., 1987).

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of deriving performance dimensions for the six archetypal performance management configurations defined in the previous chapter (Sect. 4.3). Secondly, it needs to be ensured that performance criteria devised by few are internalized or, at least, understood and applied consistently by appraising the managers throughout the organization. The so-called *frame-of-reference* appraisal training method is an effective means of aligning individual performance theories with formal appraisal criteria. Appraisal training methods are discussed in Sect. 5.6.

4.1 A General Performance Theory

Performance of individual employees can be defined as their work-related behaviors.[2] Their behaviors or actions represent their contribution to their organization. Their behaviors result in outputs and outcomes, which may, however, also be influenced by other factors depending on the function. Deconstructed assembly-line manufacturing jobs would represent an example of a function with a largely unfettered, causal behavior–output relationship. For managerial jobs, by contrast, the behaviors of the individuals typically combine with various context factors, such as technology, markets, and the behaviors of other employees, to yield performance outcomes. Thus, performance and performance results may be more or less correlated. In practice, performance appraisal frequently involves the appraisal of results. For conceptual and terminological accuracy, however, performance is defined in terms of relevant behaviors and is distinguished from performance results. The proposed definition of performance does not preclude that employees take into account all relevant context factors in deciding which actions to take. As a matter of fact, it is only against the backdrop of relevant context factors that performance requirements can be defined and performance evaluated. As far as employees can exert influence over context factors, the respective influencing behaviors should form part of the performance expectations.

A general performance theory is outlined in the following sections to illustrate how, across different jobs, various performance antecedents combine to result in performance and results. Simplifying the following arguments somewhat, it will be proposed that cognitive ability, certain personality traits, and experience (including practical experience, training, and education) determine a person's competencies. A competency is the ability to display a particular performance-relevant behavior, where the term behavior is to be understood to include actions, decisions, and cognitions. The difference between someone's competencies (or performance abilities) and actual performance (that is, the display of certain behaviors) is motivation or the willingness to display desired behaviors. Actual behaviors then combine with proximal context factors such as technology and the behaviors of coworkers to

[2] Cf. Campbell et al. (1993), Murphy (1989, 1990), Murphy and Cleveland (1995), Sonnentag and Frese (2002).

produce *outputs* as immediate, tangible consequences of behavior. Outputs are further impacted on by distal context factors, such as market conditions, to yield intangible, lagging performance *outcomes*. In the following sections, each of these elements of a general performance theory is looked at in turn. Thereby, an understanding of performance is generated as a basis for the derivation of performance dimensions for the six performance management configurations in Sect. 4.3.

4.1.1 General Mental Ability

The term general mental (or cognitive) ability (GMA) has been introduced in the literature to supersede the term intelligence and its connotations among lay people. Intelligence is frequently assumed to represent a genetically determined cognitive potential which is stable regardless of age, experience, and personal circumstances at the time of its measurement. Such a genetic cognitive potential is not measured by intelligence or GMA tests. Instead, they assess various basic mental abilities as they have been developed by grown ups at the time of the test. For that purpose, various components of cognitive ability such as verbal, numerical, and spatial reasoning are assessed using separate test batteries. The separate ratings are aggregated into an overall GMA rating.[3]

The impact of GMA on job performance is among the most thoroughly researched subjects in the field of occupational psychology. Hundreds of studies have shown that validities of GMA measures for predicting performance are in the 0.50s and 0.60s – on average, across all job categories. GMA is assumed to impact on performance through the acquisition of job knowledge: more mentally able people acquire and utilize a larger stock of job knowledge, which represents an immediate antecedent of performance. Partly, GMA also appears to impact on performance directly, as it enables people to prioritize and adapt the job knowledge they possess in unfamiliar situations. As well established as the very high average validities of GMA measures across all job categories is the fact that these validities correlate with job complexity. Conversely related with job complexity are, by contrast, the validities of psychomotor ability measures. This suggests that tests of mental and psychomotor abilities are complementary in predicting performance across different types of job.

The available validity studies have been integrated by meta-analyses to corroborate the **predictive validity** of GMA.[4] The findings of these meta-analyses have been largely independent with regard to a number of contingent factors such as public versus private sector or different industry sectors.[5] The different

[3] Hunter (1986).

[4] E.g., Hunter and Hunter (1984), Ghiselli (1966, 1973), Dunnette (1972), Reilly and Chao (1982), Vineberg and Joyner (1982).

[5] Hunter and Hunter (1984).

meta-analyses yield comparable validities.[6] A typical mean validity of GMA for predicting supervisory performance ratings is 0.53 across all job categories.[7] One meta-analysis covers a comparably smaller number of validation studies based on data on objective work sample performance rather than supervisory ratings. It yields a considerably higher validity of 0.75, suggesting that supervisory ratings may also be affected by non-work-related factors. Among the most prominent metastudies are those by Hunter and colleagues due to their methodological innovation and sample size, covering, for example, 515 studies conducted by the US Employment Service on their General Aptitude Test Battery[8] and data collected by the US military in 828 military schools for approximately 500,000 staff across four main job families.[9] The credibility of the findings also stems from a very low variance across studies. Validity generalization studies have shown that, after adjusting for sampling error and errors in typing, computation, or transcription, there is virtually no variation in validity for a given job across different studies.[10] What has been found, however, is a consistent variance of validities across different job categories. One meta-analysis found GMA validities for predicting supervisory ratings to range from 0.27 for sales clerks through 0.48 for service workers and 0.53 for managers to 0.61 for sales persons.[11] The meta-analysis of the US employment service studies yielded validities for predicting supervisory ratings of 0.23 for simple industrial jobs, 0.40 for semiskilled jobs, 0.51 for medium complexity jobs, 0.56 for high-level complex technical jobs, and 0.58 for professional-managerial jobs.[12] It has been concluded that the predictive validity of GMA is positively correlated with job complexity.[13]

GMA has been shown to be highly correlated with the possession of job knowledge, which in turn has been shown to be highly correlated with performance. This suggests that GMA affects performance largely because more mentally able employees absorb and remember more job knowledge than others. According to the **classic theory of learning and performance** by Thorndike, the acquisition of job knowledge (that is, learning) requires first the ability to absorb knowledge in formal training programs. Secondly, for on-the-job learning, it requires the ability to recognize significant events when they take place and, thirdly, the ability "to formulate the lesson inherent in the event in such a way as to learn from it."[14]

[6] Hunter (1986), Hunter and Hunter (1984).

[7] Hunter and Hunter (1984).

[8] Hunter (1980a, 1980b, 1981a, 1981b).

[9] Hunter (1983a, 1983b, 1984, 1985).

[10] Brown (1981), Callender and Osburn (1980, 1981), Lilienthal and Pearlman (1983), Linn et al. (1981), Pearlman et al. (1980), Schmidt et al. (1980), Schmidt and Hunter (1977), Schmidt et al. (1981), Schmidt et al. (1979).

[11] Ghiselli cited in Hunter and Hunter (1984).

[12] Hunber (1980b), Hunter and Hunter (1984).

[13] Hunter (1986).

[14] Hunter (1986, p. 348).

The extant research provides evidence for the link between GMA and both performance in formal training programs[15] and on-the-job learning.[16]

For civilian jobs, the correlations between GMA and job knowledge and between job knowledge and objective work sample performance were both shown to be 0.80. If the effect of GMA on performance occurred solely through the acquisition of job knowledge, as indicated by the classic theory of learning and performance, the correlation between GMA and work sample performance should be $(0.80) \times (0.80) = 0.64$ – i.e., slightly lower than the correlation that was actually found. This suggests that GMA has an effect on performance beyond the acquisition of job knowledge. It may, for example, enable innovation and the flexible application of job knowledge in unfamiliar circumstances.[17] Further research has revealed that this direct effect of GMA on individual performance is more significant for supervisory compared to nonsupervisory jobs, as they require greater flexibility in the application of previously acquired job knowledge. For nonsupervisory jobs, the indirect effect represents about five-sixth and the direct effect only one-sixth of the total effect of GMA on performance. For supervisory jobs, by contrast, the indirect effect represents about two-thirds and the direct effect about one-third of the, compared to nonsupervisory jobs, larger total effect.[18]

Research on ability and group performance finds that GMA impacts on group performance beyond individual performance, in particular under situations of high task complexity and interdependence.[19] In contrast, under situations of low task complexity, a simple linear relationship has been found between group aggregate ability and group performance.[20] This indicates that GMA does not only influence the acquisition of job knowledge and its flexible utilization in unfamiliar situations but also the ability to manage complex group interaction processes, an ability which appears especially relevant under situations of high task complexity.

General mental ability measures are composites of specific mental ability measures such as numerical and verbal abilities. A belief prevailed among the psychological research community for a good part of the past century that these composites related differentially to different kinds of jobs. The so-called **differential aptitude hypothesis** proposes that using weights for ability components tailored to the specific requirements of a job would yield higher predictive validities than GMA measures.[21] The hypothesis appeals because it provides hope to individuals when they do not succeed in their job, that is, the hope that they nevertheless belong to the best, only that their strengths lie in some other field which is not that relevant for

[15] E.g., Hunter (1986), Hunter and Hunter (1984), Ree and Earles (1992).

[16] Schmidt and Hunter (1992), Schmidt et al. (1986).

[17] Hunter (1986).

[18] Borman et al. (1991), Schmidt et al. (1986).

[19] Tziner and Eden (1985), Egerbladh (1976), Goldman (1971), Laughlin and Branch (1972), Rohrbaugh (1981).

[20] Hill (1982), Shaw (1976).

[21] Hull (1928).

their current job.[22] It also finds interest among the representatives of organizations as, if true, they could improve organizational effectiveness by optimizing the match between jobs and specific cognitive aptitudes. Finally, it fuels expectations among psychologists concerning the development of even more valid predictors of performance.

Despite the strong appeal to various interest groups, quantitative analyses have refuted the differential aptitude hypothesis.[23] Ability components are highly correlated, and weighted ability composites do not predict performance better than general ability measures. Someone with a high level of GMA is likely to succeed in any type of job, provided he or she is given sufficient opportunities to gather experiences and learn, and provided he or she possesses the personality required to succeed. The analyses were carried out for various civilian and military jobs.

While the hypothesis that different kinds of mental ability are relevant for different types of jobs has been refuted, there is support for the notion that psychomotor ability is unrelated to GMA and also required by different jobs than GMA. Its predictive validity has, in particular, been found to be inversely correlated with job complexity. It is a good predictor for exactly those jobs for which the validity of GMA is lowest, that is, manual jobs.[24]

4.1.2 Personality

The dimensionality of personality has been much researched. There is now broad agreement among scholars on five robust factors at the core of personality, the so-called **big-five personality dimensions**: extraversion, neuroticism, agreeableness, conscientiousness, and openness.[25] *Extraversion* is associated with being sociable, gregarious, assertive, and talkative. *Neuroticism* is associated with being anxious, depressed, angry, emotional, worried, and insecure. The inverse dimension has also been labeled emotional stability. *Agreeableness* is defined as being courteous, flexible, cooperative, and tolerant. *Conscientiousness* is usually defined along two related subdimensions – achievement orientation and dependability. Achievement orientation is represented by hard work, persistence, and the desire to be competent in one's work. Dependability is associated with being responsible, trustworthy, honest, well organized, respectful of laws and regulations, and accepting of authority. Finally, *openness* is associated with being imaginative, curious, broad-minded, original, and cultured.[26]

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[22] Cf. Sect. 3.2.

[23] Vernon (1957), McNemar (1964), Humphreys (1962, 1979), Hunter (1980a), Jensen (1984), Thorndike (1985), Hunter (1986).

[24] Hunter and Hunter (1984).

[25] Barrick and Mount (1991), Hough (1992), Digman (1990), McCrae and Costa (1987).

[26] Barrick and Mount (1991), Mount and Barrick (1995).

Personality can be measured using valid and psychometric testing instruments. Concerns about socially desirable answers to personality-related questioning have been dispersed by large-scale research showing that measures of social desirability do not moderate the relationships between personality and performance that were found in such studies.[27] Validity and reliability of personality measures are the result of sophisticated test designs which use empirically keyed, subtle questions, social desirability scales to detect any response distortions, corrections for defensiveness, and forced-choice formats.[28]

The amount of research carried out on validities of **trait-based personality measures** for predicting performance is almost as large as that on GMA. One hundred seventeen studies have been integrated by a much-cited meta-analysis, the results of which allow statements on the relationship between the big-five dimensions and individual performance. Conscientiousness is consistently related to individual performance across all occupations with a low to moderate mean correlation of 0.22. Extraversion is related to the performance of managers and sales people with low but significant correlations of 0.18 and 0.15, respectively, but not to performance in other jobs. The three remaining personality dimensions are not related to individual performance.[29] The validities did not turn out to be higher when the components achievement orientation and dependability were correlated with performance instead of conscientiousness.[30] Autonomy on the job has been found to be a moderator of the strength of the personality–performance relationship. The validities of conscientiousness and extraversion were somewhat larger for jobs with a greater degree of job autonomy.[31]

A construct closely related to that of conscientiousness is integrity.[32] Integrity can be defined as a person's attitude toward dishonest and counterproductive behaviors, including, for example, theft of physical and intellectual property, computer espionage, excessive absenteeism and tardiness, violence on the job, drug abuse, and disciplinary problems. Meta-analysis has demonstrated that people's attitudes toward such behaviors are inversely correlated with their performance as indicated by supervisory ratings.[33] It further shows that integrity is largely independent of GMA (as is conscientiousness).[34] As a result, the combined use of GMA and integrity tests yields a validity of 0.65 for medium complexity (0.71 and 0.47 for high and low complexity jobs, respectively). This incremental validity is above and beyond that of other combinations of performance predictors. Even the combined

[27] Hough et al. (1990), Ones et al. (1996).

[28] Cook (1993).

[29] Barrick and Mount (1991).

[30] Mount and Barrick (1995). The two components of conscientiousness – achievement orientation and dependability – have been shown to correlate.

[31] Barrick and Mount (1993).

[32] Schmidt and Hunter (1998), Ones et al. (1993).

[33] Ones et al. (1993).

[34] McCrae (1989).

use of GMA and work sample tests (the individual validity of which is slightly higher than that of GMA) does not yield a higher incremental validity – the reason being that GMA and work sample tests are related to a similar underlying construct.

Some personality measures categorize individuals into a finite number of personality types rather than merely describing them in terms of separate personality traits.[35] An example of such a **type-based personality measure** is the Myers–Briggs type indicator (MBTI). It represents an operationalization of Carl Gustav Jung's theory on psychological types and is nowadays widely used for developmental purposes in the corporate world.[36] The instrument categorizes individuals on four bipolar scales. The first scale is concerned with a person's orientation of energy, ranging from extraverted (E) to introverted (I). Extraverted people focus more on people and things, introverted ones on thoughts and concepts. The second scale deals with a person's preferred mode of perceiving his or her environment. At one end of the spectrum, *sensing* people (S) perceive their world in terms of facts, moving in their perception from the detail toward the "big picture." At the other end, *intuitive* people (N) perceive situations holistically, moving from the "big picture" toward the details of it. The third scale focuses on a person's preferred mode of making decisions. People who are at the *thinking* end of the scale decide on the basis of rational analysis, those at the *feeling* end (F) on the basis of emphatic consideration. The fourth scale is concerned with a person's orientation toward the environment. Judging people (J) have a preference for creating structure, making plans (and sticking to them), and exercising control. In contrast, *perceivers* (P) are characterized as open to experience and change, with a preference for making tentative plans and adapting them in response to new information (even if received late in the process). Grading is possible on each scale such that people can, for example, display partly introvert and partly extravert preferences. In order to assign people to a personality type, they are grouped to either one of the two poles on each of the four scales; that is, someone is classified either as extraverted or introverted. This yields a finite number of 16 personality types, ESTJ, ESTP, etc. Elaborate analyses are available for each of the 16 types, describing strengths, weaknesses, how they most likely behave in various situations, which other types they are compatible with, typical conflicts between different types, and possible remedies. These kinds of analysis appear especially useful for developmental purposes such as team building and leadership training. In this context, the MBTI is frequently used in practice.

The empirical evidence for the structural properties of type theory is mixed at best. In particular, the assumption of bipolarity of the dimensions and the division of subjects into dichotomous, opposing groups cannot be upheld against the evidence. The composite types of the MBTI are not supported unequivocally either.[37] Support has been found for some trait-related predictions derived from the MBTI, for example, that managers with a high score for *sensing* favor concrete and factual

[35] Cf. IDS (2004).

[36] Cf. Gardner and Martinko (1996).

[37] Garden (1991), Gardner and Matinko (1996).

data while those with a high score for *intuition* rely more on abstract information, hunches, and heuristics.[38] Being more intuitive (as opposed to sensing) and being more perceptive (as opposed to judging) are both correlated with measures such as creativity, innovation, and originality.[39]

In a review of studies on the MBTI, it is hypothesized that "the proportion of managers with intuitive versus sensing preferences increases as one moves up the organizational hierarchy."[40] It is further suggested that "sensing managers are predisposed toward practical, conventional, detail-oriented and systematic behavior; intuitive managers are inclined toward idealistic, unconventional and creative behaviors"[41] – behaviors which have been shown to be relevant for strategic planning.[42]

Alternative explanations for the proposed prevalence of "Ns" among top-level managers include the following: "Ns" may be disproportionately promoted into such positions; the demands of their job may lead top managers to develop intuitive modes of perceiving their environment to a greater extent than lower-level managers; or both of these explanations may interact. The available empirical evidence does not help to decide on one of these explanations. However, anecdotal evidence was provided in Sect. 3.2 on fundamental differences in performance requirements of law firms at associate and middle-manager level on the one hand and partner level on the other hand. A common practice was described of promoting associates who are likely to become the best partners rather than those who are likely to become the best middle managers.[43] The partners of the studied law firms appear to be of the view that the strategic abilities required by the top management cannot be developed by anyone within a timeframe of years but must already be looked for and fostered among associates. As the behaviors associated with *intuition* have been argued to be relevant for strategic planning, it is conceivable that the promotion decisions of partners would support the first or the third of the above explanations for the prevalence of "Ns" among top managers. That is, executive managers would require an aptitude for intuition or a preference for intuitive perception, previously developed, possibly during the earlier stages of their lives. It would not be possible to develop a strong intuitive perception after promotion to an executive position without such predispositions.[44]

Does a possible relationship between intuition and attention to detail on the one hand and individual performance in certain jobs on the other hand conflict with the

[38] Rodgers (1991), Chenhall and Morris (1991).

[39] Thorne and Gough (1991), Carne and Kirton (1982), Hunter and Levy (1982).

[40] Gardner and Martinko (1996, p. 64).

[41] Gardner and Martinko (1996, p. 64).

[42] Gardner and Martinko (1996, p. 64), Hurst et al. (1989).

[43] Baker et al. (1988).

[44] Personal conversations of the author of the present work with partners of a globally operating consulting firm from the US support the notion that a strong intuitive perception is important for the performance of executive managers and that it represents more of an aptitude than a competency which can be easily developed through exposure to respective experiences.

meta-analytical findings on the big-five traits and performance? It has been argued that most categorizations of personality can be mapped onto the big five.[45] In some cases, this requires some stretching of dimensions; however, agreement on a common framework such as the big five allows researchers to integrate and aggregate research findings, progressing the understanding of human personality. Some of the MBTI dimensions may be mapped onto big-five dimensions fairly easily, in particular, the extraversion/introversion scale and the judging/perceiving scale (openness). Definitions of the thinking/feeling dichotomy include aspects of neuroticism (which is sometimes referred to as emotionality) and agreeableness. In the case of the intuitive/sensing scale, however, it is not obvious that it relates to any of the big-five dimensions. One might argue that this dimension relates to cognitive ability rather than personality. Perceiving details which others do not perceive, such as errors of spelling, represents an ability. Such ability develops over years, for example, as one is consistently rewarded for paying attention to detail at school. Consistent encouragement may then also result in a general inclination to perceive things this way – a preference for *sensing*. In the same vein, intuition may be a cognitive ability rather than a feature of personality, that is, the ability to associate different pieces of information and recognize patterns. Like other cognitive abilities, intuition would then not be innate but acquired over time. In line with the research that refutes the dichotomous nature of the MBTI scales, *sensing* and *intuition* could then conceivably represent two separate abilities. It would be conceivable that both abilities can be developed to an equal extent or that someone has developed his intuition beyond his sensing capabilities and, therefore, has a preference for intuitive perception, while still being better at perceiving details than someone else with a preference for sensing.

What can be stated safely is that only one personality dimension influences individual performance across different jobs: conscientiousness has a significant impact primarily on the amount of job knowledge people possess, "probably because highly conscientious individuals exert greater efforts and spend more time 'on task.'"[46] The impact of conscientiousness on individual performance is, however, considerably smaller than that of GMA. Even smaller, but significant, is the impact of the personality dimension extraversion, but only for jobs which depend on the incumbent's ability to influence others, that is, sales and managerial jobs. The impact of these personality dimensions on individual performance is moderated by the degree of job autonomy. Two particular traits or cognitive abilities – intuition and the ability to perceive detail – might be especially relevant for top and middle managers, respectively. The personality dimensions agreeableness, neuroticism, and openness do not seem to bear any relevance for predicting individual performance.

Recent research provides evidence that, besides impacting on individual performance, personality also affects **group interaction processes** and, thereby, performance

[45] Mount and Barrick (1995).

[46] Schmidt and Hunter (1998, p. 272).

at the group level. The number of studies on personality and group performance is still lower than that of studies on personality and individual performance. However, the findings are fairly consistent. Strongest is the evidence for the impact of a group's mean or minimum scores of conscientiousness[47] and of agreeableness on group performance.[48] Conscientiousness impacts on group performance through individual performance. In other words, a group with higher levels of conscientiousness performs better because the team members perform better individually. Agreeableness is assumed to impact on group performance because more agreeable groups interact more smoothly and face less conflict, which allows them to spend more time and energy on their tasks and which results in lower levels of individual stress from unresolved conflicts.[49] Levels of conflict are also proposed as an explanatory factor for an inverse correlation between group diversity and group performance. In particular, variance among group members in conscientiousness and agreeableness were found to be negatively correlated with group performance.[50]

An essential element of the argument that GMA and personality are useful indicators of future performance potential is the notion that an individual's GMA and personality are relatively **stable over time,** regardless of external influences and experiences. Researchers agree that personality is malleable during infancy and that its consistency increases gradually during adolescence and adulthood. Some researchers claim that personality traits are essentially fixed after 30 years of age,[51] others find that the consistency of personality peaks only after age 50.[52] Even if one assumes that the personality of adults is not entirely fixed, it is generally accepted that any changes in personality take place very slowly, that is over the course of years. Thus, personality traits have been found to be most stable over the time span of a year and increasingly flexible over 10-year and 40-year periods.[53] Cognitive ability has been found to be more stable than personality, which in turn has been found to be more stable than constructs such as self-esteem and life satisfaction.[54]

4.1.3 Job-Relevant Experience

Thus, GMA and personality can be considered established as fundamental, stable antecedents of performance on the job. A third "ingredient" that has been included

[47] Barrick et al. (1998), Halfhill et al. (2003), Neumann et al. (1999), Neumann and Wright (1999).
[48] Halfhill et al. (2003), Neumann et al. (1999), Neumann and Wright (1999).
[49] Cf. Halfhill et al. (2003).
[50] Halfhill et al. (2003). Cf. also Sect. 4.3.4.
[51] E.g., Costa and McCrae (1988).
[52] E.g., Roberts and DelVecchio (2000).
[53] E.g., Conley (1984), Roberts and DelVecchio (2000).
[54] Conley (1984).

in theories of job performance is job experience.[55] It has been shown to affect performance in ways similar to GMA and conscientiousness, that is, to a large part, by providing a basis for the acquisition of job knowledge, partly also by improving the ability to handle unfamiliar situations. It is difficult to quantify the overall effect of job experience on performance. The validity of the amount and relevance of previous experience for predicting performance in entry-level jobs has been estimated at 0.18.[56] Little information is available on the validity of experience beyond entry-level jobs. It is difficult to capture job experience as a construct for research, as it does not only depend on job tenure but also on the specific tasks and responsibilities experienced, participation in formal training programs and other development measures, and experience on previous jobs. As the above discussion on intuition and ability to perceive detail illustrates, experiences relevant to a job may go further back than current and previous jobs, possibly as far as to school education.

A way of capturing such early experiences are **biographical data questionnaires**, which essentially compare candidate biographies with a collection of prototypical biographies that are associated with successful careers among existing staff in an organization. They focus, especially, on significant events during the earlier stages of life, including personal experiences during childhood and adolescence. Biographical questionnaires are usually specifically tailored to an organization. They are not transferable to other organizations, and their development is relatively resource intensive. Bespoke biographical instruments yield a mean validity of 0.35.[57] Adding biographical data measures to GMA tests results in a validity increase of only 2%, which indicates that both instruments relate to a similar construct. That is, biographical questionnaires look for events in the biography of an individual which contribute to the development of GMA. GMA tests may then be preferable over biographical questionnaires, since they yield higher validities (0.51 on average) and since biographical questionnaires are associated with a number of other disadvantages. They do not only incur higher costs of development but have also been shown to suffer from decay in validity over time as the content of the questionnaire becomes known among candidates.[58] To counter this effect, the bespoke questionnaires need to be continuously updated, which further adds to the costs. Finally, biographical questionnaires may increase the risk of litigation in countries such as Germany or the US, which legally support personnel administrative decision criteria that can be directly related to job requirements.

Work sample tests measure current performance abilities. Adding work sample tests to GMA tests results in a 24% validity increase,[59] reflecting personality and job experience. Work sample tests are highly valid (0.54) when it comes to making

[55] Cf. Schmidt and Hunter (1998).

[56] Hunter and Hunter (1984).

[57] Schmidt and Hunter (1998).

[58] Schuh (1967), Brown (1978), Hunber and Hunter (1984).

[59] Schmidt and Hunter (1998).

staffing decisions for jobs on which instantaneous performance is required. They are no instruments for potential assessment of, say, candidates for leadership development programs who are yet to be exposed to the relevant job experience.

Assessment centers have an expected validity of 0.37 for predicting supervisory performance ratings.[60] Combining them with GMA tests results in a validity increase of 4% compared to using GMA tests only. This indicates that they measure a construct similar to GMA and to a very limited extent, if at all, job experience. When correlating assessment center ratings with promotion, a much higher validity of 0.63 has been found.[61] This has been attributed to promotions and assessment center ratings being based not only on (individual) performance or performance potential but on people's personality and mannerisms. In particular, it is thought that those people with a personality profile similar to the managers who make the promotion decisions are promoted. This has been argued to result in suboptimal, nonperformance-related staffing decisions.[62] If one takes into account the latest research on the relationship between personality and performance at the group level, however, it appears that staffing decisions based on the similarity of personality may be rational, provided the job involves significant interaction between group members and provided employees are selected according to consistent personality standards. Given that it is performance at the team level rather than individual performance which is affected by personality match, there may also be benefit in combining GMA tests and assessment center, despite the low validity increment in predicting *individual* performance.

4.1.4 Predictive Validity

The contribution of various constructs to performance and the effectiveness of different appraisal instruments in predicting performance is generally quantified in (predictive) validities. Validity is a technical term. Disagreement can be found, even among academic experts, on the actual utility to organizations of, say a selection instrument which would increase the overall validity of an organization's current selection process by 0.20. To illustrate the utility of validity, Hunter has estimated productivity gains from the use of more valid selection instruments in dollar terms.[63] His calculations are explained in the following.

The estimate depends on, firstly, the standard variation of job performance in dollar terms (σ_y). If there was no variance in performance among employees in a given job, the utility of valid selection would be equal to zero. The empirical evidence supports that differences in performance across employees are, in fact,

[60] Schmidt and Hunter (1998).

[61] Cohen et al. (1974).

[62] Klimoski and Strickland (1977).

[63] Hunter (1981a).

large. A meta-analysis has found standard deviations of the dollar value of output of 19% for unskilled and semiskilled jobs, 32% for skilled jobs, and 48% for managerial and professional jobs.[64] The utility of validity further depends on the ratio of staff selected out of a candidate pool. If an organization was forced to select all applicants, the utility of validity would be equal to zero. The smaller the selection ratio the higher the average test score (e.g., GMA test score) of the ones that are selected. Assuming normally distributed test scores among applicants, a normal curve table can be used "to determine the cutoff score required to select the top selection ratio percentage of the population."[65] The expected average test score of those selected above the cutoff score can be calculated. This average test or predictor score ($\tilde{e}$) is entered into the formula for calculating the utility of validity. Finally, expected utility also depends on the absolute number of people hired (N) and on the average tenure (T), as productivity gains are realized for each selected candidate and every year that a candidate remains with the organization. The following formula can be used to calculate the total productivity gain from using a valid evaluation instrument for selection of new staff rather than random selection.

$$U = N\ T\ r_{ey}\ \sigma_y\, \tilde{e}$$

Where r_{ey} represents the validity of the selection instrument used.[66]

This formula has been applied to estimate the utility of various selection instruments of the US Federal Government.[67] In 1981, the US Federal Government recruited about 460,000 new staff. The average tenure was 6.52 years. The validity of the ability test they used had been estimated at 0.55. The selection ratio of the Federal Government was equal to 10% of the applicants at that time, which corresponds to a test score cut off 1.28 standard deviations above the mean, yielding an average predictor $\tilde{e}$ of 1.76. 20% were assumed as standard deviation of output – a very conservative estimate in comparison to the figures found in a later meta-analysis, which range from 19 to 48% depending on job complexity.[68] No figures were available on the average output per staff in dollar terms. What was available were the statistics on the average annual wage paid by the Federal Government – $13,598 at that time. A rule of thumb was used to approximate the output per employee in dollars. This rule states that the ratio of value of output over pay is typically almost two to one because of overhead costs. Thus, the average standard deviation of output in dollar terms can be approximated as two times the annual

[64] Hunter et al. (1990).
[65] Hunter (1981, p.6).
[66] Hunter and Hunter (1984).
[67] Hunter (1981a).
[68] Hunter et al. (1990).

average wage multiplied by the standard deviation of output of 20%.[69] This yields the following expected total utility of selecting US Federal Government staff on the basis of an ability test instead of random selection:

$$U = N\ T\ r_{ey}\ \sigma_y\ \tilde{e} = (460,000)(6.52)(0.55)(2)(\$13,598)(20\%)(1.76) \\ = \$15.61 \text{ billion.}$$

To calculate the utility gain from using ability tests instead of another selection instrument rather than ability tests instead of random selection, one must substitute the validity of 0.55 in the formula by the validity of the other selection instrument. The mean validity of interviews has been estimated at 0.14, for instance. According to the above formula, interviews result in an expected validity gain of $3.97 billion compared with random selection. The productivity gain from using GMA tests instead of interviews is then equal to the difference between the productivity gain from using GMA tests instead of random selection and the productivity gain from using interviews instead of random selection. That is:

$$\$15.61\text{bn} - \$3.97\text{bn} = \$11.64\text{bn}$$

Smaller differences in validity such as the one between ability tests and job tryout (0.44) still yield sizable productivity gains of $3.12 billion (in the year 1981). It must be noted that these figures are only estimates. However, the formula and calculations are transparent and make intuitive sense. All assumptions can be considered conservative to say the least. Thinking through the calculation helps to understand how organizations benefit from valid selection and staffing instruments. The results give an idea of the size of these benefits.

One may argue that the number of people hired by the US Federal Government every year is so enormous that these results bear no relevance to most organizations. The simplicity of the formula allows for easy adaptation, though. If the US Federal Government hired only 460 instead of 460,000 staff every year, the dollar value of using ability tests instead of interviews would be equal to $11.64 million. If an organization paid larger wages than $13,598 on average, the value would be proportionately higher. If an ability test was introduced only for managerial staff, output standard deviations of 48% would have to be used instead of 20%, also resulting in a proportionate increase. Assuming a higher average salary of $40,000 for managers, 460 hires (or promotions) per year, and an output standard deviation of 48%, the gain from using ability tests instead of interviews would have to be estimated at approximately $85 million (all other assumptions as above). As stated before, the purpose of these calculations is not to calculate exact figures but ballpark figures, illustrating the effect of using valid evaluation instruments for making staffing decisions. It also illustrates that even instruments with seemingly low validities may still have a considerable impact on profits. For example,

[69] Cf. Schmidt and Hunter (1983).

indicators of education correlate only 0.10 with performance but would still yield an estimated productivity gain of $2.84 billion compared to random selection (adopting the original assumptions of Hunter's calculations again).[70]

4.1.5 Competencies

During the 1990s, a number of researchers have noted a shift from assessing behaviors or performance to assessing the competencies required by a given work role.[71] Competencies refer to the job-related skills, knowledge, and abilities of a person that precede behavior at work. Warr and Conner, for instance, define them as sets of "behaviors, knowledge, thought processes, and/or attitudes, which are likely to be reflected in job performance that reaches a defined elementary, basic or high-performance standard."[72] Hence, although reflected in performance, competencies represent precursors of performance, not performance itself. A competency represents a combination of specific knowledge, skills, abilities, and character traits, which enable behavior, that is, they enable the performance of a given task or role associated with the competency. For instance, leadership competency represents a summary category which may include the ability to understand different personalities, knowledge of influence tactics, communication skills, analytical skills, knowledge of markets and functions, as well as certain character traits that command the respect of those being led. In combination, these skills, traits, and this knowledge constitute a competency that enables the display of effective leadership behavior.

Competencies enable immediate performance on the job, that is, along the performance dimensions they relate to. They are not indicators of development potential. They are more malleable than the robust GMA and personality traits, and they can be developed through training and experience.[73] The differences between competency and performance are the employee's willingness to put his or her ability to use and any contextual factors which may constrain performance. Competencies are typically defined in terms of concrete, demonstrable behaviors. Cadbury Schweppes has, for instance, defined a competency framework for its managers which includes the dimensions *leadership* and *listening* among others.[74]

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[70] A coefficient is significant whenever the confidence interval does not include zero. For example, identifying a construct which contributes 0.14 to overall performance may result in significant productivity increases if added to an organization's selection criteria, as illustrated above. A typical value of the lower end of the confidence interval would be 0.10, also yielding gains which would be considerable according to most organizations' standards. Even a validity gain of 0.05 would result in a productivity increment of $1.42 billion in the above example. However, utility calculations based on the mean validity would represent the best guess, given that there is also an upper bound for the confidence interval.

[71] E.g., Welbourne et al. (1998), Milkovich and Boudreau (1997), Lawler (1994).

[72] Warr and Conner (1992, p.99).

[73] McClelland (1973), Levenson et al (2006).

[74] Galze (1989).

Leadership is further specified to include *delegation* and *development of subordinates*. *Listening* is defined as "drawing out information in face-to-face discussion."

Evaluations of competencies have been used increasingly as a basis for staffing and pay decisions since the idea was first introduced more than 30 years ago,[75] especially for managerial jobs.[76] Competency frameworks have also been observed to be especially prevalent in rapidly changing environments, superseding traditional task-based job definitions and performance dimensions.[77] They have been said to include **contextual performance** abilities.[78] Contextual performance has been defined as extra-role behavior, including interpersonal facilitation and job dedication.[79] Interpersonal facilitation covers aspects such as cooperation with coworkers, sensitivity to interpersonal relations, helping behavior that assists coworkers' performance, representing the organization to customers and the public, and coaching others. Some of these may, depending on the job, be defined as either extra-role or in-role behaviors. For instance, managerial jobs may require sensitivity to interpersonal relations, coaching, and representing the organization to others as part of the core job definition and not as extra-role behavior. Examples of job dedication include working harder than necessary, persisting in overcoming obstacles to task completion, and following organizational rules conscientiously. There is evidence for the impact of contextual performance on organizational effectiveness.[80] The inclusion of dimensions related to contextual performance in competency frameworks has been shown to result in improved validities compared to competency dimensions that are based on task-related skills, knowledge, and abilities only.[81] Additionally, competency frameworks for dynamic jobs may also cover abilities related to what has been termed adaptive performance, that is, ease of learning new tasks, confidence in approaching new tasks, and capacity to cope with change.[82]

Competencies are associated with **future orientation** and a **developmental focus,**[83] as they allow for the inclusion of emerging success factors. That is, the organizational leadership may, for instance, derive new competency requirements from the business strategy, including competencies which have previously not been available within the organization. Or they may have come across best practices in other organizations or studies, which they would like to "inject" into their organization in the form of a new competency. The traditional job definitions that are replaced by competency frameworks are assumed to be backwards-oriented,

[75] McClelland (1973).

[76] Boytzis (1982), Goleman et al. (2002), Zenger and Folkman (2002).

[77] Jahja and Kleiner (1997), Hayton and McEvoy (2006).

[78] E.g., Lawler (2000), Spencer and Spencer (1993).

[79] Borman and Motowidlo (1993), Van Scotter and Motowidlo (1996).

[80] Williams (1998), Borman and Motowidlo (1993), Conway (1999).

[81] Levenson et al. (2006).

[82] Hesketh and Neal (1999).

[83] E.g., Schippmann (1999), Hayton and McEvoy (2006).

because they are derived using job analysis methods which compare past effective and ineffective performance without making any projections into the future. Furthermore, the perceptions of people involved in the job analysis have been said to be influenced by existing norms and values regarding performance.[84] Contrary to that, one might also argue that past or aspirational orientations of performance dimensions are a consequence of the method used for defining performance dimensions. Competencies, job definitions, and task-related knowledge, skill, and ability dimensions may all be geared toward emerging performance requirements, if they are paid attention to during the process of defining them. Hence, future orientation should, perhaps, not be considered a defining element of competencies. What can be argued in any case is that they encourage a focus on the development of employees as they are defined in terms of the abilities needed to perform a job successfully.

Competencies may be defined broad or narrow.[85] Broad competencies can be applied to different employee categories within an organization. Narrow ones are applicable to specific jobs. If defined broadly, another objective associated with the introduction of **competency frameworks** may be to achieve greater standardization and comparability of performance across the organization. The framework may be devised at the top of an organization, possibly for various international subsidiaries and for different jobs. For appraisal purposes, it may then be necessary that more concrete performance criteria are defined locally within the parameters set by the competency framework. Specific performance criteria may be defined by subsidiary, unit, or group leaders or by supervisors for individual employees. The framework competencies of a globally operating, US-based consultancy may serve to illustrate this: establishes personal credibility with others; organizes and directs quality work efforts; drives to add value; analyzes and solves poorly defined problems; builds and applies skills and capabilities; maximizes team performance; and anticipates and handles critical situations. These are applicable to all consultants worldwide, regardless of their area of specialization, role, and clients. For each performance period of 6 months, however, specific appraisal criteria have to be defined for each consultant by his or her manager, reflecting specific subsidiary, unit, and project requirements. Organization-wide consistency is achieved in the development of what are considered strategic competencies of consultants while allowing for the flexibility to take into account the local requirements.

It is not possible to specify a set of universal competencies which are applicable to a large number of organizations, as it has been done for indicators of potential such as personality traits and GMA. The number of conceivable competencies is large across different jobs and organizations. Definitions of competencies vary across jobs and organizations. Instruments for measuring competencies are often not constructed and evaluated according to the same psychometric standards as, for

[84] Athey and Orth (1999).

[85] Jahja and Kleiner (1997).

instance, personality or GMA tests.[86] Nevertheless, off-the-shelf or generic competency frameworks are offered by specialized HR consultancies.

The experiences of one such consultancy have been analyzed systematically by Spencer and Spencer. They have correlated various competencies with performance to derive a generic competency model for professionals.[87] In their **iceberg model**, they differentiate *surface* from *potential competencies*. The former refer to knowledge and skills, which can be developed relatively easily. The latter are more robust and are classified into motives and traits (impact and influencing, achievement orientation, analytical thinking, initiative/persistence, and problem solving) and self concept (flexibility, self confidence, and self control). Hence, this often-cited study employs a broad concept of competency, encompassing not only abilities that are directly applicable to the job but also underlying personality traits. As far as these impact immediately on individual, team, or organizational performance, the concept of competencies is in line with the original idea, which was to evaluate abilities closely related to the responsibilities of the job.[88]

For example, consultants need to display analytical thinking as part of their job. They need to analyze data, processes, and strategies. In other jobs, analytical thinking may represent a prerequisite for success in the long run (similar to GMA), that is, it may help the incumbents to position themselves tactically and strategically within the organization, it may help them to prioritize and absorb information relevant for their own development, but it is not directly related to performance on the job. Separating indicators of potential from indicators of abilities to perform on the job is important for practical reasons, as they should be used for different kinds of personnel decisions. Indicators of potential may, for instance, be used for staffing leadership development programs. Competencies – or current performance capabilities – are typically the primary basis for determining basic pay (in lieu of job definitions). Potential – i.e., what someone may likely be able to do in future – may influence basic pay on top of current performance capabilities in the case of top talents courted by different organizations. In any case, organizations will want to be aware of whether they reward current or potential future performance capabilities.

Given that competencies are defined as immediate antecedents of performance, it is not surprising that levels of competency have been found to correlate with individual performance.[89] Interestingly, one study of a major division of a Fortune-500 consumer products company found the same positive relationship between competency levels and individual performance as other studies but also a considerably weaker relationship between competency levels and site performance.[90] The authors hypothesize that the relationship between competencies and site

[86] Barrett and Depinet (1991).

[87] Spencer and Spencer (1993).

[88] McClelland (1973).

[89] Goldstein et al. (2001), Russel (2001), Spreitzer et al. (1997), Levenson et al. (2006).

[90] Levenson et al. (2006).

performance may be contingent on "the competencies of the site leadership team,"[91] which were, however, not part of the study; only first-line and middle managers were included. Thus, it seems that it is suggested that ineffective performance of site managers across the 52 sites of the study prevented strong individual performances adding up to generate strong site performance. An alternative explanation could be that the competencies evaluated in that company incentivized individual performance and to a lesser extent the collaboration between interdependent individuals and teams. This would mean, however, that the studied company division had failed to achieve the overall objective associated with the introduction of the competency system 10 years prior to the study, that is, "to promote more inclusive management through enhanced teamwork and knowledge sharing."[92]

A competency framework might, for example, foster competitive rather than cooperative behavior if it provides managers discretion in setting individual goals and if the resulting goals of different individuals are in conflict. Noncooperative behavior may also be the result of negative reward interdependencies, which occur if a reward increase of one team member entails a reward decrease of other team members. Negative reward interdependencies are, for example, associated with forced ranking systems.[93]

4.1.6 Motivation

Competencies are defined as demonstrable abilities to display behaviors that contribute to organizational performance. The difference between competencies and performance is the employee's willingness to actually display the desired behaviors whenever they are required. In Sect. 2.1, a distinction is made between extrinsic motivation, hedonic intrinsic motivation, and normative intrinsic motivation. It is argued that organizations can influence the three types of motivation through reward systems, job design, and socialization regimes, respectively.[94] Thus, motivation is a dependent variable impacted on by various elements of an organization's management system. In the personality literature, it is suggested that motivation is also influenced by individual personality traits. It has, for example, been suggested that the personality trait conscientiousness includes "volitional aspects."[95] The question has been raised elsewhere whether "general conscientiousness is actually the motivation variable that has been so elusive in personnel psychology."[96] Given that motivation is also impacted on by characteristics of the management system,

[91] Levenson et al. (2006, p. 376).

[92] Levenson et al. (2006, p. 366).

[93] Vijfeijken et al. (2006), cf. Sect. 5.3 on forced ranking systems.

[94] Lindberg (2001), Gottschalg and Zollo (2007).

[95] Barrick and Mount (1991, p. 18).

[96] Ones et al. (1993).

conscientiousness may not be the same construct as motivation, but it may be a stable antecedent of it, an antecedent which could be captured through psychometric testing.

Some of the above-mentioned competency frameworks include achievement orientation as a competency. Achievement orientation is one of the two components of conscientiousness, i.e., a personality trait. As such, it is robust and not subject to development. Appraising a stable personality factor may make sense in the context of staffing decisions or basic, competency-based pay determination. If the appraisal purpose is to motivate or control staff, it does not seem to make much sense to appraise stable input factors such as conscientiousness. According to expectancy theory, motivation is generated by specifying desired behaviors (performance dimensions), evaluating these behaviors, and rewarding (or penalizing) depending on the extent to which the desired behaviors are displayed. The motivation of individuals is then reflected in the extent to which they display the desired behaviors. That is, motivation is inherent in the behaviors displayed across all performance dimensions. It must not be evaluated separately, as this would result in double counting and distortion of overall ratings. If motivation depends on the personality trait achievement orientation (conscientiousness) and on the organizational system configuration, those factors are also reflected in the respective displays of performance.

A separate performance criterion related to motivation may furthermore signal to appraisees that they need to demonstrate separately from other performance dimensions how motivated they are. Given that actual motivation is dependent on organizational systems and on personality, such demonstrations can only represent displays of motivation but not actual motivation. Impression management activities related to motivation may add value if displayed by certain types of staff such as sales people, for whom it is especially important to come across as being motivated, regardless of actual levels of motivation. Fostering impression management activities through a *motivation* performance dimension among other types of staff may be detrimental, however, taking away time and cognitive attention from value-adding activities.

In conclusion, it can be stated that there seems little benefit in appraising motivation or related constructs as a separate performance dimension, with the exception of personality assessments in the context of potential assessments and certain staff categories for which the outward appearance of being motivated represents an actual dimension of performance. Beyond appraisals of individual employee performance, it is also conceivable that levels of motivation among the workforce or within different organizational units are assessed for purposes of systems evaluation.

4.1.7 Performance and Results

Performance is a consequence of employees possessing the necessary competencies and deciding to put them to best use for their organization. As was stated

above, competencies are typically defined in behavioral terms. That is, examples of performance dimensions would correspond to the examples of competency dimensions given above. The difference between performance and competencies is that someone may demonstrate that a competency has been developed to a high standard by displaying associated behaviors only once or few times. In order to consider someone to be a high performer, this may not suffice. Performance requires that competencies are applied whenever it is necessary and in the interest of the organization. In some jobs, certain competencies may only have to be applied rarely. Other competencies may have to be displayed on an ongoing basis. Thus, important aspects of performance, besides the quality of performance behaviors, are their frequency and timing. Each of these aspects of performance should be taken into account in the definition of performance dimensions and standards.

The behaviors of individuals interact with those of other individuals and with contextual factors such as technology or market conditions to generate **performance results.** Outputs may be distinguished from outcomes. Outputs represent immediate, tangible consequences of behaviors and proximal context factors such as technology and the behavior of coworkers. Outcomes are organizationally relevant consequences related to the employee's performance which are influenced by a wider range of context factors, including the behaviors of actors in other parts of the organization and in the markets.

Performance results may be the subject of the performance appraisal if, for instance, performance results are solely influenced by individual performance without any vagaries in the context. In the case of simple assembly line jobs, for example, the number of fault-free widgets produced per day by an employee may be regarded an accurate measure of actual performance. If the production technology was very unreliable, an employee's output might be perceived to be not quite as indicative of actual performance. In other cases, performance behaviors may be difficult to observe. Results may then represent the best proxy measure of performance, even though they may be known to be also influenced by factors other than performance. Rewarding outputs rather than behaviors represents a shift of risk from the organization to the employee.

Appraisals based on performance results which, to a significant extent, reflect non-performance-related factors may result in suboptimal personnel decisions. The luckiest instead of the most able and best performing employees may get promoted, paid the reward, or selected for development programs – that is, if the so-called context factors can not actually be influenced by the employee. Additionally, such decisions may result in perceived injustice with various negative attitudinal consequences.

Evaluations of results, as lagging measures, are the most applicable in the context of appraisals used for control purposes. They do not represent a good basis for staffing decisions if the demands of the current and the new job differ significantly. Evaluations of performance results are also not particularly suitable as a basis for development decisions and feedback, because they tend to be one-dimensional, not differentiating different aspects of performance or offering much explanatory information. A lack of multidimensionality of output measures

is less of a problem in the context of control purposes, provided they encompass all relevant aspects of performance.

Financial results may not be comprehensive if the expected tenure of managers is short. As lagging measures, they reflect past managerial decisions. Some managerial decisions, however, impact on performance only several years into the future, for example, decisions relating to the development of employees or to organizational restructuring. In the short run, such decisions only represent costs. Managers who expect a short tenure and are largely evaluated on the basis of financial indicators have no incentive to make such decisions for the benefit of their successors.

To correct the incentive structure under conditions of short tenures, outcomes of decisions deemed necessary for the future of an organization may be evaluated, in addition to financial results. The **balanced scorecard** (BSC) approach may guide the selection of additional outcome dimensions to be evaluated. The approach envisages four outcome dimensions – financials, customers, internal business processes, and learning and growth. The four BSC dimensions are intended to mirror fundamental causal relationships during the process of producing and marketing goods and services: customer-related outcomes enable the achievement of financial objectives. They should relate to the expectations of the customers in the market segments a company wishes to compete in. Internal business process outcomes relate to the operations required to produce and deliver the goods and services expected from the customers. Learning and growth outcomes are concerned with the human capital and the organizational capabilities necessary to operate the internal business processes and, thus, to assert the desired positions in the product markets in the present and future.[97]

There is more to the BSC than multidimensionality and future orientation. It also represents, for example, a system for deriving top-level organizational goals from the business strategy and cascading them throughout the organization.[98] The BSC has been introduced at this point to demonstrate how to devise a comprehensive set of outcome measures under conditions of short tenures of managers. It is conceivable that the BSC dimensions are also used under more stable conditions with longer tenures in order to guide the future-oriented decision making of managers. The chances are, though, that mechanisms are in place in functioning, stable systems that are more tailored, sophisticated, and effective than a generic framework such as the BSC.

Performance of individual team members does not simply add up to **team performance** when team members are interdependent. Each team develops its own patterns of interaction, which can be classified as either cooperative or competitive. Performance goals and incentives should support desired patterns of interaction.[99] It has been shown in a case study that, under situations of task

[97] Kaplan and Norton (1996, 2000).

[98] Cf. Sect. 4.2 on flexible goal setting.

[99] Deutsch (1949a, b).

interdependence, cooperative interaction patterns lead to higher levels of performance.[100] One factor that contributes to cooperation in the study is positive goal interdependence, that is, a situation in which the achievement of one team member's goals has positive effects on the achievement of the other team members' goals and vice versa. Positive goal interdependence can, for example, be created through team goals. Goal interdependence may also be negative or neutral. In the case of negative goal interdependence, one person's achievement of his or her goals impacts negatively on the achievement of other team members' goals. There is no interrelation between team members' goals in the case of neutral goal interdependence. A potential negative consequence of assessing performance at the group level is referred to as the free-rider problem, that is, individuals obtaining full credit and rewards for team performance while their contribution was lower than that of others. Concerns within teams about free riding may lead to mutual monitoring and, occasionally, overmonitoring.[101]

Alternatively to group goals, goal interdependence may also be accomplished by devising performance criteria at the individual level. One of the management teams in the case study mentioned above, for example, used a flexible goal setting system to openly coordinate the performance goals of the team members. The interviewed team members unanimously agreed that, overall, their goals were positively interrelated. However, the process of developing positively interrelated goals required several team sessions per performance period. Thus, the establishment of goal interdependence through team goals may be less time-consuming than setting interdependent goals at the individual level.[102] The complexity of the process of coordinating individual goals can be expected to rise with the number of team members, the employee turnover, and the dynamics of the environment. If the team is relatively stable in terms of its membership and its task requirements, the coordination of goals will be more manageable year after year than in a situation of constantly changing demands. Task interdependencies will be better understood. The balance of power is likely to be stable within the team. Thus, creating cooperative patterns of interaction through coordinated individual goals seems to be a feasible solution, especially for smaller teams operating in relatively stable environments. Otherwise, group performance assessments appear to be the more practical solution when it comes to fostering cooperation in teams with high levels of task interdependence.

In summary, this section has illuminated how various constructs relate to performance and, thus, how they may be relevant for different performance appraisal purposes. The proposed interactions among performance antecedents, performance, and performance results may be termed a general performance theory. According to that, general mental ability, personality, and experience contribute to the development of competencies, whereby the impact of GMA is larger than the impact of the other two factors. Personality and organizational systems are the

[100] Van Vijfeijken et al. (2006).

[101] Cf. Sect. 3.3.4.

[102] Vijfeijken et al. (2006).

antecedents of motivation. Competencies, motivation, and contextual constraints result in performance behaviors. There may also be a direct impact of GMA on performance, especially in unfamiliar performance contexts. Individual performance interacts with context factors such as technology and coworker behavior to generate outputs at the individual level. The performance of an individual may also interact with the behaviors of other individuals to produce group level outputs. The quality and quantity of group output is impacted on by group interaction effectiveness, which in turn depends on group personality fit. Outputs at the individual and the group level may further interact with distal factors to generate organizationally relevant outcomes.

4.2 Defining Appraisal Criteria

Personal performance theories evolve as individuals gather experience. Performance theories of employees who are still at the beginning of their career may be seen as comparatively undifferentiated experimental categories. Over time, relevant constructs are added, irrelevant ones weeded out. Performance theories become more refined.[103] This suggests that it should be the most experienced managers who participate in the process of defining appraisal criteria. Another requirement is familiarity with the jobs for which performance criteria are to be defined. Often, it is a committee or working group of senior line managers who gather to decide on performance criteria using their subjective judgment. Usually, such groups are completed by an HR representative who moderates the process and ensures that demands of the performance appraisal system are met. This type of approach to defining appraisal criteria has been termed *unsystematic*.[104]

4.2.1 Unsystematic Approaches to Job Analysis

Despite the negative connotation of the term, unsystematic approaches need not necessarily result in inferior criteria in terms of validity. The intuitive judgment of a small group of experienced managers may well yield criteria which are accurate in depicting organizational performance and its constituent elements. However, the approach entails problems relating to the acceptance of the resulting criteria outside the small group of managers who devised them. US labor courts, for example, are less likely to accept such criteria as a valid basis for personnel decisions in litigation cases than criteria defined on the basis of a systematic job analysis.[105] Beyond that,

[103] Borman (1987).

[104] Fletcher (1997, p. 13).

[105] Schuler and Jackson (1996), Murphy (1994).

systematic approaches may also lead to a greater acceptance of appraisal criteria among appraising managers and appraisees within the organization. With the unsystematic approach, they may find it difficult to understand and, hence, to accept why precisely those criteria that a minority group of managers considers appropriate have been chosen – especially if their personal performance constructs differ because of idiosyncratic experiences. Approaches based on intuitive judgment allow only for a small number of individuals to participate in the decision process. Adequate consideration of a number of opinions exceeding small group size requires a systematic approach for capturing and aggregating them.

Therefore, the unsystematic approach to defining performance criteria is applicable primarily under conditions of broad agreement among managers on what constitutes effective and ineffective performance for the job in question, if the appraising managers' adherence to performance criteria devised by few managers can be easily monitored, and if the risk of litigation is considered to be low. Broad agreement on what constitutes effective performance is most likely given for jobs with low levels of complexity and high levels of stability.

4.2.2 Inductive Approaches to Job Analysis

Systematic approaches to defining performance dimensions can be classified as inductive or deductive.[106] With the so-called inductive approaches, the tasks and responsibilities of a job are subjected to a systematic analysis in order to derive idiosyncratic performance criteria. If a deductive approach is used, a comprehensive list of potential performance criteria is provided up-front to choose from based on a more or less systematic assessment of the relevance of the criteria for the job in question. The advantage of deductive over inductive approaches is that they are more likely to yield a comprehensive set of performance criteria. Their disadvantage is that they may take the focus of decision makers away from the particular requirements of the job at hand, potentially leading them to include criteria which are not that relevant while missing out on unique performance factors which are not included on generic lists.

The **repertory grid (rep grid) procedure** represents an example of an inductive approach.[107] It is designed to elicit systematically and integrate personal performance constructs of different managers who are familiar with the job to be analyzed. Each manager is interviewed individually by someone familiar with the procedure. As a first step, the manager is asked to identify a predefined number of top and bottom performers in the job to be analyzed. The number depends on the number of employees working in the job category, the experience of the manager, and the amount of time available to conduct the procedure. Different descriptions of the

[106] Klimoski (1993).

[107] Kelly (1955).

procedure suggest that between three and nine top and bottom performers each should be identified.[108]

As a second step, the manager is asked to compare two top performers with one bottom performer and to identify one performance dimension which distinguishes the top performers from the bottom performer. The performance dimensions should be defined in behavioral terms. Subsequently, he is asked to compare further permutations of two effective performers and one ineffective performer until no further performance dimension can be identified.

Analogously, interviews are to be conducted with all managers who are to participate in the procedure. Subject to time constraints, there is no limit to the number of views that can be taken into account with this procedure. After the completion of the interview stage, the list of performance dimensions is evaluated by HR experts and/or the senior managers who are responsible for the appraisal system. At the end of the day, it is still the judgment of these individuals which decides on the inclusion and exclusion of different performance dimensions.

The strength of this method is the same as that of all inductive approaches – that is, the ability to tailor performance dimensions to jobs. Additionally, it reduces group think by eliciting the views of different managers individually; the triplet-wise comparisons encourage them to think outside preconceived tracks. On the downside, the method is relatively time-consuming and, hence, costly.[109]

An alternative inductive, interview-based approach to job analysis is the **critical incidents method**[110] It requires both job incumbents and managers who are familiar with the job to recall incidents which they associate with outstandingly effective or ineffective performance as well as the events and behaviors that led to these incidents. In analyzing the list of incidents thus collected, the frequency with which a particular type of incident is mentioned, its impact, and the accuracy of its description should be considered. It is suggested that categories should be defined for similar types of critical incidents. Based on these categories, responsible HR and senior managers must exercise their judgment to derive corresponding performance dimensions.

The idea of the critical incidents procedure – as well as of the rep grid procedure – is that performance dimensions that are relevant to the performance of the organization should relate to an organization's narratives of outstandingly effective or ineffective performance. A potential disadvantage of the method is that the participants may only remember the most recent incidents. A variation of the critical incidents method seeks to overcome this disadvantage by providing a list of anticipated incidents to the participating managers and staff.[111] Instead of recalling incidents from memory, they observe and record relevant incidents on a prepared checklist over a set period of time. The checklist may allow for additions of

[108] Fletcher (1997), Borman (1987).

[109] Fletcher (1997).

[110] Flanagan (1954).

[111] Flanagan (1954).

unanticipated critical incidents. Nevertheless, the checklist is likely to frame the minds of the participants, depriving the critical incidents method of its main strength, that is, the ability to tailor criteria to a specific job. This variation of the critical incidents method may actually be classified as a deductive approach.

A simpler and less costly inductive approach to job analysis is the **diary method**. It requires job holders to keep an hour-by-hour record of their job-related activities over a set period, which is subsequently analyzed to identify the relevant performance dimensions. No further guidance is provided on how exactly the performance dimensions should be derived from the entries in the diaries. Thus, a greater amount of judgment or inference by one or more individuals is required compared to the aforementioned approaches. The diaries themselves may be biased as they are created by the same employees to whom the performance criteria will be applied. The incentive to distort the record of activities, for example by taking more time for a task than necessary, is especially large when the appraisal serves an administrative purpose. It is conceivable that this method is effective in situations in which employees have a genuine interest in identifying the factors that contribute to the overall performance of their unit, such as in the case of self-managed work groups.

According to the **direct observation method**, activities are not recorded by the job holders themselves but by a neutral job analyst, observed either directly or through a surveillance camera. This method may also generate distortions if jobholders consciously or subconsciously change their behavior in the presence of an outside observer.[112]

The term **methods analysis** describes the breaking down of a job into its constituent tasks and task components, the sequence of which is illustrated in the form of process flow charts. The term **time-and-motion study** is used if completion times are attached to the different task components. Methods analyses and time-and-motion studies may be based either on diary records, or, more typically, on observations by a job analyst. Their primary purpose is the establishment of performance standards, for example, setting target times for the completion of jobs which are unidimensional or for which performance dimensions are already established. The breaking down and timing of work processes is only feasible where these processes are centrally defined and stable over time, as in the case of manual and simple clerical labor.[113]

4.2.3 Deductive Approaches to Job Analysis

Deductive approaches, also referred to as task statement methods, require managers and/or staff who are familiar with the job in question to complete a generic competency questionnaire, that is, a list of generic competencies and their behavioral

[112] Cf. Hawthorne studies (Mayo, 1933).

[113] Oechsler (2006).

descriptions, each of which must be rated with regard to its relevance to performance on the job in question.[114]

Competency questionnaires are available for different job categories, such as general managerial, first line supervisory, and nonmanagerial. The *Management Position Description Questionnaire*, for example, distinguishes 197 performance dimensions for managers grouped into 13 categories such as *product, market, and financial planning, coordination of organizational units and personnel,* and *public and customer relations*.[115] The *Supervisor Task Description Questionnaire* is specifically geared toward first-line supervisory roles. It covers 100 work activities in areas such as *working with subordinates, planning and scheduling work,* and *maintaining equipment and machinery*.[116]

Examples of competency questionnaires for nonmanagerial jobs include the *Fleishman Job Analysis System*[117] and the *Position Analysis Questionnaire*.[118] The Fleishman job analysis system involves the separate creation of ability profiles for each task of a job. A weighted average is computed to generate an overall ability profile for a job. The results of the position analysis questionnaire are stored in a central database at Purdue University, allowing for comparisons of similar jobs in different organizations. The database also collects information on job aptitudes and pay rates, which may be used as a basis for pay determination. The PAQ has been criticized for its use of a complex language, necessitating the employment of trained job analysts. The *Job Element Inventory* represents a simplified version of the PAQ, allowing the analysis to be conducted by job incumbents and supervisors.[119]

4.2.4 Importance Weights

The competency questionnaires assign importance weights to the performance dimensions in order to be able to calculate aggregate, weighted performance ratings. The Fleishman Job Analysis System, for instance, requires managers and job holders to provide direct and subjective estimates of importance weights for the different tasks of a job. The Position Analysis Questionnaire requires ratings of the extent of use, the importance to the job, and the amount of time spent performing different tasks. On that basis, an importance weight is calculated for each performance dimension.

According to multiattribute utility theory, importance weights should scale viable scenarios for each performance dimension from the worst possible to the

[114] Borman and Motowidlo (1993), Fletcher (1997).

[115] Tornow and Pinto (1976).

[116] Dowell and Wexley (1978).

[117] Fleishman (1967), Fleishman and Mumford (1991), Fleishman (1992).

[118] McCormick cited in Schuler and Jackson (1993).

[119] Schuler and Jackson (1993).

best possible such that the scales of the different performance dimensions are representative of their impact on the organization's performance. Accordingly, a more accurate term for *importance weight* would be **scaling factor**. Thus, in order to determine scaling factors for different performance dimensions, one must develop the worst and the best conceivable performance scenarios for each dimension, taking into consideration the likely consequences for organizational performance and also the likely frequency of their occurrence. Take, for example, two performance dimensions A and B for which the value difference between one instance of the worst and one instance of the best conceivable performance scenario is equal. If only one instance of (good or bad) performance is conceivably expected during a given performance period for dimension A, whereas ten instances of performance are expected for dimension B, the scaling factors should reflect a range from one worst possible to one best possible instance of performance for dimension A, and a range from ten worst to ten best possible instances of performance for dimension B. The scaling factor of dimension B should be ten times as large as that of dimension A.

The **swing weighting method** represents a simple method for assigning scaling factors in practice which does not require the participants to be economically or statistically educated. According to that, a group of managers who are familiar with the job to be analyzed must agree on a worst performance and a best performance scenario for each of the performance dimensions. They are asked to imagine an employee who performs as described in the worst performance scenarios across all performance dimensions. They are then told that they can improve that employee's performance on only one dimension from worst to best performance. The dimension they choose (with a view to maximizing organizational performance) is assigned a score of 100 points. They are then told that they can improve another dimension from the worst to the best possible scenario. They must assign a score between 0 and 100 points to that dimension, reflecting the relative difference in value compared to the dimension which was assigned 100 points. Analogously, scores are assigned as scaling factors to the "swings" from worst to best performance for the remaining performance dimensions. The scaling factors may be standardized by dividing them through the sum of all scaling factors, yielding percentage figures. This method can be used for assigning scaling factors to performance dimensions established through inductive, deductive, or unsystematic approaches.[120]

4.2.5 Performance Measures and Standards

Directly linked to the definition of performance dimensions is the definition of performance measures and standards. Some of the above methods, in particular, time-and-motion studies, are primarily used for setting performance standards.

[120] Cf. for example Clemen (1990) on the swing weighting method, which is normally applied in the context of multiattribute decision problems.

With the other described methods, the definition of performance dimensions may be followed by the definition of performance measures and standards. Thus, a performance appraisal system may not only predefine what dimensions of performance appraisers should pay attention to, but also how different scenarios of performance should be measured and rated. One way of doing this is to develop different scenarios of performance beyond best and worst for each dimension and relate them to the different levels of a rating scale; for example, a numerical rating scale from one to five. Such behaviorally defined scales are referred to as behaviorally anchored rating scales.[121]

In thinking about different scenarios of performance for defining performance measures, scaling factors, and performance standards, one must take into account requirements of **peak and typical performance**. Peak performance is not necessarily correlated with typical performance. A study of supermarket checkout staff reveals a low correlation between performance in a research setting and computerized performance records on the same tasks in a day-to-day work environment.[122] The authors of the study attribute these findings to motivational effects in the test situation. Also conceivable as explanations are differential levels of standing power among staff and attitudinal problems of individual staff members (for example resulting from conflicts among staff and supervisors) that affects day-to-day performance more than performance in the research setting.

Tasks differ with regard to the importance of regular and peak performance. In some jobs, it is crucial that all tasks are consistently completed according to a specified standard which may not be difficult to achieve but, if missed, entails considerable negative consequences for the organization. Exceeding the required standards may not yield much additional benefit in such jobs. In other jobs, one exceptional instance of performance, such as the publication of an important article in academia, may yield a benefit to the organization (that is, to the research institution or university) which is many times greater than any harm caused by previous failed attempts of publishing significant research.[123]

Differences between peak and regular performance must also be taken into account in devising appraisal dimensions for assessment centers and other test situations, which may be more suitable for assessing peak performance than regular performance capabilities. Differential peak and regular performance abilities of individuals may represent an explanatory factor for the finding that the predictive validities of assessment center ratings are not as high as one might have expected them to be.[124]

Related to the distinction between peak and typical performance is the distinction between **threshold and differentiating performance** factors.[125] Threshold

[121] Cf. Sect. 5.3.

[122] Sackett et al. (1988).

[123] Cf. Baron and Kreps (1999) and Sect. 3.3.3 on stars, guardians, and soldier categories of job.

[124] Cf. Sect. 4.1.

[125] Williams (1998, p. 104).

factors are those aspects of performance that must be performed at a satisfactory level; once that level is achieved, it does not make a difference from the firm's point of view if someone outperforms the others on that factor. Differentiating factors are those performance dimensions on which several levels of performance can be distinguished.

4.2.6 The Quality of Performance Dimensions, Measures, and Standards

Performance dimensions and measures should be **content valid** in the sense that the dimensions should be relevant to the current and/or future performance of the organization and that measures should relate to the constructs described by the dimensions. The set of appraisal criteria should be comprehensive. All relevant aspects of performance should be covered, in particular, if the appraisal is used for motivational purposes. Any omissions in the performance measurement affect the content validity of the aggregate performance assessment. At the same time, the criteria should be independent – absence of correlations between performance criteria rules out the unintentional multiple counting of underlying performance constructs. It has also been suggested that performance criteria should be compatible, that is, they should not signal conflicting messages to the appraisees.[126]

If used to motivate performance, appraisal criteria and standards should be **defined specific,** as performance has been shown to correlate positively with the specificity of goals.[127] A maximum degree of goal specificity results from quantitative performance measures and standards. Content validity should not be sacrificed to goal specificity, however. That is, quantitative measures should accurately map onto the corresponding performance dimensions. Linked to rewards, specific goals lead people to perform precisely according to the goal specifications.[128] If performance measures are chosen which relate to a performance construct different from the intended one, efforts may be misdirected.

A linear positive relationship between **goal difficulty** and performance has been evidenced up to the point at which performers reach the limit of their ability.[129] Accordingly, performance standards should be set such that the top performance categories are difficult to achieve but achievable. Task complexity has been shown to weaken the relationship between goal difficulty and performance. That is, increases in effort induced by challenging goals have the biggest impact on performance with simple tasks. With increasing task complexity, performance

[126] Cf. Williams (1998).

[127] Locke (1968), Locke and Latham (1990).

[128] Vroom (1964), see Sect. 3.1.

[129] Locke (1968), Locke and Latham (1990).

depends less on effort and more on skill and whether the right task strategies are being used.[130]

Finally, performance measures must be **reliable**,[131] that is, the measures should be robust over time and across different appraisers. Objective quantitative measures tend to be more reliable than subjective ratings. However, analogous to the above logic, content validity has precedence over reliability. In other words, reliability is to be maximized given content validity. If no valid quantitative measure is available for a performance dimension, it may be preferable to use, for instance, a behaviorally anchored rating scale coupled with frame-of-reference training for raters[132] rather than some quantitative proxy measure which directs performance toward unintended goals.

Once the appraisal dimensions, measures, and standards are established, attention should be paid to **maintaining the integrity of the performance constructs.**[133] It is recommendable to test the criteria on an adequate sample of employees, allowing for "multiple opportunities to observe the manifestation of individual qualities of interest."[134] Once established, supplementary modifications of performance criteria or their flexible rewording should be avoided if the original definitions were established on the basis of systematic and costly validation studies. Also avoided should be *construct stretching,* which refers to the application of performance criteria "to concepts that seem or sound similar."[135] Furthermore, it is suggested that the consistent application of criteria to different employee groups is monitored. One should also confirm that the assumptions on the basis of which a set of criteria was developed hold if it is applied to a new group of staff.

4.2.7 Flexible goal setting

The above-described unsystematic, inductive, and deductive approaches to job analysis are based on the assumption that the demands of a job are stable and, hence, predictable. For some jobs, demands may change frequently and quickly, making it difficult to predict them. Other jobs are so broad that different incumbents may focus on different aspects of it depending on where they can contribute most. For such jobs, one may choose to set goals flexibly for individual employees, jobs, and projects. Similarly, when the appraisal purpose is developmental, it may not be possible to focus on all development needs at the same time, that is, development goals may have to differ for individual employees and over time.

[130] Locke and Latham (1990, p. 218ff).
[131] E.g., Williams (1998).
[132] Cf. Sect. 5.6.
[133] Klimoski (1993).
[134] Klimoski (1993, p. 125).
[135] Klimoski (1993, p. 125).

Flexible goal-setting procedures guide supervisors in setting idiosyncratic goals for each of their subordinates at the beginning of each performance period and in evaluating the achievement of the goals at the end of it. Goal-setting procedures may provide supervisors discretion in determining performance dimensions, measures, and/or standards. A broad competency framework may be defined centrally, within which supervisors may select and specify concrete criteria and targets to focus on for a given performance period. Alternatively, centrally defined systems may predefine performance dimensions and measures, leaving appraisers discretion only in the specification of performance standards.

Following the spirit of the times, a participative variant of goal setting emerged during the 1960s and 1970s, whereby goals are to be agreed on bilaterally by the supervisor and the subordinate. The idea was that **participation in the goal-setting process** leads to greater identification with the goals among the subordinates and, consequently, to greater effort. The empirical evidence refutes such a "participation effect" on effort, however.[136] A possible explanation is that identification with goals is in the vast majority of cases given anyhow, regardless of whether goals are set unilaterally by a supervisor or agreed on by the supervisor and the subordinate.[137] However, the evidence does not rule out the possibility that participation in the goal setting process results in goals that are more attainable. It is also hypothesized that participation processes have a positive effect on task strategies, as these may be discussed by supervisors and subordinates during the process of jointly setting the goals.

According to a contingency model for employee participation in the work planning process proposed by German scholars, participation in goal setting and in devising task strategies should be contingent on the *psychological* and *task-related maturity* of the subordinate. Task-related maturity relates to characteristics such as job experience, task competence, and understanding of job-specific requirements. Psychological maturity includes, for example, factors such as willingness to take on responsibility, motivation, and self-confidence.[138] At the lowest level of task-related and psychological maturity of the subordinate, the supervisor is expected to unilaterally assign goals and targets and to also provide instructions on appropriate task strategies. At the other end of the spectrum, goals and targets are expected to be jointly agreed between the supervisor and the "fully matured" subordinate, who may then also be given full autonomy with regard to the selection of task strategies. Partial participation is assumed effective for intermediate degrees of subordinate maturity. This would, for example, entail the supervisor consulting the subordinate during the process of identifying goals and targets and joint development of conceivable task strategies.[139]

Whether goals are set unilaterally by supervisors or with the participation of subordinates, they should comply with the same effectiveness standards as

[136] Latham et al. (1988).

[137] Locke and Latham (1984).

[138] Neuberger (2002).

[139] Stroebe and Stroebe (2006).

permanently set appraisal criteria. The underlying performance dimensions and measures should be content valid, standards should be defined specific and difficult but achievable, and measures should be reliable given context validity.

In summary, this section has introduced different approaches to defining performance dimensions, measures, and standards. Unsystematic approaches may be used given agreement on what constitutes effective performance and little concern about litigation. Inductive methods such as the rep grid and critical incidents methods allow the tailoring of performance dimensions to nonstandard jobs. The rep grid method, in particular, provides for a large number of people to be involved systematically in the procedure. Both methods are more time-consuming and, hence, costlier than other methods. Methods analysis is an approach to job analysis where all aspects of performance are observable, such as in manufacturing. Time-and-motion studies additionally facilitate the systematic derivation of performance standards. The diary method may be applicable where the incentive to distort records of performance activities is low. Deductive methods require less time than inductive methods. Some of them enable benchmarking with other organizations. Thus, they may be especially apt where performance dimensions, measures, or standards require external justification. Regardless of the method used for defining performance dimensions, ratings across different dimensions may have to be aggregated into a summary rating. To that end, importance weights or scaling factors may be elicited using, for example, the swing weighting method. Flexible goal setting procedures may be used if performance requirements are quickly evolving. Any set of performance dimensions and measures should be valid and, given validity, as reliable as possible. The performance standards should be defined specific, difficult, and achievable – again under the proviso of validity. The integrity of the performance constructs should be maintained in the aftermath of the process of defining them.

4.3 What to Appraise

In this section, the archetypes of employment and performance management developed in the previous chapters are further extended. The appraisal context and purpose are used as a starting point. On that basis, it is derived which elements of the general performance theory may be relevant for performance and how one could go about defining concrete appraisal criteria and standards for each of the archetypes, choosing between the methods described in Sect. 4.2.

4.3.1 Generalist Managers

The function of generalist managers in the value-adding process has been defined as the alignment of productive work with market demands. The generic competency

demands are broad. The organization-specific development is extensive. Input-based control represents the most economic form of control for this staff group, encompassing careful selection, socialization into broad networks, and the continuous monitoring and development of competencies. The generalist managers' ILM is usually entered through participation in an organization-specific trainee program. During the trainee period, the performance appraisal purpose is proposed to be strictly developmental. It is also proposed that the traineeship is concluded by an assessment center, which provides the basis for the initial staffing of trained managers. The primary appraisal purpose thereafter is to provide a basis for staffing decisions with a secondary developmental purpose.

Controlling for Potential

The empirical evidence provides a strong case for the predictive validity of **general mental ability,** especially, when it comes to predicting the performance of managers. Given its universal relevance as an input factor to management performance, the relative ease of its measurement through psychometric testing, and the difficulty of measuring management performance directly, it is suggested in line with control theory that the cognitive abilities should be a focus of the organizational control processes for managers. GMA has been shown to be more robust over time than other constructs such as competencies and also personality. That is, it is unlikely to be affected by the early job experiences of managers. On that basis, it is suggested that cognitive ability may be tested in applicants for the manager trainee programs of organizations. It may represent a prerequisite for becoming a manager.

The **personality** traits conscientiousness (or the related construct integrity) and extraversion have also been demonstrated to have a slight but significant positive impact on expected managerial performance at the individual level. They are also relatively robust and they are independent of GMA as a construct. On that basis, organizations may also take into account respective personality scores in the manager selection process. The weight assigned to conscientiousness, extraversion, and GMA scores in the selection process ought to be commensurate to their relative predictive validities.

Beyond individual performance, personality has also been shown to impact on the interaction effectiveness of teams and, thereby, on performance at the team level. The personality trait agreeableness seems to be especially relevant for group interaction effectiveness. Similarity of team members across different personality dimensions also appears to result in better performance at the group level. At the same time, better individual performance of group members due to high levels of conscientiousness and extraversion also contribute to aggregate team performance. Hence, the relationship between personality and performance at the group or network level is complex and, moreover, not as thoroughly researched and understood as the relationship between personality and individual performance yet. The implication is that one cannot confidently test for particular personality traits to predict group interaction effectiveness.

Nevertheless, the evidence does support the notion that similarity across various personality dimensions has a positive effect on group performance. Without having to specify desired personality traits in advance, one may take account of that notion by using intuitive judgment while observing the group interaction behavior of candidates, for example, during requisite assessment center exercises. If all assessors agree that a candidate's personality does not fit with the prevailing personality structure, this information may be used in making the selection decision as one criterion among others.[140]

Beyond that, one may want to refrain from making more subtle distinctions between candidates on the basis of personality fit, because subjective assessments of personality may not be entirely reliable. Care should be taken, for example through appraiser trainings, to not confuse personality with factors such as mannerisms or lingo. Mannerisms and lingo are more malleable than personality; that is, a wrongly assumed personality mismatch may dissolve into thin air as candidates adapt their mannerisms and lingo in the course of the trainee period.

Considering the relative importance of conscientiousness and extraversion at the individual performance level and personality match at the unit performance level, organizations may face a dilemma if relatively low levels of conscientiousness or extraversion are favored by the existing personality structure of the organization. Thus, conscientious, high performing candidates may not be well accepted by the current team members. There are no studies in the literature on the relative impact of conscientiousness and personality mismatch on aggregate performance. Taking into consideration the available evidence, it may be argued, though, that an organization the culture of which supports high levels of conscientiousness performs better than the same organization that supports lower levels of conscientiousness. Given equal homogeneity of the personality structure, higher levels of conscientiousness and performance at the individual level can be expected to add up to higher levels of aggregate performance.

Organizations with generally low levels of conscientiousness may either continue operating the same personality structure, avoiding frictions in their interaction processes, or they may attempt to change their personality structure, for example, by letting candidates participate in assessment centers only if psychometric testing scores indicate a minimum level of conscientiousness. This may potentially result in temporary reductions of organizational performance due to personality frictions but also in long-term gains as the organizational culture is dominated increasingly by conscientious individuals.

[140] Muchinsky and Monahan (1987) show that people feel attracted to people with personality traits similar to their own. Cf. Sect. 4.3.4.

Competency-Centered Performance Theories

The primary purpose of generalist manager appraisals is suggested to be *staffing/predicting performance*. Predicting the performance capabilities of managers for various roles implies future orientation. A secondary appraisal purpose (and primary purpose during the trainee period) is the development of managers. Competencies have been argued to elicit future orientation and a focus on development.[141]

Competencies can be defined broadly, providing flexibility in complex and dynamic environments. Within broadly defined competency frameworks, supervisors of generalist management trainees may set proximal learning goals, taking into account the idiosyncrasies of the situation and the trainee's development needs. After the trainee program, competency frameworks enable the evaluation of the managers against a common standard while expecting that they have developed different strengths within the parameters set by the framework.

Future orientation, a developmental focus, and the ability to define them broadly make competencies a suitable construct for the appraisal of generalist managers. Perhaps the most fundamental argument for the use of competencies in management appraisal is that they represent the most immediate input to performance. With performance itself being difficult to monitor and outputs being either difficult to monitor or difficult to specify comprehensively in advance, competencies represent a construct that is very near to performance, comprehensive, and (if defined broadly) sufficiently detached from the dynamics of the business environment and the ensuing fickleness of performance demands.

The informal competency *perceptions* of people should not sway to the same extent as performance results, which are influenced by the behaviors and competencies of a manager but also by other factors. In the same vein, formal competency assessments should be affected by indications of competency only gradually; they should be somewhat inertial. A single observation of effective or ineffective performance does not provide a basis for a robust competency assessment, because managers operate as part of interdependent networks and observable performance indicators may be influenced by various factors not under their control. Hence, the first competency assessment is proposed to be based on a comprehensive, say, 2-day assessment exercise upon completion of the traineeship. Subsequently, this initial assessment should be gradually corroborated or adjusted as further competency indicators are observed. Competency ratings should usually not be fluctuating from one performance period to the next but rather changing gradually, exhibiting a development trend. It is this relative **inertia of broad competency assessments** which enables meaningful, future-oriented appraisal of generalist managers in the context of hyperdynamic, complex business environments.[142]

[141] Cf. Sect. 4.1.

[142] The normative argument developed here is supported by the observation that competencies are especially prevalent in the appraisal of managerial performance for purposes of staffing and pay determination (Boyatzis, 1982; Goleman et al., 2002; Zenger and Folkman, 2002). Cf. Sect. 4.1.

Having established the central role of competencies in the appraisal of generalist managers, it needs to be considered how the competency framework should be defined, using either an inductive or a deductive approach. Generalist managers have been said to harbor the largely implicit knowledge that constitutes the competitive advantage of the organization. They represent the factor that ultimately differentiates one organization from another. To some extent, the competency demands on them may be similar across organizations, that is, as far as the broadest and most fundamental competencies are concerned – for example, the ability of senior managers to perceive things intuitively or the ability of middle managers to lead people. Beyond that, competency requirements should be geared to the unique raison d'être and goals of an organization. Thus, preferred people leadership behaviors may differ across organizations in that they encourage more or less risk-taking behavior, action-orientation or deliberation, care for the well-being of individual employees or focus on short-term results, being analytical or obedient to existing norms, and so on. Different kinds of leadership behaviors may be economically rational in different business environments.[143] Competency requirements may also vary across different levels of the managerial hierarchy within an organization. Top, middle, and first-line managers have been argued to require different amounts of conceptual, task-related, and human-related abilities.[144] Competency requirements may and should further vary over time as the business context and the strategic position of an organization change.

It may be convenient to use "off-the-shelf" competencies or those competencies that all the other companies seem to be using. Thereby, however, an opportunity may be missed to attune the appraisal system and, hence, the behaviors of managerial employees to the strategic requirements of the organization. The rationale of doing as everyone else does is presumably that organizations seek to avoid incurring a disadvantage compared to everyone else. Not incurring the risk to be at a disadvantage would then be valued more highly than the chance of gaining an advantage. This logic also implies, however, that "everyone else" faces the same business context, the same kinds of labor, and the same raison d'être. In a market economy, every organization must have a different purpose of existence, as is elaborated in the preceding chapters. Given that, implementing the same competency framework that everyone else uses puts organizations at an immediate and sustainable competitive disadvantage to those organizations the unique strategic requirements of which are neatly met by the prevailing competency frameworks.

It is therefore argued that an **inductive approach** should be used to define competency frameworks for generalist managers, for example, the rep grid or the critical incidents method. An inductive approach to defining appraisal dimensions for managers is also propagated elsewhere: "Drawing up a checklist may be useful to define standards for shop floor workers, but is inappropriate as a means of

[143] E.g., Miles and Snow (1984).

[144] E.g., Northouse (2006).

measuring the effectiveness of managers and professionals."[145] Separate competency frameworks may be devised for different levels of the managerial hierarchy, including top, middle, and possibly first-line managers. The competency frameworks should be reviewed at regular intervals, conducting the rep grid or the critical incidents procedure, for example, every second year.

A focus on organizationally relevant outcomes and goals can be encouraged by embedding the competency definitions within an **organizational performance theory.** This can be imagined (possibly also depicted) as a cause-and-effect diagram or a goal hierarchy, with the organization's purpose of existence at the very top and all other goals, activities, competencies, and, generally, inputs to organizational performance linked through directional arrows underneath. Contextual factors that impact on or hinder performance should also be covered. Expressive awareness of such factors later helps in the interpretation of observed outputs and evaluation of competencies. It may also trigger ideas on how to manage such presumably external factors. At the bottom of the goal hierarchy, the performance theory should consider factors that contribute to the development of desired competencies. Hence, one purpose of the organizational performance theory is to put the competencies elicited through the rep grid or critical incidents method into context, help to weed out irrelevant or duplicate competencies, and provide structure to the resulting competency framework. The process may also include the definition of scaling factors, indicating the impact of different factors on organizational performance.

A second purpose is to provide guidance to appraisers during appraiser trainings and during the appraisal itself. A graphic representation of the organizational performance theory may be integrated into **appraisal forms.** Such forms may require appraisers to make entries on observed indicators of competency, contextual factors, and measures for development, revealing links between observed indicators, competency ratings, and proposed development activities diagrammatically.

If organizations wish to emphasize that competency ratings should change only gradually, they may include the competency ratings of the previous performance period in the appraisal form. The difference between the current and the previous ratings should be explained by the entries made in the section on observed indicators of competency. Finally, a separate section for entering proximal learning goals may also be included, which is primarily relevant during the trainee period but not only then. Hence, the proposed appraisal form requires several entries by the appraiser ranging from observed competency indicators to learning goals, with competency ratings at the center of the form.

To the extent that different **levels of the managerial hierarchy** require different competencies, an organization may have to develop different performance theories and appraisal forms for each level or category. The different performance theories should integrate into an overall organizational performance theory. If there are significant differences in competency requirements, this may also mean that managers at one level have only limited opportunities to develop or demonstrate the

[145] Cheetham and Chivers (2005, p.64).

competencies required at the next level. If that is perceived to be the case, additional assessment centers may be conducted for promotion candidates, certifying suspected or indicated competencies. Similar to the first assessment center following the trainee program, the assessment center ratings would represent initial competency assessments which are to be corroborated or adjusted during subsequent supervisory appraisals. Likening this to a computer game, each assessment center may be regarded as the starting point of a new level in the game. Each assessment center rating represents the point value at the beginning of the level (where a certain amount of points is required to not fall back to the previous level). As the managers navigate through a level, they may, so to speak, gain or lose points, which are noted down in supervisory appraisals. A certain total number of points at the end of a level grants access to the next assessment center and level.

The applicability of this computer game comparison may be limited where organizations have many hierarchical layers and do not wish to expend the costs associated with conducting assessment centers at every promotion stage. In some organizations, it may also be perceived that managers have sufficient opportunities to display the competencies required at the next level, so that all promotions can be based on supervisory competency assessments. It is, however, not uncommon that organizations conduct as many as four assessment centers at different stages of the managerial career ladder, reflecting differences in competency requirements at certain stages of the ladder.

At the final level of the managerial game, the rules may change somewhat – as they did at every level before. This time, however, it may be more difficult to make the rules explicit in the form of competency frameworks and it may not be possible to base the promotion decisions on an assessment center rating. Executive managers may not give executive promotion decisions out of their hands or support the systematic distillation of executive promotion and performance criteria, as the HR department has no authority over the directors of a company. Executive performance may also be too multifaceted to be captured in formal competency criteria. Political considerations may play a larger role in the promotion decisions at that level than otherwise. Thus, staffing decisions at the executive level may be based on implicit criteria and the perceptions of executive managers, possibly aided by a career review panel, which is less structured than an assessment center.

Given a secondary developmental purpose of managerial ratings, specific **developmental goals** may be set within the broad competency framework. On the basis of current ratings across the different competency dimensions, the supervising manager may, depending on the respective professional and psychological maturity, set or agree to goals for the appraisee to focus on during the coming performance period. The goals ought to be proximal. Distal developmental goals may additionally be talked about between a manager and his or her mentor.[146] Both the goals set by the mentor and the goals set by the supervising manager ought to be strictly developmental. A manager's competency ratings should be an aggregate measure

[146] Cf. Sect. 5.5 on mentoring.

of all competency indicating observations made since the assessment center conducted at the beginning of a managerial level. They are not, for instance, measuring the degree of goal accomplishment on developmental goals. Nevertheless, the developmental goals would be expected to be set such that, if they were accomplished (or if a series of proximal developmental goals were accomplished, potentially in the course of more than one performance period), they would ultimately result in changes of behavior that would be reflected in the competency ratings.

In summary, generalist managers are proposed to be appraised on the basis of competencies that are relatively broad and inertial in the context of dynamic, complex business environments. The competencies should be defined organization-specific, using inductive methods such as the rep grid or critical incidents methods. Competency frameworks are proposed to be embedded in performance theories, depicting how competencies relate to various performance inputs and outcomes. The performance theories should be incorporated into appraisal trainings and the appraisal process. Different performance theories and competency frameworks should be developed for different managerial categories such as junior, middle, and senior management, reflecting differential competency requirements. Differential competency requirements may necessitate the conduct of multiple assessment centers at different stages of the managerial hierarchy. Developmental goals may be specified within the confines of the competency frameworks, ultimately contributing to the mastery of the competencies required at one level, which may result in the nomination as promotion candidate for the assessment center for the next level in the managerial hierarchy.

4.3.2 Professional/Occupational Employees

The function of professional/occupational employees in organizations is to perform complex, specialized tasks which occur relatively consistently across different organizations, such as IT management or accounting. They require a deep, specialized expertise, which is normally developed in the context of professional institutions. They undergo only a limited amount of organization-specific development as far as the immediate context of their professional function is concerned. They operate as part of professional systems embedded within organizational systems. The organizational–professional interface between the principal professional employee and the generalist management of an organization is critical in the control of the professional system. Organizationally relevant outputs should be defined for the professional function, for the delivery of which the principal professional employee should be held accountable. Constituent output deliverables should be defined at subordinate levels of the professional hierarchy. Their delivery should be controlled through supervisory performance appraisals and linked to a performance-related pay award. The purpose of the organizationally administered performance appraisal is then to control/monitor performance, securing a focus on organizationally relevant outputs, while not impinging on the professional system

and hierarchy which govern the processes and task behaviors of professional employees. A dedicated generalist manager should oversee the specification and delivery of professional outputs at the functional level, managing the organizational–professional interface as a representative of the organizational system.

Purpose-Oriented Professional Competency Evaluation

Organizational systems should focus on controlling the outputs of their professional functions. How the outputs are produced should be left to the professionals and their systems. So it was argued in the previous chapters. This implies that professional management systems have evolved that are geared to the function a profession performs. In the following, it is explained how these systems work and what performance dimensions they target for evaluation. On that basis, it is subsequently possible to further elaborate what performance dimensions the organizational performance management system may focus on without colliding with the professional system.

Freidson describes how professions are governed by hierarchical systems which span organizational boundaries.[147] He proposes to divide **professional hierarchies** into four broad categories: rank-and-file practitioners and professional administrators both work in (heteronomous) professional organizations, teachers/researchers in professional education and training institutions, and professional elites at the top of professional associations. The four categories are hierarchically interlinked such that members of superordinate categories influence the direction of activity in subordinate categories in a relatively loose fashion and without the immediate accountabilities that are associated with tight bureaucratic hierarchies. Boundary-spanning professional hierarchies are not necessarily associated with the hierarchical differentiation of income and status found in bureaucratic hierarchies either. They are then also comparatively stable, without a predefined progression through the ranks or as much ("upward") mobility as is typically associated with bureaucracies.

The *professional elites* seek to provide overall direction to a profession. Professional elites are functionaries in professional associations. Their responsibilities include, for example, the accreditation of professional education and training institutions, including universities. Thereby, they can influence which people and organizations with what kind of values and goals may participate in the development and imparting of the professional stock of knowledge. In addition, they are responsible for organizing professional conferences and seminars. Thereby, they may encourage the professional membership to focus on particular issues or topics of interest.

Teachers/researchers are employed by professionally accredited or accepted institutions for the education of new members of a profession. Their responsibility

[147] Freidson (1986, pp. 209–232).

is threefold. As researchers, they must maintain and develop the professional stock of knowledge. This includes making explicit, writing down, and categorizing new knowledge emerging from the professional practice and synthesizing it with the existing stock of knowledge. During the process, they may occasionally come up with new solutions to practical problems themselves. However, their main function is to collect and organize the knowledge so it can be taught to apprentices in the profession. A critical aspect in the synthesization of professional knowledge is that it must be generic, that is, applicable in different contexts and organizations. The second responsibility of professionals in this category is to pass on the stock of knowledge to professional apprentices and to socialize them into the value system of the profession, preparing them for the challenges they may face as future members of the profession. The third responsibility is to filter or select the apprentices who are permitted or certified as members of the profession. In that respect, they can be said to be the "gatekeepers" of the profession.[148]

Professional administrators are the principals among professional employees in heteronomous professional organizations. Their responsibility is to represent the professional employees to the organizational management and, thus, align the needs of the professionals and the needs of the organization. Their function is not dissimilar to that of managers except that those that must be aligned are professionals and that they share with the professional employees an attachment to values and goals different from those of the organization. They specify "procedural and substantive rules addressed to the way professional work is to be performed. Promulgated more as guidelines than as detailed rules, those directives establish a basis for evaluating, even if not closely controlling, the work of the rank and file."[149] In doing so, they transform the abstract knowledge taught by professional teachers/researchers into concrete, actionable goals that are applicable to the idiosyncratic context of their organizations.[150]

The *rank-and-file practitioners* apply in practice the knowledge they were taught by the teachers/researchers within the parameters set by the professional administrators. They, thus, functionally represent the lowest level of the professional hierarchy. Nevertheless, they possess considerable discretion in putting the goals set by their principals into action. In that respect, they differ from those at the bottom of the hierarchy in bureaucratic systems with a centrally planned division of labor. Rank-and-file practitioners may be promoted to become professional administrators.

Freidson's statement that professional administrators formulate guidelines concerning "the *way* work is to be performed" seems to signify that the guidelines may not only concern the outputs but also the behaviors of rank-and-file professionals. At first glance, this seems to contradict Chap. 3. There it was argued on the basis of control theory that it should be the outputs rather than the behaviors of

[148] Cf. Krausert (2008).

[149] Freidson (1986, p. 215).

[150] Freidson (1986, p. 215).

rank-and-file professionals that ought to be targeted. The perspective taken there was that of the hiring organization. From the perspective of nonprofessional managers, the work of professionals is too complex to be understood. Hence, according to control theory, they can only evaluate outputs. The purpose of the present subsection of Sect. 4.3.2, however, is to shed light on how professionals interact within their own hierarchies. From the perspective of the professional administrator, the work of rank-and-file practitioners may seem less complex. If cause–effect relations are understood, control theory allows for either **behavior or output control,** or a combination of both. Which of them will be used depends on the observability of behaviors and outputs and on the availability of content-valid and reliable performance measures.

Investment bankers, for instance, are evaluated on the basis of the profits they make. Their profits are an output measure which is content valid and reliable. It is content valid because it is comprehensive; that is, it is an end goal and it reflects all relevant aspects of their performance function. It is reliable because one unit of profit is as good as any other unit of profit, assuming a stable monetary system. The principal banker in a team of investment bankers may provide behavioral guidelines or task strategies to lead the team. However, the professional evaluation and reputation of investment bankers is largely based on their output given a perfectly valid and reliable output measure.

Investment banking is a fairly unique profession in that respect. In most professions, performance is more complex and difficult to evaluate, including engineers, accountants, lawyers, human resource managers, and IT specialists. An example familiar to the author and likely readership of this dissertation are professionals employed as teachers/researchers in departments of business administration or social sciences at academic institutions. Struggling to define a simple yet valid and reliable output measure to evaluate each other professionally, these academic professionals sometimes resort to the number of their publications in top-ranked academic journals. Although it is readily available, this measure lacks reliability. One unit of the publication measure is rarely equivalent to another one. All publications in a given journal must meet a set standard of quality, which is assessed by the journal's reviewers. Above that standard, however, there may be considerable differences in quality. It cannot be ruled out that the value contribution to the profession by a single insightful paper is a multiple of the contribution made by less significant papers that are, nevertheless, good enough to be published in the same league of top ranking journals.

The reliability problems are exacerbated as different reviewers are bound to have inconsistent quality standards. Each researcher is specializing in a different discipline or subdiscipline. Depending on the particular research interests, each researcher will view a paper from a slightly different angle and he or she will value different contents and research methods. Research can only be evaluated in relation to a particular scientific standpoint.

In an attempt to create a more reliable measure, citation indices have been introduced, which essentially represent the number of times a publication is cited by other publications in participating top journals. The idea is that the number of

citations is reflective of the relevance of a publication to current discourses in the academic community, thus putting the assessment of the quality of a paper on a broader base. In a way, this use of citation indexes represents the imitation of a market evaluation system. As ranking publications according to the number of times they have been sold is not meaningful in the academic context, the number of citations can be interpreted as a substitute or proxy measure for the demand for a publication. The problem with this measure lies in its content validity. Publications may be cited for reasons unrelated to their quality. One of them may be that they have been written by a researcher who is a friend or part of the same network. Propagating this proxy measure as value indicator may lead to an increase in non-value-adding (or even value-diminishing) tactical behavior so that, for instance, researchers only cite publications by friendly networks while other, perhaps important, contributions may be deliberately left out.

A final problem concerning the content validity of both publication and citation counts is that publishing papers is not the ultimate goal or raison d'être of academic teachers/researchers. It was argued above that the purpose of professional teachers/researchers is to develop and maintain the stock of professional knowledge, impart it to professional apprentices, and select new members of the profession among the apprentices. Some academic scholars may also see one of their purposes in the enlightenment of the public, guiding public thinking on issues relating to their expertise.[151] Counts of published papers are an indicator of performance relating to only one of these purposes, that is, the development and maintenance of professional knowledge, but not to the others. Even this one purpose may not be adequately covered by publication and citation counts, if researchers publish mostly monographs or in journals that are associated with their university but do not belong to the top-ranked journals. Illustrating the point with an admittedly purely hypothetical example, it would be conceivable that some academic institutions no longer report in written form on their progress in organizing professional knowledge. They may decide to talk about their knowledge only at conferences and seminars. Or they may decide to report on their latest research findings through the video-exchange platform Youtube on the internet. Thus, there may be professional teachers/researchers who do a very good job at organizing professional knowledge, preparing apprentices for professional challenges, and selecting the best for the right functions in the profession without ever publishing a paper in a so-called top-ranked journal. The publication and citation system can be considered a proposal for evaluating the "knowledge management" activities of professional teachers/researchers which requires that the teachers/researchers report on their research in a particular format and that they accept a hierarchy among publication media which features periodicals issued by certain American universities at the top. The effectiveness of the proposed system in evaluating the researchers' efforts in managing the professional knowledge depends on how many researchers succumb to the proposed conditions.

[151] Cf. Krausert (2008).

Thus, the quantity and quality of published papers as well as publication and citation counts may, at best, represent proxy measures or indicators of research performance which are associated with a number of reliability and validity problems. They may represent one important input to the informed judgment of a professional expert, but there may be other inputs such as the contents of published and unpublished research reports in whatever medium, teaching assessments, or the number of disciples with a successful career. Given the complexity of professional knowledge and performance, performance assessments are always relative to the unique scientific or professional perspective of the assessor. This contributes to reliability problems of generally applicable performance metrics. To the extent that assessments are made and read with a particular purpose in mind, the reliability problems may be ameliorated.

A basis for purpose-oriented assessments is provided by **professional credentialing** systems.[152] Credentials are assessments of professional competency by an authority with a certain, known credibility. They may be either formal or informal. Formal credentials are issued by professional institutions. They include academic degrees, licenses, and certifications. Their value may stem from legal protection, accreditation, or reputation. Formal credentials such as an academic degree indicate that the professional has acquired the basic knowledge and skills that may be required across different professional roles. As a professional competency assessment, they reflect the perspective of a particular "school" and the qualities associated with it. Other formal credentials such as certifications of participation in specialized training courses relate to narrower excerpts of professional knowledge, which may serve to refine the competency profile of the professional.

Informal credentials include testimonials and references by professional administrators, mentors, and colleagues who are familiar with some of the competencies of the assessed professional. Again, the assessments will be specific to the situation and the perspective of the referee. Understanding the perspective of the referee is a prerequisite for the integration of the informal credential into a valid and reliable purpose-oriented assessment. An understanding of the perspectives that underlie both formal and informal credentials is required by the professionals who collect credentials and use them to apply for jobs, by their teachers and mentors who guide them, and by those who make selection and staffing decisions such as professional administrators in organizations.

The discussion of performance of professional teachers/researchers is intended to illustrate how complex and multifaceted a construct professional performance may be and that assessments may vary depending on the perspective taken. The professional credentialing system caters for this complexity, as no attempt is made to provide a generally applicable assessment of professional performance or competency, allowing for relativity of judgment instead. The credentials of a given professional are an assortment of judgments by other professionals who observed

[152] Freidman (1986, pp. 63–91).

the behaviors or outputs of the assessed professional. Formal credentials are based on the systematic exposure of the professional's performance capabilities to the observation and judgment of professional teachers. Informal credentials are based on unsystematic observation either in learning or in practicing environments. The relevance of different kinds of credentials depends on the purpose of the assessment. Professional administrators who are selecting rank-and-file practitioners, for example, may pay special attention to credentials by other professional administrators working in similar organizations.

Thus, an inside perspective on the professional system has been offered in the current subsection. The concern of the present work is with professional systems, or parts thereof, which are embedded in organizational systems. The following subsection discusses which aspects of professional performance must be targeted by organizational management and evaluation systems to enable the functioning of intraorganizational professional systems according to the needs of the organization.

Setting Organizational Output Standards

The interests of professional employees are aligned with those of the organization by setting output targets and tying a reward to the targets.[153] The target-setting process begins at the top of the professional hierarchy. The professional administrator manages the deliverables and terms and conditions of the professional function at the interface with the managerial system. The output target at the functional level is broken down into constituent output targets at the level of rank-and-file practitioners. The **goal system** thus established may vary in stability. For example, the goals of the accounting function of an organization are relatively stable or recurring over time, the goals of IT or development engineers more variable as their tasks may vary with changing technology or with the changing products they are tasked to develop. If goal systems are relatively stable, it is possible to define them down to a greater level of granularity. Inductive methods may be used to define the goals (that is, the performance dimensions, measures, and standards), such as the rep grid method. As goals defined for ongoing or recurring use, they will be referred to as appraisal or output evaluation criteria; the term goal may imply that it is replaced by another goal once it is accomplished. Where tasks are subject to change over time, performance dimensions, measures, and standards may be defined bilaterally between supervisors and individual staff members through flexible goal setting procedures, frequently, and usually unsystematically.

Goal systems may be defined with varying degrees of **participation** by professionals at subordinate levels, contingent on the relative task-related and psychological maturity of the supervisor and the subordinate. Professional administrators are experienced professional employees. Their task-related and psychological maturity can be expected to be high in comparison to other professional employees in their organization. The managers they report to are not or no longer part of

[153] Cf. Sect. 3.3.2.

the profession. They will usually be less knowledgeable professionally, although they may have access to benchmark information. At the same time, they are the ones who are in control of the resources. The goal setting process at this level will likely be highly participative.

The professional practitioners working under the professional administrators are also fully trained professionals. Even those who are on their first assignment after their professional apprenticeship or education will possess a higher task-related maturity than, say, new recruits into the managerial function, who must undergo an extensive process of organization-specific development to develop task-related maturity. Professional employees require only a relatively short induction period to be able technically to perform their professional jobs. Psychological maturity, by contrast, depends on experience and not on technical training. A risk may be incurred that rank-and-file professionals strive for the wrong goals, less that they are unable to accomplish a given professional goal. Thus, the principals may have to take the lead in setting the output goals to the extent that the subordinate practitioners are less experienced than them. At the same time, they may give them ample discretion with regard to the choice of task strategies to satisfy their autonomy needs and tap their professional expertise in the pursuit of organizational goals.

The output goals should be defined in terms of reliable and content-valid measures, covering the entire set of job responsibilities of the professional. Only in the absence of suitable output measures, the professional administrators must set behavioral targets to ensure that the professionals do not work toward goals that are, perhaps, professionally interesting or challenging but do not contribute to the goals of the organizations. Behavior and output goals may also be combined to arrive at a comprehensive set of goals, as long as they do not relate to and, thus, double-count the same or overlapping constructs. Setting any standards relating to professional behaviors in a participative manner may help to maintain the professional integrity and autonomy of practitioners.

Generally, the goals of professional employees are **proximal.** Lagging measures such as profits or the organization's stock price are affected by the work of professional employees only indirectly and with a delay possibly of years. The motivatory effect of tying rewards to distal goals is likely to be low because professionals may not perceive a link between their work and the lagging measure or, if they do, they may no longer be part of the organization by the time their contribution affects the outcome given comparatively short expected tenures. Short tenures may also result in the neglect of future-oriented activities related, for instance, to intraorganizational knowledge management or budget/cost management. Separate goals should be set where this is thought to be an issue.

Proximal output goals and, in the absence thereof, behavior goals could, in theory, be set at the **group and/or individual level.** Setting and rewarding group goals increases group cohesiveness, cooperation, and concern with the work of colleagues. On the downside, it may also entice shirking and overmonitoring behaviors. Employees in the team worker and manager functions must define their role in relation to that of their colleagues under conditions of task fluidity and a low degree of specialization. Compared to that, the jobs of professional

employees are more complex technically, specialized, and demarcated. If every professional employee had to understand and monitor what every colleague is doing, they would not be able to devote a sufficient amount of time to their own highly specialized and complex jobs. Furthermore, interdependencies and interaction requirements are moderate between demarcated professional roles compared to team worker and manager roles, entailing more moderate benefits of group goal setting. Finally, the costs of team coordination via bespoke individual goals are relatively low for professional employees due to relatively low levels of fluidity. Even if output goals change, for example, in terms of the specifications of a new product that is to be developed by a team of engineers, the roles of the team members will remain consistent in terms of their particular area of expertise. Hence, prohibitive costs of mutual monitoring, fairly limited interactive requirements, and the relative consistency of the internal division of professional responsibilities all suggest that it is effective and cost-efficient to dedicate a full position to the coordination of rank-and-file practitioners via goal setting at the individual level, that is, the position of the professional administrator.

In summary, professional employees are expected to perform on the job immediately upon recruitment. Their selection is based on a purpose-oriented competency assessment drawing from a variety of professional credentials. The development and assessment of professional competencies takes place within the professional system. The organizational appraisal system focuses on outputs in order to ensure the alignment of professional behaviors with organizational interests. A goal system is to be defined, focusing on proximal, task-based outputs at the individual level or, in the absence of valid and reliable output measures, on behaviors. Participation in the definition of goals and, in particular, task strategies is intended to protect the professional integrity and autonomy of professional employees.

4.3.3 Industrial/Clerical Workers

The function of industrial/clerical workers is to perform narrowly defined tasks in Taylorist production systems or their clerical equivalent. This requires basic generic competencies and a moderate level of organization-specific development, learning the standardized tasks they must perform. When facing the employer as individuals, such workers are at a disadvantage. To improve their bargaining position, they seek to create a monopoly on labor by organizing collectively. The constant wage–effort bargain that is inherent to this employment relationship brings about close mutual monitoring between the parties. A narrow definition of tasks that are performed in a given pay band does not permit any resource flexibility, preventing employers from having more work performed than the exact amount they pay for. Employers attempt to get a hold on the wage–effort bargain through piece-rate schemes. This requires an assessment of the amount of output that meets specified quality standards. The progression through the pay bands is based on seniority. Hence, the primary purpose

of appraisals of this type of employee is the control/monitoring of performance. During the initial learning phase, appraisals may also serve a secondary developmental purpose.

Blueprints of Performance

In selecting industrial/clerical workers, it needs to be confirmed that they possess the **basic characteristics and abilities** required to perform the work. Technically speaking, it is a minimum level of general mental and/or psychomotor ability that is required, that is, a level that any healthy adult would possess. Both cognitive and physical abilities may be assessed at face value during a brief interview and a medical examination. The completion of a certain level of education may also be a requisite indicator of required cognitive abilities as well as of psychological stability. Personality-wise, minimum requirements must be met, for instance, avoiding grave personality disorders which would prevent the worker and others from performing their jobs. The costs of any assessment methods other than a face value inspection, a medical examination, and an examination of school leaving certificates would exceed any incremental benefits.

The task-related experiences required to develop the competencies to perform the industrial/clerical jobs are received during the first days or weeks on the job. The monitoring and incentive systems of the organization elicit extrinsic motivation to perform on the job immediately. Thus, this employment mode does not involve the identification and harnessing of talent or of special competencies and their matching with suitable jobs and roles. It is rather based on the assumption that workers contribute their labor power to represent substitutable "building blocks" in the deconstructed production process. Provided they possess the basic characteristics that define these building blocks, they enter and progress through the system essentially regardless of any personal idiosyncrasies beyond the basic defining characteristics.

As a result of narrow task definitions, task behavior and outputs are closely linked. The output is immediately available for inspection and it is wholly dependent on the behavior of the worker. Not only in cases such as that of call center operators, behavior and output are virtually inseparable. For reasons elaborated in the previous chapters, the output is usually the object of appraisal. More specifically, it is the quantity of output meeting certain quality specifications that is to be evaluated. The quality of the output is to be evaluated in terms of any deviations from a specified (scientifically engineered) standard. Using the terminology introduced in Sect. 4.2, quality represents a threshold rather than a differentiating performance factor.[154]

[154] Cf. Williams (1998, p. 104).

Theoretically, output may be evaluated and rewarded either at the **group or at the individual level.** Monitoring group performance is economical if group performance is easier to be evaluated than individual performance. Some supervisory resources might be saved by establishing only the total number of fault-free products and not determining the contributions of each individual worker. As workers become mutually dependent with regard to their income, it might be hoped that they develop group values and norms of behavior and monitor each other. Group norms may motivate performance if workers identify with the group and the group's goals, lifting their level of commitment from compliance to identification with (or internalization of) group performance goals. In the context of them-and-us attitudes, however, group norms may develop which are not so much directed toward productivity goals as to the interest of the worker collective, ensuring that the "bar is not raised too much" for themselves and for workers in other teams, plants, and organizations. Thus, the evaluation of worker outputs at the group level is likely to be ineffective unless them-and-us attitudes are overcome – a condition which is sought to be created by the team worker employment mode.

The cost–benefit relationship of evaluating group instead of individual outputs is likely to be less advantageous for industrial/clerical workers, also because it is relatively straightforward to trace mistakes back to individual workers due to the rigid division of labor in Taylorist production systems. According to the principles of scientific management, tasks are specified to the finest grain of detail, including the specification of any coworker interactions in the work process.

Essential to industrial performance systems and, therefore, to a respective performance theory is the **avoidance of mistakes** by the workers. Mistakes in that context can be defined as deviations from the fine-grained blueprints of performance that have evolved under the supervision of management. Thus, there tends to be only one way of doing things for a worker in a traditional industrial production system – unless the second way is specified in the performance blueprint as equally effective. Individual initiative is usually not desired in this system. Differentiation between workers is primarily based on quantity, that is, the speed with which the detailed behavioral scripts are carried out.

The fundamentals of industrial/clerical worker performance can be summarized as follows: these workers represent identical building blocks in terms of basic traits and abilities they must all possess. Upon entering the organization, they are all exposed to some limited training and development experiences, yielding the basic competencies required to perform the deconstructed work. As a result of the far-reaching deconstruction of work, outputs are closely tied to behaviors. The motivation to perform is purely extrinsic; that is, workers are paid to follow a detailed set of rules as defined in a "blueprint for performance." Any mistakes – deviations from the blueprint – result in a loss of piece-rate income. Grave or repeated deviations may also result in dismissal on the grounds of performance or behavior. Behavior and output standards are defined at the level of individual performance. They integrate at group level as specified in the blueprint.

Qualitative Analysis of Quantitative Information

The process of defining the objects of appraisal for industrial/clerical workers is, unlike that for managers or professionals, not so much concerned with defining different dimensions of performance. The division of labor and the resulting narrow job specifications typically entail a one-dimensionality of performance. The challenge lies in defining how a given job should be done and, based on that, how fast and frequently a behavioral script can reasonably be expected to be performed. The blueprint of performance is to be defined.

Usually, the blueprint does not have to be defined from scratch. Even when setting up a Greenfield site, there may be people with relevant experiences of the production process. If new production technologies are used, the production process may initially be devised on the basis of logic and common sense. There will be test runs and pilot studies that help to amend and fine-tune the process. They are necessary as the initial designs of the production process will, at least partly, have been based on assumptions regarding the behavior and performance capabilities of machines and, especially, the workers. Systematic observations of actual behavior may support or refute such assumptions. Repeated reviews and analyses represent **iterations** of the initial analyses.

When confronted with complexity, the human mind selects a handful of items to focus on at one time. Research in the field of cognitive psychology demonstrates that an individual can consciously attend to no more than seven plus or minus two cognitive items at a given time.[155] A group of people may consciously attend to a larger number of aspects of a problem at a given time, although the cognitive capacity will not rise proportionately with the number of people. To some extent, the group will always go down a chosen path of cognition together, focusing on the same aspects of the problem. The cognitive capacity of a group can be increased by initially splitting the group up into subgroups, letting individuals think through the problem by themselves, letting individuals or subgroups present their approaches to the rest of the group, and only then entering the regular group discussion process. This kind of approach incorporates at least two cognitive iterations of the problem, one at the subgroup and one at the group level. If further iterations are arranged for, say within the time span of 1–2 years, the group will be able to build on the insights gained during the earlier iterations, without consciously attending to them. Since the first iterations, the participants in the analysis will have been exposed to different experiences, which will contribute to a new perspective on the issues at hand. Thus, the overall complexity that is catered for in the solutions increases and the solution to the problem matures. It is therefore proposed that the necessary industrial/clerical job analyses should be conducted in an iterative manner, that is, by revisiting them on a regular basis. Large organizations that operate traditional systems of scientific management will have a large number of industrial processes and jobs subject to job analysis. It is conceivable that a permanent team is set up

[155] Miller (1956).

which consecutively conducts job analyses for all industrial processes and, once all jobs are analyzed, begins with the first job again, yielding a permanent, iterative industrial job review system.

The kinds of analyses that should be conducted are methods analysis and time-and-motion studies. Methods analysis deconstructs existing work processes, seeking to reveal duplications of effort and other inefficiencies that can be reengineered for greater productivity. Time-and-motion studies also deconstruct the work process into the constituent motions of the worker and, additionally, record the time required for each of the motions. Their purpose is not only the optimization of the process design but also standard setting, for instance, gauging how many widgets a worker at a given assembly line post should be able to produce in an hour. Either method requires the observation of workers, which may influence the behavior of workers in two ways. Firstly, workers who are observed may display greater effort than usual, revealing their peak instead of their typical performance. Secondly, workers with them-and-us attitudes may deliberately underperform when they are being timed, managing performance expectations downwards. The first effect may be countered by using longer observation periods, as the workers will not be able to maintain peak performance over days. Both effects may be reduced somewhat if workers are observed through surveillance cameras which are installed throughout the year, so that they are not aware when they are being studied. As has been explained in Chap. 3, there are various ramifications to the use of electronic monitoring technology, though, which must be considered. Other than the use of technology, analysts may pay attention to performance differences between different types of workers; for example, new versus established workers or activists in the labor movement versus workers who are known to be not part of it. Instances of outstanding performance should be subjected to particular scrutiny, testing different potential explanations. It may also be beneficial to provide the managers who conduct the analysis with some experience of carrying out the work themselves. If it is feasible, management trainees who are to be staffed as first-line supervisors in production functions may, for example, be given a stint as worker in an industrial production function. Thus, in order to set challenging and achievable performance standards, a qualitative approach should be applied to the analysis of quantitative information generated by time-and-motion studies, resulting in depth of insight and judgment rather than an unreflected reliance on statistical means and variances.

The outlined qualitative/quantitative approach to the definition of performance standards is an inductive one. The product or service an organization contributes to the economy is unique, requiring a tailored production process. The standards for unique production processes can hardly be derived from generic lists of tasks as they are offered by deductive approaches. Nevertheless, there are competency questionnaires for nonmanagerial jobs, for example, the Fleishman Job Analysis System or the Position Analysis Questionnaire. Such methods may be used to complement the outlined approach, specifically in conducting **job evaluations,** which may be used to provide input to pay–band negotiations with labor representatives. They provide a non-organization-specific framework for classifying jobs in terms of task requirements and responsibilities. As they have been created by a

neutral third party, they are likely to be accepted by both parties of the collective bargaining process to, at least, provide a common terminology and a basis for discussion. Hence, deductive methods may be of particular use in collective bargaining. In defining performance appraisal criteria and standards, inductive methods are applicable, especially methods analysis and time-and-motion studies.

In summary, the industrial/clerical workers can be compared to identical building blocks in Taylorist production systems, possessing standard abilities and competencies as assessed at face value, on the basis of school-leaving certificates, and a medical examination. Performance is to be appraised in terms of deviations from the blueprint of performance defined by the management. Performance appraisal takes place at the individual rather than group level. Methods analysis and time-and-motion studies are to be used as part of an ongoing, iterative industrial job review system. Deductive methods of job analysis may be relevant in support of job evaluation processes during collective bargaining.

4.3.4 Team Workers

Team workers perform integrated functions in production or service processes with special resource flexibility requirements. They possess high levels of organization-specific development centering around team-specific planning, production, and monitoring processes. Mutual monitoring processes among team members are triggered by team-level goal setting and evaluation. Team facilitators, who are members of the organization's management and former first-line supervisors, coach the workers in their mutual monitoring and other managerial processes but do not exercise control themselves. Establishing efficient control structures through social ties between team members may reduce costs of control and sanctioning and avoid first- and second-order free-rider problems. In order to deal with graver instances of underperformance or misbehavior, a formal peer evaluation system should be established. The pay classification and job responsibilities of a worker depend on a separate work sample test, which is conducted when a worker has mastered a new task. In preparation of this assessment, workers provide mutual developmental feedback to each other. Space may be dedicated to developmental feedback in the forms and procedures of the peer evaluation system.

Birds of a Feather Flock Together

It has been suggested that team workers require self-direction, self-development, and team-development skills,[156] self-efficacy,[157] learning speed and peer respect,[158]

[156] Blackburn and Rosen (1994).

[157] Thoms et al. (1996).

[158] Adler (1991).

locus of control,[159] and narrative skills.[160] More generally, it has been proposed that candidates should be staffed into SMWTs "who function well in group settings."[161] With that goal in mind, it has been suggested that the teams should conduct interviews, assessment centers, and role plays involving video tapes.[162]

In Sect. 4.1, the big-five personality traits have been singled out as a valid and common frame for conducting research about personality and its effects on performance. Much research has been conducted recently on the role of the "big five" in group work, which is further elaborated in this section.

Three personality traits have consistently been shown to impact on team performance – conscientiousness, agreeableness, and extraversion. **Conscientiousness** is the trait with the biggest impact on individual performance in various jobs and occupations. It is not surprising that "more" conscientiousness in a team yields "more" performance at the team level: the mean levels of conscientiousness in a team have been shown to correlate with team performance.[163]

In addition to a team's *mean* level on a personality trait, there has also been research on the effect of trait *variance* on team performance. The results support the notion that more variance in conscientiousness among the members of a team yields lower levels of team performance.[164] The relationship between conscientiousness variance and team performance is argued to be mediated by team conflict.[165] Teams with high variance in conscientiousness are more likely to disagree on how much effort should be expended, leading to a greater incidence of the free-rider problem. Highly conscientious workers may lower their efforts to avoid being labeled a "sucker,"[166] and team members are less likely to be attracted to each other,[167] all of which is contributing to reduced team performance as well as higher levels of fluctuation among high performers.[168]

The research evidence also supports the hypothesis that team performance relates to mean levels of **agreeableness.**[169] Again, team conflict is regarded as a potential explanatory factor for this relationship. High levels of agreeableness are

[159] Garson and Stanwyck (1997).

[160] Weick and Roberts (1993).

[161] Bowen and Lawler (1992, p. 35).

[162] Bowen and Lawler (1992, p. 35); see also Pasmore and Mlot (1994), Garson and Stanwyck (1997), Thoms et al. (1996).

[163] Barrick et al. (1998), Kichuk and Wiesner (1997), Neumann and Wright (1999), Antonioni and Park (2001b), Mount et al. (1998).

[164] Humphrey et al. (2007), Barrick et al. (1998), Kichuk and Wiesner (1997), Antonioni and Park (2001b).

[165] Humphrey et al. (2007).

[166] Jackson and Harkins (1985), Kerr (1983), Albanese and Van Fleet (1985), Sheppard (1993).

[167] Tsui and O'Reilly (1983).

[168] Yamagishi (1988), Park et al. (1994).

[169] Barrick et al. (1998), Kichuk and Wiesner (1997), Neumann and Wright (1999), Antonioni and Park (2001b), Mount et al. (1998).

associated with a "collaborative win-win style" and low levels with a "competing win-lose style" of conflict resolution.[170] Albeit decision-making quality has been considered as a potential benefit of a competitive stance toward conflict resolution,[171] the aggregate research results seem to support the idea that a more agreeable interaction style is all in all beneficial to team performance.

Future research may examine whether the relationship between agreeableness and team performance is contingent on the nature of the tasks to be performed. Such a contingent relationship has, for instance, already been established for group heterogeneity and performance, where heterogeneity was defined in terms of various factors including personality and ability. Meta-analysis has found that higher levels of heterogeneity impact positively on team effectiveness with creative decision-making tasks but negatively on effectiveness with performance tasks.[172] This ties up with findings on the impact of conflict on performance. *Task conflict* has been found to be detrimental to performance on routine tasks but beneficial to performance on nonroutine tasks, unless the levels of conflict were very high, in which case the teams lost sight of their goals. In contrast, *relationship conflict* has been found to have no association with performance on any type of task and a negative association with the group members' satisfaction and intent to remain with their team.[173]

Research on the relationship between team variance in agreeableness and team performance yields mixed results. Barrick and colleagues find a negative correlation: more similarity in agreeableness within a team is positively associated with team performance.[174] Other studies indicate that there may not be any significant correlation between variance in agreeableness and team performance.[175]

The research results on the effect of a team's mean level of **extraversion** on performance are also mixed. Some researchers have found a positive correlation between the overall level of extraversion and team performance.[176] Others have found that the relationship between the proportion of extraverts in a team and team performance resembles an invert U-shape. In other words, a team fares better with a moderate share of extraverts than with either a high or a low share of them.[177] This finding is supported by studies on the effect of extraversion variance on team performance, which consistently show that a higher variance in extraversion is associated positively with team performance[178] and with a team's long-term

[170] Antonioni and Parks (2001, p. 337).
[171] Antonioni and Parks (2001).
[172] DeMatteo et al. (1998).
[173] Jehn (1995).
[174] Barrick et al. (1998).
[175] Antonioni and Park (2001), Kichuk and Wiesner (1997).
[176] Kichuk and Wiesner (1997).
[177] Barry and Stewart (1997).
[178] Humphrey et al. (2007).

capacity to work together.[179] There is further evidence to support that "extraversion is especially important in work settings requiring a high degree of social interaction, such as work teams" and that "dissimilarity in members' level of extraversion stimulated feelings of attraction toward the team."[180] The evidence also indicates that higher levels of attraction may be associated with higher levels of performance at the individual level, as judged by peers and supervisors.[181]

The positive performance effect of variance of extraversion/introversion in a team can be explained with the concept of complimentary fit. It is suggested that extraverts tend to be dominant and to claim the role of a leader, whereas introverts tend to be more passive and content in the role of a "follower."

In the absence of a formal hierarchical structure, SMWTs must enter into a role negotiation process during their formation stage. The contest for more prestigious or for easier roles may lead to conflict. As greater numbers of dominant individuals contest for informal leadership, the negotiation process can turn out to be time-consuming, damaging to the interpersonal relationships, and, hence, costly. The continued presence of a greater number of potential leadership candidates may also result in a less stable team structure after the group formation phase. A stable (informal) hierarchy, however, benefits SMWTs as it speeds up decision-making and retards the escalation of conflict.[182]

Thus, if the ability to function as part of a team is to be a factor in the staffing of SMWTs, personality test scores may be among the selection criteria. Humphrey et al. suggest "a holistic approach to making placement decisions in teams" which they refer to as **seeding**.[183] This requires to rank order the candidates according to their score on a given personality trait. If variance is to be minimized, one team should be staffed with those at the top of the rank order, the next team with the next best scorers, and so on. If variance on a given personality trait is to be maximized, one top scorer should be placed on each team, then one bottom scorer on each team in reverse order, "such that the lowest scorer would be paired with the highest scorer, continuing until all of the teams are filled."[184]

Humphrey et al. do not specify how their approach can be used to take account of more than one personality trait. It is suggested in the present work that the overall levels of conscientiousness and agreeableness should be maximized in SMWTs, while minimizing the variance on these traits. A maximal variance should be aimed for with the extraversion trait. Thus, the seeding procedure could be applied to each of the three traits separately, potentially yielding three different team staffing combinations. Given that the research on personality effects in teams is still in its relatively early stages, it seems too bold to make generally applicable statements

[179] Barrick et al. (1998).
[180] Kristof-Brown et al. (2005, p. 952).
[181] Kristof-Brown et al. (2005, p. 952).
[182] Humphrey et al. (2007).
[183] Humphrey et al. (2007, p. 888).
[184] Humphrey et al. (2007, p. 889).

on the relative importance of the three traits or even propose some sophisticated scaling method. Instead, it is proposed that the seeding procedure should be conducted separately for the three traits to provide input to the qualitative judgment of management in staffing the SMWT. It needs to be noted that the seeding process is particularly relevant when putting together SMWTs for the first time. When staffing someone into an existing SMWT, the seeding method may be used to preselect a number of candidates, leaving the final selection choice to the team.

There is evidence to show that similarity is attractive and that, if they have a choice, existing members of an SMWT will select new members who are similar to themselves,[185] not only in terms of personality but also in terms of goals and values.[186] In the case of extraversion, it has been shown that it is dissimilarity which is attractive;[187] staffing SMWTs with workers who are dissimilar in terms of extraversion also seems to be beneficial with regard to team effectiveness. Thus, leaving the selection of new team members to existing members is likely to result in effective staff combinations.

The question is whether the team members get sufficient exposure to the candidates to judge their personality, though. If the exposure lasts only through a short interview, a team with high levels of conscientiousness and agreeableness may be attracted to a candidate who is only pretending to possess the desired characteristics for the short time span of the interview. The quality of the judgment and selection decisions is likely to improve if the team members are able to get to know the candidates over a longer time span, for example, during a trial phase of casual workers in the casual-to-regular worker promotion systems described in Sect. 3.3.5.

The question is also whether and how the intuitive judgment of group members would integrate different dimensions of similarity, such as conscientiousness, agreeableness, and extraversion as well as goals and values, or whether, instead of an integration of dimensions, judgment would perhaps be based on a single, salient characteristic such as extraversion. There seems to be scope here for future research. Until the results become available, the team facilitators have a role in coaching the team members during staffing and selection processes. They should, for instance, point out if the team overfocuses on a single, salient feature or if the team considers different criteria sequentially in order to find a single decision criterion, failing to aggregate different criteria and to arrive at a balanced and comprehensive judgment of the different candidates.

Self-selection processes will be ineffective for teams with a personality structure that is suboptimal with regard to conscientiousness and agreeableness. If, for example, all the members of a team already possess a low level of agreeableness, they will tend to find candidates with low levels of agreeableness attractive, even though the team's effectiveness would benefit from an increase in its overall level of agreeableness. In such cases, management may be required to intervene in the

[185] Schneider (1987), Muchinsky and Monahan (1987).

[186] Cable and Edwards (2004).

[187] Kristof-Brown et al. (2005).

team's selection processes more than otherwise in order to change the personality structure, for example, by preselecting candidates with the desired personality traits.

Given commitments to employment security and low levels of turnover in SMWTs and given the stability of personality traits over time, a transition from a homogeneous team structure with low levels of conscientiousness and agreeableness to a homogeneous structure with high levels on both traits is likely to be a long and painful process. To preempt this kind of transition, organizations should be willing to expend a considerable amount to get the team composition right when setting up SMWTs the first time. Candidates might, for instance, be selected by management on the basis of personality testing, assessment centers, and seeding.

What else should be selected for besides personality? **General mental ability** is especially valid as a performance predictor given high levels of task complexity. The tasks to be performed by each individual in SMWTs are relatively simple. The challenge lies in the management of group processes. To date, no studies have been published specifically on the impact of GMA on the effectiveness of self-managed work groups. There is a study which examined the effect of general aptitude on the effectiveness of three-man military crews in a military field setting in Israel, where general aptitude was a compound of an intelligence test score, level of formal education, estimated proficiency in Hebrew, and the score of an assessment of the ability to adapt to army life.[188] The overall level of aptitude in a crew was positively related to crew effectiveness. The number of high-aptitude soldiers in a crew was exponentially related to crew effectiveness. That is, crews of three high-ability members performed disproportionately better than crews of two high-ability members and one low-ability member, who performed disproportionately better than crews of one high-ability member and two low-ability members, and so on. Thus, there appear to be synergy effects in the interaction of high-ability soldiers. Similar findings were obtained in a laboratory experiment.[189] The question is whether such findings are transferable to SMWTs in production and service settings.

GMA has been demonstrated to be most valid as a predictor of managerial performance, and one characteristic feature of SMWTs is that managerial responsibilities are shifted to the workers. Another feature is that workers need to learn more than in traditional industrial or clerical jobs, whereas GMA is positively associated with learning ability.[190] It has further been argued that GMA enables people to apply the knowledge they possess more flexibly in unfamiliar situations.[191] Team workers are expected to flexibly take on different jobs; they are predominantly employed in fluid production environments, which require frequent

[188] Tziner and Eden (1985).

[189] Egerbladh (1976).

[190] Cf. Sect. 4.1.

[191] Cf. Sect. 4.1.

changes in production processes. Thus, given the available evidence, it seems that the best bet would be to invest in a GMA test for candidates to be selected into SMWTs.[192]

As research has shown that team heterogeneity in ability will likely lead to high performers seeing their contributions as disproportionate to free-rider problems, to lower levels of team performance,[193] and to higher levels of fluctuation among high performers,[194] the seeding process should seek to minimize variance of GMA in each team. If, however, a minimum standard of team performance is required above what can presumably be achieved with teams staffed only with the lowest-ability workers in the staff pool, a certain level of GMA variance may be inevitable. In the above-mentioned study of Israeli military crews, for instance, it was argued that 12 high-ability and 12 low-ability soldiers should be allocated to eight crews of three as follows: two crews should consist of high-ability soldiers only. The remaining six crews were suggested to consist of one high-ability soldier and two low-ability soldiers each. Through this allocation, so it was argued in the study, the very low levels of effectiveness in crews of three low-ability soldiers could be avoided.[195]

Very low levels of intrateam ability variance and high levels of interteam ability variance may also be detrimental where SMWTs directly compete with each other, where they are ranked, and, especially, where rewards are contingent on group rankings. Intergroup competition is intended to elicit effort from the teams and to trigger mutual monitoring in the teams. If the ability differences between the teams are so large that some teams perceive that it makes no difference to them whether they expend effort or not, the system of self management may not work for these teams. Hence, if teams are ranked and, especially, if rewards are tied to the ranking, management must balance the dichotomous requirements of minimizing intragroup variance and avoiding too large ability differences between teams.

Following the general performance theory outlined in Sect. 4.2, **job experience** and the competencies resulting from the interplay of GMA, personality, and experience represent further potential selection criteria. Because team workers develop largely team-specific competencies, it can be argued that the possession of the required development potential is more relevant than the possession of fully developed competencies. Team-working competencies and patterns of behavior acquired in another SMWT or in another organization may potentially even turn out to be disadvantageous if a new joiner has preconceptions about how team processes must work when they work entirely differently in the new team. The process of

[192] Given a potentially risk-averse environment, in which not making a move when one should have moved is less problematic than making a move in the wrong direction, GMA testing for team worker selection may first be introduced as a pilot project. It may only be applied to a small fraction of an organization's SMWTs, if possible in different parts of the organization. If those SMWTs outperform the remaining ones after a set period of time and if the performance increments justify the costs of GMA testing, it may be rolled out to the selection processes of all SMWTs.

[193] Albanese and Van Fleet (1985), Sheppard (1993).

[194] Yamagishi (1988), Park et al. (1994).

[195] Tziner and Eden (1985).

"unlearning" norms and values which have been internalized while working for another team may create conflict within the team and impede the performance of the new joiner and the rest of the team.

Consequently, it may be proposed that the selection of team workers should be based on the personality traits, conscientiousness and agreeableness, and, potentially, on general mental ability. If the work requires a particular physical aptness, respective psychomotor ability tests may be conducted additionally. In grouping the selected workers into teams, attention should be paid so that team mates are similar with regard to ability, conscientiousness, and agreeableness, minimizing the occurrence of the free-rider problem. By contrast, the team-internal variance on extraversion should be maximized, supporting the emergence of stable informal hierarchical structures within the team.

Signposts for Flocks

The direction of SMWTs is provided through performance evaluations at the team level. What gets evaluated depends on the tasks performed. In production environments, quantities produced that meet the quality standards will represent a typical measure. That is, it is typically the SMWT's output that gets evaluated at the team level. The quality standards are to be derived from the needs and expectations of the (internal or external) customers of the SMWT. Quantity standards do not need to be prespecified if there are different SMWTs performing comparable tasks and if competitive behavior can be elicited between those groups. If possible, competition between different teams should be enabled by the work process design, for example, by letting a given set of tasks be performed by three groups of six to seven workers rather than one group of 20 workers, allowing for the establishment of output comparisons between teams.

Implied goal setting at the group level creates positive goal interdependence within the teams and negative reward interdependencies between the teams. Negative reward interdependencies may impede intergroup cooperation. A limited requirement for interaction between groups may be supported through respective coaching interventions by the team facilitators, even against a backdrop of intergroup competition. If there are more far-reaching requirements for intergroup cooperation, however, the negative reward interdependencies may be damaging. In that case, managers may be required to define absolute performance standards at the group level, using the job analysis methods introduced in Sect. 4.3.3.

It is argued in Sect. 4.1 that setting a single, comprehensive output goal may result in the neglect of activities required for a sustainable level of outputs if the expected tenures are short. The team worker employment relationship is associated with long-term employment security and the absence of an incentive for the workers to transfer to other organizations or teams given their organization- and team-specific development. Moreover, the training and development and any process redesign activities carried out by team workers can be expected to have a relatively immediate impact, that is, they will affect performance over a time frame of months

rather than years. Hence, the team workers will bear any consequences of their actions or of not taking actions. It can be argued that the evaluation of the functional group outputs is sufficient for SMWTs given the expected stable team membership. Setting additional training or process development goals at the team level is not required.

Having specified the direction of the SMWT, it is necessary to determine who in the team gets to do which tasks. It has been suggested in Chap. 3 that a work sample test should be conducted to assess the workers' competencies when they have mastered a new task. Work sample tests measure current performance abilities (that is, competencies) rather than development potential. The competencies relate to specific tasks. Thus, they are defined narrowly. To ensure legal defendability, the process of **defining the competencies** should be aided by an HR expert and/or the team facilitator, although the team members must retain the final say on what tasks are to be performed and what competencies should be assessed. The standards for the work sample test may be defined using methods analysis and time-and-motion studies.

The competencies should be defined as threshold rather than differentiating factors. Either a candidate possesses a competency and may perform the respective task or he or she does not. The tasks performed by individual team workers are relatively simple. A distinction between several levels of competency would require more frequent testing, which distracts from value-adding activities. Performance differences due to a particularly effective task accomplishment are rewarded at the team level and through intrateam social processes, not through differential competency classifications.

The work sample or competency testing should be confined to the performance tasks. Managerial tasks and decisions are the responsibility of the entire team; everyone should feel involved and contribute to the continuous improvement of the team's processes and outputs. Managerial effectiveness is evaluated and rewarded indirectly via the team's outputs. If the team workers were to engage in their team's managerial processes only after completing a respective test, it would likely only be a faction of the group that would assume responsibility for those processes. An assessment of managerial competencies would furthermore be time-intensive and costly, necessitating an extended absence of workers to participate in assessment centers.

The coordination of workers within the team is the responsibility of the team collective. Mutual monitoring and social control mechanisms ensure that each individual meets the required **standards of performance.** Although these mechanisms work mostly informally, a formal procedure should be available in case the light, quasi-voluntary mechanisms of social control fail. The formal peer evaluation procedure proposed in Chap. 3 provides the opportunity to make a note of team members who repeatedly do not perform up to the standard. Thus, a critical peer evaluation could constitute a formal feedback and a record in the personnel file of a worker. In a next step, it could also provide the basis for taking action against a worker. If this action is to be legally defensible, it must be based on criteria and standards defined through systematic job analysis. The competencies and

standards defined for the work sample test may represent part of these criteria. The competencies, as measures of the ability to perform at a certain standard, must be complemented by a measure of volition or effort. Thus, the quantity of task behaviors performed up to the standard must also be evaluated. The quantity standards may be defined by the team during the process of defining the competencies for the work sample test, also aided by the HR expert and/or team facilitator.

Whereas non-performance-task–related competencies are excluded from work sample or competency testing, **behaviors related to managerial tasks** may be included in the peer evaluation, providing the team a means to enforce active participation in the team management activities by all members. Managerial activities cannot be subjected to time-and-motion studies. Instead, managerial task statement lists may be used at earlier stages of the team's development to deduce relevant managerial behaviors for the group. Teams in a more mature stage of development may use inductive approaches to tailor the managerial performance dimensions to the team's idiosyncratic processes, values, and norms.

The rep grid procedure may be especially suitable for defining nonperformance-task–related dimensions for SMWTs, because it reduces group think by initially interviewing team members individually and as the triplet-wise comparisons force them to think outside preconceived tracks. *Group think* has been defined as "the tendency for group members striving to agree with one another to interfere with rational constructive decision-making processes."[196] Its symptoms include social pressure on workers who argue against shared beliefs, workers withholding valid thoughts and arguments against a seeming consensus, the illusion of invulnerability to failure, the illusion of unanimity, stereotypes, and self-righteousness.[197] It has been argued to be especially prevalent in groups with high levels of cohesiveness. Case studies have described the occurrence of group think in SMWTs.[198] An awareness of a potential vulnerability of SMWTs to group think represents a first step toward taking counter actions ranging from the encouragement of the open expression of concerns to the use of the rep grid procedure for determining nontask-performance dimensions. Of course, the ability to form a shared opinion on how to move forward is also a strength of the SMWT. The rep grid procedure does also require the development of agreement among the team members as, after the triplet-wise comparisons, an aggregated list of individually elicited potential performance criteria needs to be molded into a coherent set of performance dimensions by the collective.

If group think is not an issue, SMWTs may alternatively use the critical incidents method or the diary method to define non-task-related performance dimensions. Even an unsystematic approach to defining them may be considered an option if the group has already formed a shared opinion on success criteria for the team processes, for example, as a result of ongoing informal discussion. The disadvantage would

[196] Manz and Neck (1995, p. 8).

[197] Manz and Neck (1995, p. 8).

[198] Manz and Neck (1995, p. 8).

be that performance criteria not established through systematic job analysis are less defensive legally. This would entail that workers could not be disciplined or dismissed on the grounds of neglect of their managerial task responsibilities alone.

In summary, conscientiousness, agreeableness, and, potentially, GMA or psychomotor ability represent predictors of team performance ability. So do a supplementary team fit in terms of ability, conscientiousness, and agreeableness and a complementary team fit in terms of extraversion. A preselection of respective candidates by management and a final selection by the team members among candidates who are familiar to them as casual workers may help establish team structures conducive to effective team performance. Implied goals (performance standards) stemming from intergroup output comparison incentivize performance within the SMWTs. The dimensionality of the goals at the group level is derived from the (internal) customers' needs. At the individual level, narrow competencies are tested for in work sample tests. The test standards are defined using methods analysis and time-and-motion studies, aided by an HR expert and/or the team facilitator. The test standards combined with a measure of volition (or the frequency with which tested behaviors are performed in the daily work environment) also represent performance standards for the peer evaluation system. Non-task-performance expectations may be defined through the rep grid procedure, which may mitigate the risk of group think, or through the critical incidents method, diary method, or an unsystematic approach.

4.3.5 Casual Workers

Casual workers are low-skilled contingent workers who are employed primarily to cut labor costs and to increase flexibility in response to market fluctuations. They perform according to narrowly defined behavioral standards, which enable the continuity of the organizational processes they are part of. The monitoring of their adherence to such standards may be facilitated by information systems technology. Control can be exercised over the majority of workers who desire permanent employment through a casual-to-regular worker promotion incentive. Transparent promotion rules contribute to the sustainability of the motivation that is elicited through the promotion incentive. If casual workers are hired through temporary worker agencies, control may also be exercised by taking advantage of competitive temporary worker markets, shifting some of the responsibility for incentivizing performance to the agencies. Performance data is to be collected at the individual worker level and to be aggregated at the worker source level. The individual performance assessment provides the basis for promotion decisions or for nominations to participate in SMWT selection procedures as well as for premature engagement terminations if the performance falls below a minimum standard. The average worker performance and performance variability by source

provide the basis for future staffing decisions, setting an incentive at the source level.

What to Measure

A limited amount of research has examined performance input factors of casual workers. A study of casual workers in one firm has found that their *tolerance for ambiguity* was negatively related to stress symptoms and positively to performance as indicated by casual-to-regular worker promotion success. Their *self-monitoring* behavior was relevant for promotion, too, although only for workers who were not promoted at the first promotion point after 3 months of casual employment but at a later point in time, somewhere between 3 and 12 months of casual employment. Tolerance for ambiguity is an individual's ability to tolerate and handle situations characterized by unfamiliar, complex, or incongruent clues. Self-monitoring refers to an individual's ability to read the cues and expectations of the social environment and adapt behavior in response.[199]

Tolerance for ambiguity and self-monitoring can both be measured through psychometric testing. The general discussion of **performance input factors** in Sect. 4.1 shows that constructs such as GMA and conscientiousness or integrity are most predictive of performance in complex jobs. Their predictive validity is considerably lower in low-skill jobs but it is significant. Finally, psychomotor ability tests have been found to be predictive of performance on manual jobs. Thus, different tests would be available if organizations wanted to control for their casual worker inputs beyond the screening of school certificates, criminal records, and a face-value inspection of basic cognitive ability and personality traits. Psychometric testing represents an additional cost factor, though, while organizations may only look for "another pair of hands" in hiring casual workers. The tasks performed by casual workers resemble those of industrial/clerical workers. In the respective sections, it was elaborated that there may be only little scope for individual differences of these workers to impact on organizational performance. Hence, cost minimization will be a primary goal, given that basic ability requirements will be met. Furthermore, the coordination flexibility of casual workers is very high, meaning that any mistakes in the selection of these workers may be easily corrected. The basic ability assessment can be based on a minimal-cost face-value inspection and, possibly, an examination of school leaving certificates.

In Sect. 3.3.5, it is argued that the bulk of casual workers is hired increasingly through temporary worker agencies as they become more institutionalized and as their markets become more competitive. It is conceivable that some agencies position themselves in the market as a source for unqualified but "high-quality" workers, charging a premium price. Such agencies may decide to market only workers who meet selection standards that may include psychometric test scores. One advantage of psychometric testing is that, once a valid test design is developed,

[199] Bauer and Truxillo (2000).

they may be administered cost efficiently as on-screen or online tests. In effective labor markets, such agencies may potentially find a satisfactory number of organizations with tasks that demand precisely the kind of competencies they market at a premium cost.

For the hiring organization, the challenge lies then in identifying the worker source that yields the highest **productivity–cost ratio** for the jobs they must staff. The right source for the jobs at hand may partly be identified on the basis of systematic job analysis. Partly, it may also be identified by following industry and market trends. However, as production processes differ across organizations, an optimal match of workers with organization-specific requirements may require a certain extent of experimentation with different sources. If casual workers are employed for strategic reasons, once chosen, a temporary worker agency will likely be used over a fairly long period of time. Any expenses and opportunity costs of experimenting with different worker agencies for different jobs during an initial selection phase will amortize if they result in small but recurring premiums in the productivity–cost ratio of casual workers. Hence, it is proposed that casual workers should be selected through trial periods, on the basis of productivity–cost ratios, and at the source level.

This approach requires a quantitative **productivity measure** which can be aggregated at the source level. One of the conditions for the use of casual labor described in Sect. 2.3.5 was that performance must be easily assessable. Casual workers are employed in functions that are especially sensitive to market demand fluctuations, such as manufacturing and call center functions, which can be monitored electronically.[200] Performing fragmented, standardized tasks, their productivity is measured in terms of the number of fault-free widgets produced or the number of calls processed. Call center operators' adherence to standardized scripts may be monitored for a randomly selected sample of recorded calls or where complaints by callers indicate problems. Productivity is recorded automatically in many but not all casual worker functions. Unqualified secretarial staff who are hired only to type pages that can be counted, for example, may not be evaluated on the basis of a single, machine-generated productivity measure. If such casual workers are hired in larger numbers, a single productivity rating that can be aggregated at source level may have to be generated through supervisory judgment. Given the cost efficiency imperative for this employment mode, the supervisors should be enabled to rate the performance of any casual worker as simply and quickly as possible. The performance rating is not to be fed back to the worker individually. It primarily provides an input for worker source evaluations. Where applicable, it may also provide the basis for a preselection of casual-to-regular worker promotion candidates. Those preselected may be subjected to a more thorough evaluation procedure as part of the selection process for regular positions.

Thus, in the majority of casual worker engagements, an objective, one-dimensional productivity measure will be available. In few instances, some form of subjective

[200] Also cf. Sect. 3.3.5.

assessment will be required to obtain an aggregate productivity–cost ratio. In any case, the performance assessment will be straightforward; otherwise, the function would not be staffed with casual workers. Whether monitored automatically or by a supervisor, some form of **job analysis** will be required to define the behavioral standards; that is, the behavioral blueprints of casual workers will typically be derived from those of regular workers. There is case study evidence which describes how casual workers either temporarily take over the roles of regular employees or how the jobs of regular workers are simplified to define casual worker jobs.[201] Self-managed work teams have been described which employ casual workers to temporarily perform the simplest tasks of the team when demand surges, freeing up the regular workers to focus on the more complex planning and customer interaction tasks.

Hence, in Taylorist, centralized production systems, the jobs of casual workers will likely be defined as part of the same job analyses as those of regular workers, maximizing the effectiveness and efficiency of integrated processes. Likewise, the emerging role definitions of casual workers in SMWTs will also be integrated with the definitions of team worker roles. In a limited number of instances, casual workers may be hired to perform simple jobs entirely decoupled from the regular processes. An unsystematic approach to defining performance criteria and standards may be used in such instances given the simplicity of the tasks, given that no casual-to-regular worker promotions are feasible in such functions, given that any evaluations are only used for systems evaluation purposes, and given that, consequently, no demands will be placed on evaluations concerning their legal defendability.

Slicing the Data

Various analyses may be performed with the aggregate productivity data to fine-tune the casual worker system. The most obvious one is to compare the **average productivity** of different temporary worker agencies in relation to the costs incurred, where productivity should be defined, for instance, as the number of fault-free widgets or number of calls handled per hour. Costs should include the hourly fees paid to the agencies (respectively wages, fringe benefits, and costs of administration of directly hired casual workers) and, in the case of blue-collar workers, the value of any faulty widgets produced by the workers. With call center operators, it may not be possible to factor in quality statistically. The adherence to scripts may be separately and selectively monitored as a threshold criterion. That is, if the quality of calls falls below an acceptable standard as rated by a supervisor, a replacement should be considered. Where productivity is subjectively rated, an average productivity rating per cost may be calculated.

Performance variability should be monitored cross-sectionally and longitudinally. Less variability across workers from a given source is preferable for a given mean productivity, as large differences across workers make the function

[201] Lautsch (2002).

performed by the casual workers less predictable and the system less stable overall. On the same account, less performance variability over time is also preferable. Performance variability over time is impacted on by absenteeism. Even if the temporary worker agency sends an immediate replacement, exchanging the staff may have some impact on the continuity of the production processes. A longitudinal analysis should then also reveal any differences between worker sources in how quickly workers get up to speed on a new job.

It may also be examined whether performance variance is related to casual-to-regular worker promotion rules and rules regarding the maximal duration of casual employment within the organization. Organizations may experiment with different promotion and casual employment rules, monitoring productivity levels before and after the cut-off lines for promotions. For example, in one organizational division, casual-to-regular promotion decisions may be made after 3 months of casual employment, in another division after 6 months. In one division, casual workers may be engaged as casual workers for a further 9 months after not being promoted, in another division for a further 21 months. In one division, workers may still have a good chance of being promoted after the first promotion point after 9 months, and in another division there may be no further promotion opportunity thereafter. It is not suggested that all of these variations in the configuration of casual worker systems should be made across the organization at one time. This should merely illustrate how cross-sectional and, especially, longitudinal productivity analyses may be used to gradually fine-tune the system of casual workers in idiosyncratic organizational contexts. In the same vein, various other contingent factors may be included in the analysis depending on the particular context, for example, different supervisory arrangements and whether casual workers actually desire regular employment or not.

Also monitored may be **demand and supply fluctuations.** Putting a measure of demand in relation to the number of regular and casual workers employed may reveal situations of over- and undersupply of workers at different times of the day, week, month, and year. Regular over- or undersupply of workers may indicate that adjustments must be made to the ratio of core to periphery workers or to the shift systems operated. Variations in worker supply in the temporary worker market are reflected in temporal or regional variations in the price of workers. Seasonal variations may occur, for instance, where there is a greater supply of workers during the winter months. Companies who are in a position to build up stock may consider shifting some production to periods of cheaper labor supply, as indicated by the price of temporary workers monitored by the hiring organizations. Shifting production regionally to take advantage of differences in the price of labor is expensive, also in terms of social costs and the ensuing impact on the organization's reputation as a good employer. Relocating the casual workforce may not be feasible without relocating parts of the regular workforce.

In summary, casual workers are selected based on their productivity–cost ratio as evaluated at source level. This requires a measure of output productivity, which is aggregated to yield means and variances of productivity per worker source. Cost calculations should include hourly fees and wages, fringe benefits, costs of administration, and the value of scrap produced by the workers. The productivity–cost

analyses may also be used to fine-tune the configuration of the casual worker management system. The definition of the performance standards will usually be integrated with the job analyses conducted for the regular workers' performance processes. Otherwise, an unsystematic approach may be used.

4.3.6 Professional/Occupational Contractors

Professional/occupational contractors are hired to perform temporary functions that require specialized skills and the outputs of which can be easily evaluated. By hiring professional contractors, organizations open their boundaries to professional/occupational networks. Professional contracting, thus, represents a partial externalization of the respective function. Organizations engage in such partial externalization of functions if it reduces transaction costs and if it allows the organizations to focus on their core functions, gearing their policies, processes, and culture toward them. It reduces interorganizational differences in the contracted function among interlinked heteronomous professional organizations. And it results in a closer integration of organizations in a region or industry segment. A knowledge management strategy represents a success factor for the effective integration of professional contractors, providing the contractors access to relevant information while walling off private knowledge. The contractors' willingness to seek, elicit, and extract the necessary information from regular employees and to contribute required information themselves is incentivized by rewards tied to the accomplishment of contractually specified outputs and outcomes. The foundation for a successful exchange of knowledge may be laid through investments in a limited amount of socialization, for example, professional/occupational community of practice events taking place within the boundaries of the hiring organization.

Target Competency Profiles

Professional contractors are employed for the specialized expertise they possess, that is, for abilities which are performed on the job immediately, not for any future development potential. Thus, they are selected on the basis of their professional competencies as indicated by formal and informal credentials. Following the selection process proposed for professional employees, a purpose-oriented competency assessment is conducted on the basis of the available credentials.[202] Formal credentials are provided by the contractors who are bidding for a contract as part of their proposal. Informal references may be obtained through **professional networks**. Social networks are also the primary channel through which bidders learn

[202] Cf. Sect. 4.3.2.

about contracts or, vice versa, through which organizations may access potential bidders.[203] Thus, it is important not only for contractors to be well connected in order to obtain jobs but also for organizations with an interest in effectively operating their contracted functions. Research suggests that networks consisting of casual contacts enable effective job search.[204] Using the terminology introduced in Sect. 2.3.1, this would mean that broad informational networks are conducive to matching contractors and contracting organizations. The aforementioned research further refers to career-based networks that serve the purpose of career transition rather than know-how trading. It is suggested that they must span geographic, organizational, industry, and occupational contexts. Thus, an informational network of a large size and wide range would be required, stemming from various contacts, including former colleagues, clients, and suppliers as well as professional/occupational associations. In-house professional/occupational communities of practice represent a means for organizations to foster the development of such networks. The network range may be improved, for example, by inviting an outside speaker to each event.

Contracting organizations may cut the selection process short by resorting to a **professional service organization.** Professional service organizations position themselves in the market partly through the unique characteristics of the staff they offer to the contracting organizations. Thus, the contracting organizations may target a service organization with a staff profile that matches their functional need. The fees paid to professional service organizations cover besides salaries the costs of staff administration, such as recruitment and selection costs. Whether contracting through service organizations is more efficient than hiring independent contractors depends on how the service organizations position themselves in the market. Large consultancies, accounting firms, and business banks are typically positioned at the upper end of their markets. They specialize in the recruitment, selection, and administration of expensive, high-performing professionals. If an organization requires that kind of professional for the function that needs to be staffed, it may be more cost-efficient to do so through the service organization instead of setting up the respective processes in-house. Other factors such as the number of contractors hired may further impact on the relative cost efficiency of independent contractors and service organizations. If the kind of professional expertise is not located at the upper end of the market spectrum, it may be more cost-efficient to hire an independent contractor, depending on whether there is a well-organized service organization which positions itself in the desired skill segment.

Whether hired directly or through a professional service firm, an organization is most likely to locate the contractor that fits its needs if its representatives are aware of what its needs are. Economic organizations will have specified a competency profile upfront, that is, a profile geared specifically to their functional requirements.

[203] The public sector represents an exception to this, where public tendering of contracts is required.

[204] The research is cited by Defillippi and Arthur (1994).

The profile will specify **technical skill requirements,** such as skills in a particular programming language for IT contractors. Target levels of skill proficiency will be specified, ranging from someone who has just been trained in a given skill through someone with task-relevant experience to someone who is an expert. Dreyfus and Dreyfus refer to those as experts who have mastered a skill such that they rely on their intuitive judgment instead of formal rules, apply the skill in unfamiliar situations by using systematic analysis, and maintain a vision of how the skill can be applied to effect future change.[205] A basic skill proficiency of someone who has just been trained is indicated by formal credentials such as a degree and training certificates. A medium level of skill proficiency from task-relevant experiences may be evidenced by references and testimonials from previous employers and clients. The expert level of proficiency is indicated by a respective reputation in the profession and industry, which will likely precede the formal bid by the contractor or written references.

Beyond technical skills, contractors may also require what may be termed **knowledge management competencies.** These include discreteness as well as the ability to differentiate between the private knowledge of the contracting organization and knowledge which relates to the contractor's generic function. Indications of a lack of sensitivity with regard to different kinds of knowledge may be found in references by previous employers or clients and in the reputation of the contractor. Knowledge management competencies also include the ability to successfully integrate knowledge with the legacy systems and the specific constraints of the client organization. This may be evidenced by the successful completion of previous projects and the effects they had on relevant organizational outcomes. Often, information on the long-term effect of previous projects may be better obtained through personal network contacts than through written references, which typically focus on the delivery of immediate outputs.

Other competencies searched for may include the contractors' ability to organize themselves and their ability to deliver at the time specified in the contract. Self-monitoring abilities and tolerance for ambiguity may also be relevant antecedents of the contractors' ability to quickly adapt to different client environments.[206] Finally, the contracting organization and its representatives may desire patterns of behavior that have been learnt through the (pre)socialization in institutions associated with or accredited by a particular professional association or network.

The target competency specification must be the responsibility of the professional employee who is most familiar with the special expertise to be contracted. Specifying the needed competencies requires an understanding of professional work processes and how they contribute to the desired organizational outputs and outcomes. In the absence of in-house professional/occupational specialists, one needs to look for references on previous engagements which featured deliverables and outcomes similar to those derived for the intended project. Depending on the

[205] Dreyfus and Dreyfus (1984).

[206] Bauer and Truxillo (2000), cf. Sect. 4.3.5.

complexity of the function to be contracted, it may be difficult to identify a suitable professional contractor without professional competence in-house. Hence, the organizational capacity to evaluate professional competencies as well as the capacity to access professional networks are reasons to retain sufficient professional competence under regular employment, regardless of how much cheaper contractual arrangements might be.

Specifying Deliverables and Minimum Process Standards

Professional/occupational contractors tend to have far-reaching administrative control over their processes. The organizational systems focus on the control of their outputs.[207] The output **deliverables** are specified in the bidding invitation and possibly adapted or narrowed down as the details of the contract are negotiated. The contract may also specify outcomes that are not immediately observable but which are a direct consequence and an indicator of the quality of the contractors' work. Taking for instance contracted software programmers, their deliverable output may be a website with certain functional specifications that must be completed by a certain deadline. It can be controlled immediately upon go-live whether functions such as graphics, website links, and e-commerce work according to the specifications. Other output specifications such as the ability to handle large volumes of users accessing the website at the same time may not be evident immediately upon go-live. Thus, the contracting and contracted parties may agree on a bonus to be paid if the website has been up and running for, say, 1 year. Another example could be that of a contracted IT program manager who is hired by a government department to manage the development and implementation of a portal through which citizens can submit their tax returns online. Say it is the job of the program manager to not only manage the interaction of processes and technology to enable users to make online submissions but also to manage the inner-organizational change process, the communication with various stakeholder groups, and the system's introduction to the public. In this case, rewarded goals could be related not only to technical functions but also to the new system's acceptance by the public. The system's acceptance could be measured in terms of the number of citizens who submit their returns online or the amount of tax revenue submitted online. Targets at different intervals after go-live could be agreed contractually and linked to bonus payments.

The evaluation of comprehensive outputs and outcomes implicitly includes an evaluation of the inputs and throughputs that contribute to the accomplishment of output and outcomes. Nevertheless, certain **minimum process standards** may also be fixed contractually if the responsible professional employees consider them to be critical success factors based on their previous experience. Examples of minimum process standards may include a requirement for contractors to attend and contrib-

[207] E.g., Uzzi and Barsness (1998), cf. Sects. 2.3.6 and 3.3.6.

ute to community of practice events. This may facilitate the integration of internal and external knowledge and signal, beyond community of practice events, what kind of behaviors are desired concerning cooperation and knowledge exchange. Another example of a contractually fixed minimum process standard could be that contractors must regularly enter information about their progress into a knowledge management database, which may enable continuity if contractors prematurely leave the project. The attendance of events and entries into databases can only represent threshold performance factors: it would not be possible to make meaningful distinctions between different levels of quality of the contributions, especially, if they are to be prescribed contractually. However, the chances are that, if the contractors want to be seen as cooperative, they will adhere to an acceptable standard of quality.

Output, outcome, and process standards as well as professional competency requirements may be defined using an inductive approach such as the rep grid or the critical incidents method – that is, if there is sufficient past experience with contracting comparable functions within the organization. The rep grid and critical incidents methods draw on past experiences of effective and ineffective performance. If contractors are hired for functions performed irregularly, however, such methods may hardly be of use, for example, in the case of a government department introducing e-government structures for the first time. In the noncompetitive public sector, advice may be sought from other departments with relevant experience. In the competitive private sector, professional employees with relevant experience may be hired away from other companies. However, unless the function is entirely generic (in which case it may be more efficient to outsource the function completely anyway), specifics will have to be taken into account which experts from other organizations may not be familiar with.

Professional contractors are typically hired for functions of an organization that occur irregularly. The contracting organizations may often lack the past experience required for the proposed inductive methods. Hence, it is proposed that a more future-oriented method should be used to define the evaluation criteria. The **scenario technique** represents such a method. According to Shoemaker, "[a] scenario is a script-like characterization of a possible future presented in considerable detail, with special emphasis on causal connections, internal consistency, and concreteness."[208] The scenario technique is a step-by-step procedure according to which members of the organization with relevant knowledge develop different sets of assumptions about conceivable future contexts or scenarios in which the contracted outputs must function. For each conceivable future scenario, they may devise one or more functional solutions. For each solution, they may derive professional competencies that would be needed to develop and implement the solution. Associated costs can be calculated. For each scenario, they may define a preferred, a satisfactory, and a low-cost solution with expected costs attached. Likelihoods may be estimated for the different scenarios to materialize. On that basis, an informed

[208] Shoemaker (1991).

decision may be made about which outputs, outcomes, and professional competencies should be targeted.

In summary, professional contractors are selected on the basis of targeted competency assessments. Competency profiles should be defined, specifying levels of required technical skill proficiency, knowledge management abilities, and other competencies. Professional networks play a central role during the process of identifying and matching requisite competencies with the required profile. Potential sources include professional service organizations and independent contractors. The performance standards should be defined in terms of output and outcome deliverables as well as minimum process standards, for instance, active participation in community of practice events and regular entries into the organizational knowledge database. Both the deliverables and the competency requirements may be established using the scenario planning technique. Given previous experience with the contracted function, a past-oriented inductive method such as the rep grid or the critical incidents method may also be used.

4.3.7 Overview Archetypal Performance Theories

Table 4.1 Outline performance theory of generalist managers

Generalist managers	
Input	GMA, conscientiousness, extraversion, fit with prevailing personality structure
Performance	Broad competency frameworks for junior, middle, and senior managers, integrated with organizational performance theory
	Development goals
Definition	Inductive method, e.g. rep grid/critical incidents method
	Flexible setting of development goals

Table 4.2 Outline performance theory of professional/occupational employees

Professional/occupational employees	
Input	Purpose-oriented professional competency assessment based on credentials
Performance	Goal systems focusing on proximal, task-based outputs; process standards if no requisite output measure available; participative goal setting
Definition	Inductive method or flexible goal setting

Table 4.3 Outline performance theory of industrial/clerical workers

Industrial/clerical workers	
Input	Basic abilities – "identical building blocks" (face value assessment, medical, school leaving certificates)
Performance	Deviations from performance blueprints, assessed at individual level
Definition	Iterative industrial job review system; methods analysis/time-and-motion studies; deductive methods may be used for job evaluation purposes in the context of collective bargaining

Table 4.4 Outline performance theory of team workers

Team workers	
Input	Conscientiousness, agreeableness, GMA/psychomotor ability; supplementary team fit in terms of ability, conscientiousness, and agreeableness; complementary fit in terms of extraversion
Performance	Implied goal setting through intergroup output comparison; narrow competencies; volition; nontask-performance expectations
Definition	*Group outputs:* (internal) customer requirements analysis, group benchmarking *Individual performance:* methods analysis, time-and-motion studies, managerial task statement lists/rep grid procedure facilitated by HR expert and team facilitator

Table 4.5 Outline performance theory of casual workers

Casual workers	
Input	Productivity–cost ratio evaluated at source level
Performance	Output productivity (means, variance), costs (hourly fees/wages, fringe benefits, costs of administration, value of scrap), demand/supply fluctuation
Definition	Defined as part of regular worker process analyses or through unsystematic approach

Table 4.6 Outline performance theory of professional/occupational contractors

Professional/occupational contractors	
Input	Purpose-oriented professional competency profiles, technical skill proficiency levels, knowledge management competencies
Performance	Output/outcome deliverables, minimum process standards
Definition	Scenario technique, rep grid/critical incident method (given previous experience)

Chapter 5
Appraisal Process

This final chapter is concerned with *how* performance appraisals should be conducted – i.e., with the appraisal process. Appraisal process models by cognitive psychologists typically distinguish three stages of the appraisal process: The collection of information for appraising someone, its organization and storage in memory, and its retrieval and integration into a coherent judgment for the respective appraisal purposes.[1] Understanding the cognitive processes related to appraisals of performance helps design the appraisal system such that the purposes and goals of the appraisal can be achieved. Hence, the findings of cognitive psychologists will be referred to at several points of this chapter.

The concern of this chapter is, however, not only with the cognitive process steps of the appraisal but with the outwardly observable steps of the organizational appraisal process. The second and third stages of the cognitive appraisal process are integrated so as to yield two stages – observing performance and rating performance – while some other stages are added for practical purposes: a separate section is devoted to feedback provision as a third stage of the process. The effect of feedback on the appraisee may not always turn out as intended, so that a problem resolution mechanism may be required. Furthermore, appraisers may be held accountable for how they conduct the appraisal. Hence, following the section on performance feedback, a section entitled *accountability and problem resolution* is included.

The very first section of this chapter discusses appraisal objectives, which are not part of the appraisal process. However, the appraisal objectives state *how* the appraisal is to be conducted. Thus, they will partly define the design of the appraisal process steps that follow. The final section of this chapter is concerned with appraisal trainings. Normally, they should precede the appraisal process. They are described at the end of this chapter because the discussion of appraisal training requires an understanding of the appraisal process steps that are described before.

[1] Ilgen et al. (1993), Bretz et al. (1992).

A. Krausert, *Performance Management for Different Employee Groups*,
Contributions to Management Science,
DOI: 10.1007/978-3-7908-2197-0_5, © Springer-Verlag Berlin Heidelberg 2009

It needs to be noted that the structure of this chapter deviates slightly from that of the previous chapters. There will be six sections on the steps of the appraisal process, including the one on appraisal objectives at the beginning. There will not be a separate final section discussing the process configurations for each of the six employment modes as before. Instead, process designs for the six modes will be proposed at the end of each of the sections. This is thought to improve the readability and understandability of the text, given that the six sections of this chapter are more diverse and, altogether, longer than the sections of the previous chapters. There are, as before, overview tables at the very end of this chapter, summarizing the proposed archetypal appraisal process designs for the six employment modes.

5.1 Appraisal Objectives

Much of the literature on performance appraisal assumes rating accuracy as dominant appraisal objective.[2] This contrasts with some studies on appraisal objectives pursued by appraisers in practice. Among the most frequently cited of those studies is an explorative study by Longenecker et al., who interviewed 60 executive managers to reveal that political considerations seem to dominate their appraisal ratings and that appraisals are commonly manipulated for purposes other than the ones intended by the organization.[3] According to theirs and other studies, appraisers pursue objectives such as avoiding conflict, protecting their subordinates, demonstrating power, venting frustration, and motivating their staff through an unexpected low rating.[4] It seems that the pursuit of such objectives would conflict with the otherwise assumed rating accuracy objective. Longenecker and his colleagues even go as far as to state that accuracy "is simply a wrong goal to pursue."[5] In a later study, Longenecker and Gioia found that appraisals become more political at higher levels in the organizational hierarchy, indicating that some employee groups may be more prone to pursuing deviant appraisal objectives than others.[6]

In the following paragraphs, it is going to be argued that rating accuracy should by no means be the only goal to be pursued in engineering the appraisal process. The pursuit of some of the above political objectives may indeed be in the organizational interest. An objective related to the acceptance of ratings and feedback by employees is included in the following, while rating accuracy is also retained as a valid appraisal objective. In addition, organizations may also seek to make appraisals legally defensible and cost efficient.

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[2] Longenecker et al. (1987), Ilgen (1993), Landy and Farr (1980).

[3] Longenecker et al. (1987).

[4] Longenecker et al. (1987), Foucault (1981), Cleveland and Murphy (1992), Jawahar and Williams (1997), Gomez-Mejia (1989), Fletcher (1997), cf. Sect. 5.5.

[5] Longenecker et al. (1987, p. 183).

[6] Longenecker and Gioia (1994).

Rating accuracy ought to be defined in terms of validity and reliability. Thus, a rating is accurate if it represents a measure of the construct it is intended to measure and if it is consistent over time and different rating sources. Rating accuracy is sometimes also defined in terms of an absence of rating errors, such as the leniency effect.[7]

Rating accuracy is most relevant if appraisals provide the basis for administrative decisions. Accurate assessments of competencies or potential indicators such as GMA, for example, enable valid predictions about the future performance of different candidates in a position to be staffed for. Valid evaluations of past performance and outputs incentivize behaviors that contribute to organizational effectiveness in future. Reliable ratings contribute to perceptions of procedural fairness in the context of pay and staffing decisions, avoiding insecurity among employees about which behaviors are desired and avoiding negative attitudinal reactions such as dissatisfaction, reduced commitment, and conflict with the appraiser.[8] Hence, the more accurate the ratings, the more effective are the organizational systems in aligning the interests of employees with the organization and in allocating resources across different functions and jobs.

In the context of developmental appraisals, accuracy is required in assessing the relative strengths and weaknesses of the appraisee rather than in making subtle distinctions between employees. Developmental appraisals are likely to be exposed to less scrutiny by the appraisees as they do not result in immediate material

[7] Other examples of rater error and bias include halo, severity, central tendency, contrast, stereotype, similar-to-me, liking, friendship, first impression, and recency effects. The rater errors discussed most often in the literature are leniency, halo, and central tendency (Woehr and Hoffcutt 1994). Leniency refers to a tendency of appraisers to overrate their employees; halo refers to a tendency of providing exceptional ratings across all performance dimensions for someone who has performed exceptionally in one performance dimension that is particularly evident to the rater but was less effective in some other performance dimensions; and central tendency refers to a tendency to rate in categories in the middle of the rating scale, avoiding having to justify outstandingly good or bad ratings.

Often, rater errors and accuracy are examined as separate outcome measures of the appraisal process, although, logically, rater errors should only matter in-so-far as they affect the accuracy of appraisal. Research on rater training (Bernardin and Pence 1980) showed that rater training that was aimed at reducing rater error not only reduced rater error but also rating accuracy. The training program that was examined involved definitions and distributional examples of halo, i.e., the training participants were told that high ratings equally distributed across different performance dimensions represented a rater error – halo. The study also measured halo on the basis of rating distributions across different dimensions. Halo and accuracy were measured before and after the training course. The fact that halo – as defined in the study – decreased together with rating accuracy indicates that what was defined and observed as halo did not actually represent halo but a tendency of outstanding performers to excel across different dimensions of performance. Actual halo would occur in a situation where someone actually performs exceptionally well in one performance factor, overshadowing deficiencies in other areas. This, however, is difficult to tell apart from the situation described above. Nevertheless, if it was observable, one would expect to observe a negative correlation between this rater error and rating accuracy.

[8] E.g., Folger et al. (1992).

consequences for them. Therefore, minor inaccuracies may be less likely to result in perceptions of procedural unfairness and the associated negative sentiments.

The above-mentioned studies by Longenecker and others suggest that some of the political considerations of appraisers may actually be valid and beneficial to the organization. Most commonly, appraisers seek to avoid nonconstructive responses to appraisal ratings and feedback, which could affect the relationship between the appraiser and the appraisee as well as various attitudes of the appraisee. Such common and valid considerations may be captured in a formal appraisal objective that might be referred to as **gaining feedback acceptance** by the appraisee.

Some of the executive managers interviewed by Longenecker et al. were of the opinion that rating appraisees unfairly or unexpectedly low may, under certain circumstances, provoke performance improvements. No empirical evidence has been carried out yet to back this opinion, so it would be difficult to propose the inclusion of this as objective in the formal appraisal system. If, however, the managers of an organization believed that "gaining feedback rejection" must be accounted for as a valid pursuit under circumstances, this might be subsumed with the *gaining feedback acceptance* objective, yielding an overarching objective which could be labeled *eliciting performance-enhancing attitudes*.

It has been shown that the prevalence of negative attitudes in response to low ratings is generally lower when the rating is based on a procedure which is perceived to be fair.[9] Appraisals are considered fair if they are seen to be based on due process, involving behaviors such as giving adequate notice (for example by explaining the performance standards before the evaluation period), fair hearing of the appraisee, and judgment based on evidence.[10] Elsewhere, perceptions of procedural fairness have been found to be impacted on by two categories of variables – the *appraisal system,* including all processes and policies related to the appraisal, and *interpersonal exchanges* between the appraiser and appraisee.[11]

The present dissertation is concerned with the first category of variables, that is, the ones relating to the appraisal system design. The following appraisal system facets have been identified as precursors of perceived procedural justice and of perceptions of appraisal accuracy among appraisees. *System openness* denotes the appraisees' ability to access their appraisal files and challenge any perceived inaccuracies. *System complexity* is related to potential difficulties in understanding how the appraisal system works. *Multiple inputs* refers to the extent to which different rating sources are included, for example peer evaluations and upward feedback (i.e., a greater number of sources is associated with greater fairness). The term *system commitment* circumscribes the degree to which the appraisal system is supported by the organization, which may, for example, be reflected in investments into appraisal trainings.[12]

[9] Schleicher and Day (1998).

[10] Findley et al. (2000).

[11] Folger et al. (1992).

[12] Giles et al. (1997), Findley et al. (2000).

Gaining feedback acceptance by appraisees is particularly relevant in the context of a developmental appraisal purpose. A perfectly accurate developmental rating is of little value if it is rejected by the appraisee and if the appraisee does not change his or her behaviors or takes actions in response to the feedback. This may be taken account of in the design of the appraisal process. For example, appraisal trainings for developmental purposes may prioritize feedback acceptance over rating accuracy; accountability systems may not expose rating accuracy to the same detailed scrutiny as in the case of administrative appraisals.

Given rating accuracy, the acceptance objective should also be pursued in the case of administrative appraisals as nonconstructive responses may impact on attitudes and performance for any kind of appraisal.

Another appraisal objective is the **legal defendability** of administrative decisions based on the appraisal. Legal requirements relate to the process of defining appraisal dimensions and the content of appraisal dimensions. In the US, for instance, legally defensible appraisal dimensions ought to be derived through formal job analysis.[13] In Germany, the works council must be consulted on appraisal criteria and has the right to object to them.[14] The EU antidiscrimination statute further rules out any performance dimensions that may indirectly discriminate against employees on the grounds of nationality, ethnic origin, religion, weltanschauung, membership in organizations, gender, and sexual orientation, unless they can be shown to represent necessary requirements of the work role to be appraised. The onus of proof for this is with the employer. That is, if employees or their representatives can make plausible that a social group is put at a disadvantage systematically (for example using cross-sectional statistical analysis of performance ratings across different staff groups), it is up to the employer to provide evidence that the discriminatory performance dimensions are necessarily related to the job.[15] Essentially, the legislator's concern is that appraisal criteria used for administrative decisions are reflecting the requirements of the job rather than personal favoritism of some sort. This should also be the concern of the organization from a strategic point of view. However, there may be differences between appraisal systems in how much time and resources they devote to ensuring that the fairness of appraisals is guaranteed regardless of the appraiser and that it can be proven ex post.

Finally, appraisal processes should achieve all other objectives while **being cost efficient,** which primarily relates to the time input required from appraisers and appraisees. A combined literature review and empirical study has found that, on average, organizations spend 7 h per employee and year at higher levels of the hierarchy and 3 h at lower levels on appraising performance. Time spent on appraisals varies considerably between the organizations in the sample, with many of them spending as little as 1 h and one of them as much as 20–40 h per

[13] Bernardin et al. (1995), Murphy (1994).

[14] Oechsler (2006). The German works council is an employee representative body, which must be elected in all plants with at least six employees. Cf. also Muller-Jentsch (1995).

[15] Schiek (2004), EU Regulation 2000/43/EG.

employee annually. This includes time for record keeping, form completion, preparation of the appraisal interview, and the conduct of the appraisal interview.[16]

Hence, four different appraisal objectives can be differentiated and should be taken into account differentially in the appraisal system design – rating accuracy, rating/feedback acceptance, legal defendability, and cost efficiency.

During the trainee period of **generalist managers,** the appraisal purpose is proposed to be purely developmental. Thus, gaining feedback acceptance should be a primary appraisal goal. The assessment center which is proposed after the trainee period serves a staffing purpose. Hence, the accuracy of the assessment center ratings should be a primary objective. Thereafter, competency appraisals and assessment centers at key stages of the managerial career ladder are proposed. As the assessment centers provide the basis for promotion decisions, they should be generally associated with a primary rating accuracy objective. The regular competency appraisals between assessment centers may provide a basis for horizontal staff movements, for the development of the manager, and for the decision to nominate someone for the next assessment center. Although the aggregate competency rating based on all competency appraisals leading up to an assessment center may be crucial for the career progress of a manager, the consequences are not as immediately attached to each individual competency appraisal as they are to the assessment center ratings. The competency appraisals partly serve the preparation for the assessment centers. Furthermore, they are conducted by the managers' supervisors or other members of their network. Nonconstructive responses would harm the sustainable, integrated operation of a network which needs to remain intact in the long run. On that basis, it is proposed that the regular competency appraisals of managers should primarily pursue the feedback acceptance objective and accuracy as a secondary objective. If some supervising managers should feel that they must provoke employees into good performance by exceptionally rating them inaccurately low, then that would also have to take place during one of the regular competency appraisals.

Professional/occupational employees are subject to output control in an attempt to align their efforts with the organizational interests. This administrative appraisal purpose entails a primary rating accuracy objective. Accuracy in appraising output deliverables is all the more important as professional employees have considerable discretion in choosing task strategies in the pursuit of the output goals. Professional administrators may also set behavioral standards. Evaluations of an adherence to such standards should aim for the acceptance by the appraisee, heeding professional autonomy demands, unless behavioral standards are used in the absence and in lieu of output standards. In that case, behavior evaluations would serve an administrative purpose, necessitating rating accuracy.

The purpose of **industrial/clerical worker** appraisals is administrative. Given task fragmentation, performance blueprints, and, frequently, electronic monitoring

[16] Bretz et al. (1992) integrated the results of two major surveys of appraisal practices in 3,052 and 435 organizations and their own survey of appraisal practices of the Fortune Industrial 100.

facilities, rating accuracy is accomplished relatively easily. The challenge of this mode of employment lies in making performance evaluations legally defensible. Against the backdrop of them-and-us thinking and collective organization, non-receipt of pay awards or any dismissals on the grounds of performance or behavior are more likely to be subjected to scrutiny than in other employment modes.

The output evaluation of **team workers** at the group level serves a control purpose and should, hence, primarily aim for accuracy of evaluation. At the individual level, the informal social control mechanisms are devised to accomplish acceptance of critical feedback, the feedback being delivered by the worker with the closest bond to the feedback recipient. Critical feedback provided through the formal peer evaluation procedure should represent a last resort. Accuracy of evaluation is required if the formal peer evaluations are to provide a basis for taking formal actions against workers. The developmental feedback on the tasks that have not been mastered yet should aim for acceptance. The work sample test, which is to provide a basis for pay decisions, must primarily be accurate.

Appraisals of **casual workers** provide the input for systems evaluation. This does require accurate ratings. However, as with industrial/clerical workers, rating accuracy on these kinds of jobs is typically a given. The primary appraisal objective to focus on is cost efficiency, as these workers are primarily hired to reduce costs, as their expected tenure is low, and as control processes may largely be shifted to temporary worker agencies. The output/outcome evaluation for **professional/occupational contractors** should be aiming for evaluation accuracy.

Hence, different employee categories and different appraisal purposes entail different primary appraisal objectives which should be focused on in the design and conduct of the appraisal. In addition to that, there are a number of secondary objectives to be taken account of. It has already been stated that whenever rating accuracy is a primary objective, feedback acceptance should be a secondary objective and vice versa. Moreover, in the design of any appraisal system, precautions should be taken to prevent violations of basic legal requirements. Finally, all primary and secondary objectives should be achieved cost efficiently.

5.2 Observing Performance

Performance behaviors may be observed directly in the presence of a supervisor or electronic monitoring technology. If performance is not observable, performance outputs may have to be inspected instead, which, however, may also be impacted on by factors not under the control of the appraisee. If no comprehensive, observable performance metric is available in terms of either behaviors or outputs, the appraisers may have to collate pieces of information from different sources that have observed at least parts of the performance of the appraisee. Such information collation processes may be supported by formal appraisal processes, in which case the term **multisource appraisal** is applicable. Sources of information may include different supervisors, peers, subordinates, customers/clients, and the appraisee's self appraisal.

Formal multisource appraisals require at least five raters in the peer and subordinate categories of evaluators each, protecting the anonymity of the raters and preventing one rater's bias having a major impact on the overall rating. With many multisource appraisal systems, the appraisees may nominate their appraisers themselves, which has been suggested to provide "opportunity for the more Machiavellian-inclined to bias the process by arranging a reciprocal process of back-slapping."[17] Alternatively, all peers and subordinates of the appraisee may be required to contribute to the appraisal. The ratings by the different sources may be aggregated by the appraisee's supervisor or by the HR department, presenting rating averages and ranges for different rating groups to the appraisee alongside the supervisory rating and the self appraisal. Free-written comments may be presented verbatim or in summary form.[18]

Thus, multisource appraisals may provide perspectives on performance which are otherwise hidden from the view of an individual supervisor. Additionally, they may reduce rating distortions because of similarity and personal affect, as different assessors tend to neutralize each other in that respect. Multisource appraisals may be inevitable in matrix organizational structures or where appraisees have worked under different project managers during a performance period. It has also been suggested that the supervisor once-removed may be involved in multisource appraisal, providing a non-involved perspective on the appraisers performance while being especially well positioned to take into account the contextual and future performance demands.[19] Self appraisal has been shown to yield increased levels of perceived justice and satisfaction with the appraisal process among appraisees.[20]

Potential disadvantages of multisource appraisals include that they tend to be especially lenient when used for administrative purposes. This has been explained with the subordinates' fear of retribution from their supervisors if their upwards appraisals result in negative consequences for the supervisors.[21] A weaker leniency effect has been established for peer evaluations,[22] although, it has been found elsewhere that the accuracy of peer evaluations depends on factors such as the similarity of rater and ratee performance, the purpose of the appraisal, and the quality of the rater–ratee relationship.[23] Further, multisource appraisal increases the number of appraisals to be conducted in total and by each of the individuals involved, which may result in "rating fatigue."[24] Subordinates, peers, and customers/clients are typically not as well trained for conducting appraisals and they may not feel as accountable for their ratings as supervising managers, which affects the

[17] Fletcher (1997, p.74).
[18] Fletcher (1997, p.74).
[19] Lohaus and Kleinmann (2002).
[20] Lohaus and Kleinmann (2002).
[21] Greguras et al. (2003).
[22] Greguras et al. (2003).
[23] Lohaus and Kleinmann (2002).
[24] Fletcher (1997, p.77).

accuracy of their ratings. Training all the different rating sources in appraisal techniques is costly or not feasible in the case of customers/clients. Multisource evaluation may also increase the mutual dependency of employees, resulting in a potential increase in reputation management activities. This may be disadvantageous where it distracts from task performance and beneficial where a smooth interaction and collaboration between colleagues is required. Self-appraisals, in particular, have been shown to be overly lenient and self-protective.[25]

Because of concerns about rating accuracy, multisource appraisals have mostly been used for developmental purposes or to provide some additional but informal input to supervisory appraisals.[26] Recently, however, organizations such as BAe and Federal Express have been using peer and subordinate appraisals also for evaluative purposes. Peer evaluations with an administrative purpose may suit the function of self-managed work teams. Self-managed team work arrangements are typically applied only to a small fraction of the workforce of an organization and the composition and membership of SMWTs is stable. Therefore, the costs of training all raters in appraisal techniques to counter any rating accuracy effects can be expected to be relatively limited. If peer ratings do result in increased impression management activities between the workers, it may be beneficial in this case because of the extensive requirements for interaction and coordination. Also, if the peer evaluations should turn out to be lenient, that may actually be in line with the approach to peer evaluation proposed for SMWTs in the previous chapters, that is, that critical formal evaluations should be made only as a last resort after the social control mechanisms have failed. The peer evaluation may be complemented by a self evaluation, initiating open discussion of critical performance ratings in the team and fostering perceived procedural justice in cases in which someone received a formal rebuke.

Multisource appraisals may also be a suitable instrument for the regular competency appraisals of generalist managers. Managers operate as part of networks, such that their performance is not comprehensively observable by a supervisor. Adding perspectives to observe their performance may increase the validity of the appraisal and, thus, rating accuracy. Each perspective represents a single competency indicator. Observed indications of performance add up to an increasingly robust competency assessment, as was described in the previous chapters. Hence, a single competency assessment by a peer or subordinate contributes only a limited part to the administrative decisions that are based on the overall competency assessment. Leniency seems to be a consequence of expectations of tangible outcomes being tied to the ratings. As individual ratings in managerial multisource appraisals contribute only a limited part to the receipt of tangible outcomes by the ratee, the leniency effect may also be expected to be correspondingly lower.

Alternatively, the multisource appraisals of managers may be used for developmental feedback purposes only, whereas the competency evaluation for administrative purposes is conducted by the responsible supervisor. In any case, ratings

[25] Bretz et al. (1992), Lohaus and Kleinmann (2002), Fletcher (1997).

[26] Jawahar and Williams (1997).

from different sources may relate to different competencies, depending on which aspects of performance they are able to observe. The different sources' ratings of competencies may then also contribute differently to an aggregate rating, such that, for example, the supervisory rating is weighted more heavily than the others.[27]

If performance behaviors or outputs cannot be reliably observed, either by a single supervisor or by a collation of observations by different sources, one may engineer **test situations** which enable the observation of whether and how candidates would use desired competencies in situations resembling the work setting. Test situations range from simple interviews through role playing games, simulations, work sample tests, and cognitive tests to assessment centers. The highest predictive validity across *all types of jobs* is associated with work sample testing. The highest validity in predicting *managerial performance* is displayed by cognitive ability tests.[28]

Assessment centers combine different tests. They do not display the highest validity in predicting individual performance. However, it was argued in Chap. 4 that they may also add value by assessing the personality fit of candidates with the prevailing personality structure of a team or an organization and, hence, predict team performance above and beyond individual performance. Assessment centers allow for test designs tailored to test for various competencies, not only development potential. It may also be possible to adapt some of the tests during the process of carrying them out to flexibly explore particular strengths and weaknesses of candidates. Assessment center ratings are transparent, that is, the assessors understand why someone obtains a good rating, unlike the ratings of the "black box" psychometric testing – assessment centers allow the assessors to be in control. Assessment centers have been said to be the most popular method for deciding on promotions of managers.[29]

Assessment centers have been criticized for confusing the measurement of competencies with the measurement of development potential. To really measure development potential, so the argument goes, assessment centers should test the candidates' ability to cope with change and to learn entirely new tasks, not competencies that some candidates have already had the chance to develop while others have not. Thus, according to that, the dimensions tested for should be adaptability and ability to learn.[30]

In the case of the assessment centers proposed for the generalist managers in the present employment systems framework, this argument may be heeded in the design of any assessment centers conducted prior to hiring someone as a general manager. General abilities, such as GMA and, possibly, adaptability and learning

[27] Weighting more heavily does not necessarily imply numerical scaling factors. If that is not desired, rating dimensions may be aggregated into an overall rating in a qualitative fashion by the responsible supervisor, taking into account the assessments by some sources to a greater extent than those by other sources.

[28] Cf. Sects. 3.1.2 and 4.1

[29] Lohaus and Kleinman (2002).

[30] Lohaus and Kleinman (2002).

ability, may be tested for during the selection process. These fundamental abilities will not change significantly through experiences gained subsequently, so that one would not have to test for them again during the later promotion assessment centers.[31] Moreover, it is proposed that specific competency frameworks should be devised for the different levels in the managerial hierarchy, and that the different promotion assessment centers should test for the level-specific competencies. It is not expected that the competencies are fully developed prior to being promoted to the respective level. However, to be able to fully develop, for instance, the needed intuitive abilities at senior management level, someone must already demonstrate at least an aptitude before being promoted to that level.[32] Likewise, a junior manager must be able to demonstrate some aptitude for people leadership ability prior to being promoted to middle management.

Suggestions on how performance ought to be observed for each of the six archetypal staff categories have been made throughout the previous chapters. Briefly **summarizing** this, one would expect that competency indicating instances of performance of managers are observed by supervisors, peers, and subordinates and, at promotion points, in assessment centers. In the case of professional/occupational employees, the dedicated manager and the administrative professional will primarily inspect professional outputs. The performance of industrial/clerical workers may be directly observed, either in the personal presence of a supervisor or through electronic monitoring. Where outputs and deskilled performance are tightly linked, such as in assembly line production, outputs may be inspected instead. Outputs are also inspected in the case of team workers, but at the team level. Their individual performance is observed and evaluated by their coworkers. Casual worker performance is evaluated on the basis of direct observation or output inspection. Professional/occupational contractors are evaluated on the basis of an inspection of their output and outcome deliverables.

5.3 Rating Performance

Rating is the cognitive process of aggregating and classifying observations into value categories on some value scale. Cognitive psychologists provide a more detailed description of this process, including steps such as sampling, encoding, storage, retrieval, evaluation, differential weighting, and composite scoring.[33] Different scholars propose different, mostly descriptive cognitive process models. One of these approaches, associated systems theory, is especially relevant for the purposes of the present work.

[31] Cf. Sect. 4.1 on the stability of general mental ability and personality traits of grown ups.

[32] Cf. Sect. 4.1 on the stability of general mental ability and personality traits of grown ups.

[33] E.g., Campbell et al. (1993), Ilgen et al. (1993), DeNisi (1997), Landy and Farr (1980).

Associated systems theory focuses on the impression and judgment formation process. Figure 5.1 depicts a schematic representation of the theory. According to this, impressions are formed via four mental systems – visual sensory, verbal semantic, affective, and action-oriented. These systems interact to yield nine different types of responses shown in the center of the schema. The responses are classified along two dimensions, *concrete versus abstract* and *target- versus self-referent*. For example, associating a behavioral trait with a person in response to an impression of that person's behaviors would represent a more abstract response than storing concrete behavioral observations in memory. An affective response to the impression would represent an example of a self-referent response. That is, the observer's attention would be focused on his or her emotional or behavioral reactions to the impression. In contrast, if the attention of the observer was focused on the person associated with the impression, for example,

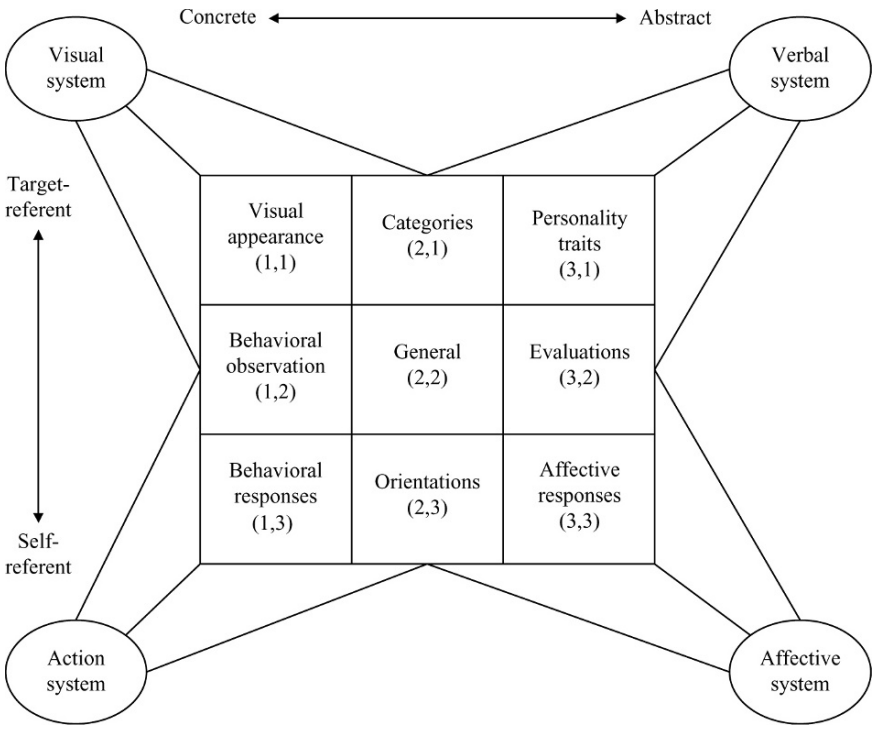

Fig. 5.1 Associated systems theory (Carlston 1994, p. 7)

by thinking about evaluative categories, the response would be classified as target-referent.[34]

A formal rating process has the effect of shifting the rating supervisors' responses to performance observations from self- to target-referent. The raters are cognitively involved with rating dimensions and categories, diverting attention away from self-focused responses. On that basis, raters may process impressions in two alternative ways. Either, they may store concrete behavioral observations in their memory when the impression is formed, which are recalled and evaluated later when the performance appraisal is conducted or they may form instantaneous judgments at the time of observation. What is then stored in the memory of the rater is the performance category associated with the observed behavior rather than the instance of behavior itself. If more than one instance of behavior is observed for an appraisee in relation to a performance dimension, the categorization of the appraisee along that dimension is revised each time a relevant behavioral observation is made. Raters are then less likely to remember concrete examples of behavior at the time of the appraisal[35], or they may even remember to have observed behaviors that have not actually been exhibited.[36]

If the raters' performance theories are aligned with the organizational performance theory, for example through respective rater trainings, the abstract cognitive process is associated with higher levels of rating accuracy. The concrete cognitive process is more likely to result in rating/feedback acceptance by the appraisee, as it enables the rater to justify ratings by providing concrete (and real) examples. Hence, both processes may be effective depending on the appraisal objectives. Either of the cognitive processes may be activated in a rater through targeted appraiser training.[37] The cognitive processes may also be differentially related to particular rating scales.

Rating scales provide the value categories into which impressions, such as instances of performance observation or output inspection, may be classified. In the absence of rating scales, raters may have developed implicit value categories based on their idiosyncratic performance theories. *Verbal evaluations of performance* are based on such implicit categories. Verbal, written assessments of different aspects of performance of an appraisee have the advantage of flexibility, enabling appraisers to comment on aspects not covered by rating scales. On the downside, they tend to be subjective and not comparable across appraisees. Verbal evaluations are often used to complement scale-based ratings.

The literature distinguishes between simple and behaviorally-based rating scales. Simple rating scales include numerical and alphanumerical scales, scales using verbal descriptors such as *outstanding*, *satisfactory*, and *requires improvement,* and percentage scores indicating degree of goal achievement. Behaviorally-based rating scales seek to provide descriptions of the behaviors associated with different

[34] Schleicher and Day (1998), Carlston (1994).

[35] Schleicher and Day (1998).

[36] Sulsky and Day (1992).

[37] Cf. Sect. 5.6.

rating categories, thus putting the rater into "the role of an objective observer rather than a judge."[38] They are intended to minimize the scope for interpretation, and thus to improve the reliability and accuracy of ratings compared to simple ratings.[39] There are different variations of behaviorally-based rating scales, the most common ones are *behaviorally anchored rating scales* (BARS) and *behavioral observation scales* (BOS).[40]

BARS are developed on the basis of the critical incidents method. According to the critical incidents method, a group of managers and staff familiar with the job to be rated associate incidents of effective and ineffective performance with different performance dimensions.[41] To derive BAR scales, critical incidents must also be ranked in terms of the level of effectiveness or value category they are associated with in a dimension. For each rating category on each performance dimension, the most representative incident is to be chosen as a descriptor, worded in behavioral terms. It has been suggested that the process of defining performance dimensions and descriptors for the rating categories is repeated by a second group of different managers and staff. A subsequent joint discussion and integration of the two sets of performance dimensions and scales may help to detect nonindependent performance dimensions and ambiguous descriptors.[42]

BOS are also developed using the critical incidents technique. In this case, not just one representative behavioral example is selected per performance category but a list of likely behaviors. In order to rate someone, one must then recall how often a ratee has performed each of the behaviors linked to a category. Each category is associated with a score. The rating for each dimension is calculated as the sum or average score across the different descriptors of the dimension.[43]

Behavior observation and BARS place different cognitive demands on raters, which can be linked to the concrete and abstract modes of cognitive processing derived from the associated systems theory above. BOS require the raters to recall how frequently they have observed a given behavior. BARS require raters to provide a summary judgment for each dimension, relating the overall performance of the ratee to an exemplary behavioral category descriptor. Especially in more complex jobs, a significant amount of judgment is required in relating the observed behaviors to the illustrative behavioral descriptors. In one study, managers have been found to prefer BOS over BARS because they simplify and speed up the rating process.[44] BARS still require training to guide the raters in correctly assigning observed behaviors to rating categories, despite the behavioral descriptors.[45]

[38] Fletcher (1997, p. 20).
[39] Jawahar and Williams (1997).
[40] Jawahar and Williams (1997).
[41] Cf. Sect. 4.2.
[42] Smith and Kendall (1963).
[43] Dunnette et al. (1968).
[44] Wiersma and Latham (1986).
[45] Cf. Ilgen et al. (1993).

One finds a considerable number of variations of behaviorally based scales in the literature. However, despite a possible intuitive appeal, literature reviews clearly state that sophisticated behaviorally-based scales fare "no better than the simple numerical format in accuracy or on the other psychometric measures."[46] Apparently, there is no substitute or shortcut for the judgment processes involved in rating someone's performance. Given the ease of devising and understanding them, simple numerical or alphanumerical descriptors of rating categories may then be preferable over behaviorally-based descriptors. An important antecedent of rating accuracy are clearly defined anchors, which are established more effectively through rater trainings than through behaviorally-based scales.[47]

A more recent discussion in the psychometric literature revolves around the **number of rating categories** distinguished for a given performance dimension. According to the evidence, three to five rating categories result in the most reliable ratings; some studies indicate that up to nine categories may still yield acceptable reliability scores.[48] It has been estimated that typically 60–70% of employees are rated in the top-two rating categories, whereas the bottom categories remain relatively empty.[49] A study on pay practices of 16 firms finds that 80% of individual annual pay increments were clustered within 2% of the mean increment.[50] Case studies of companies such as the Ford Motor Company report that companies have reduced the number of rating categories in their appraisal systems from as many as ten down to three.[51] The rationale provided for these reductions was that the vast majority of employees function within the constraints of the system represented by the organization, that they cannot be held responsible for subtle differences in performance and that, therefore, the bulk of employees should be rated in a middle category. In the case of Ford, it was required that only 5–11% of exceptional performers should be rated in the categories above and below.[52]

[46] Borman (1979, p. 419), also Fay and Latham (1982), Milkovich and Wigdor (1991).

[47] Cf. Sect. 5.6.

[48] Milkovich and Wigdor (1991). This finding is also supported by more fundamental research showing that people can cognitively process no more than seven (plus or minus two) items at a time (Miller 1956). Cf. also Drewes and Runde (2002), Fletcher (1997).

[49] Bretz et al. (1992, p. 333).

[50] Teel (1986).

[51] Fletcher (1997), Bretz et al. (1992).

[52] The argument is inspired by the work of Edward Deming (1986), who has provocatively labeled performance appraisal as one of seven deadly diseases of management. He suggests that the performance of individuals does not differ significantly and that variations are due to random observations, sampling error, factors outside the control of the individual, and the system in general. Any remaining differences in performance contributions by the individuals cannot be meaningfully differentiated from other factors by managers or other raters. There is partial empirical support for his argument, as, for instance, Greguras et al. (2003) find that "the combined rater and rater-by-ratee interaction effect and the residual effect were substantially larger than the person effect (the object of measurement)" (p. 13). Earlier studies, by contrast, find that the largest source of variance in ratings is in fact the performance of the ratee (Landy and Farr 1980).

Distinguishing only three rating categories has been argued to bring about recruitment and retention effects and reduced costs of inequity perceptions and their ramifications. Differential appreciation of performance is generally argued to attract and retain high performers.[53] Treating differentially the very top performers only, results in positive attraction and retention effects on the very top performers and, potentially, in a negative attraction and retention effect on performers who are not in the top category but among the best of the bulk of performers. If they are extrinsically motivated, the latter may reduce their efforts to levels that just keep them in the middle category. On the other hand, it can be argued that performance differences between midrange performers are subtle anyway and, if reflected in ratings, more often result in perceptions of inequity, procedural unfairness, and concomitant attitudes than at the top end of the performance spectrum.[54]

To counter tendencies of rating the vast majority of employees in only two rating categories when there are more categories available, some organizations use **forced ranking methods.** These require raters to put all employees within a peer group into a performance ranking order or to classify a fixed percentage of performers into each rating category (forced distributions). Thereby, any tendencies to rate leniently or in midrange categories only are eliminated. The approach tends to encourage fierce competition among the employees, which may be beneficial where only limited interaction and cooperation is required between them. In order for forced rankings to work, the peer group must be sufficiently large. It will prove difficult to rate, say, the top 10% of performers in one category if there are only five employees to be compared in a peer group. Thus, typically, employees of a type are compared across different teams and units. This, again, requires that observations by different managers must be integrated into an aggregate ranking. As managers may have a micropolitical incentive to position their own staff in the top categories, the rankings may not only depend on their rating accuracy but also on their negotiation skills. Forced ranking then requires time-consuming meetings by the rating managers to agree on the rankings or categorizations, in particular, if no objective performance measures are available. Consequently, forced ranking systems have been found to "accomplish their primary objective of differentiating individuals"[55] but also to "be associated with lower effectiveness in general and, in particular, when appraisal results are tied to termination."[56] It has also been found that forced ranking systems occur relatively infrequently in practice.[57]

For **generalist managers,** the cognitive processes involved in categorizing observed competency indicators are proposed to be abstract. The judgment of their competency is taking shape gradually, getting more robust as more indicators are observed. The judgments provide a basis for staffing decisions. Hence, greater

[53] Cf. Sect. 3.1.

[54] Zenger (1992).

[55] Lawler (2003, p. 400).

[56] Lawler (2003, p. 402).

[57] Lawler (2003); Peck (1984).

accuracy associated with abstract cognitive processing is required for an optimal fit between available competencies and role requirements.[58]

For the assessment centers, which provide the initial competency assessment at each level in the managerial hierarchy, it is proposed that concrete cognitive processes are supported. Thus, during the 1- or 2-day event, the assessors should store and record concrete behavioral observations, making the competency ratings transparent and demarcating the ratings at a new level of the "managerial game" from the impressions formed at previous stages.

The competencies are proposed to be rated on simple rating scales, given that the behaviorally based scales do not result in significant improvements in rating accuracy. It is further proposed that only three rating categories are distinguished. A relatively small number of managers could be rated in the top category as promotion candidates, the majority of managers who perform according to expectations in a main category, and again a small number who fall significantly and repeatedly short of performance expectations in a bottom category. The logic of distinguishing only three rating categories seems especially applicable to the appraisal system of managers: Managers operate as parts of complex, integrated networks. Their behaviors and results may be argued to be conditioned by the system, that is, factors outside their control, to a larger extent than the performance of all other employee categories.

Further, their competency ratings are primarily used for staffing purposes. In terms of the demands of the organizational systems on the appraisal, it only needs to be decided who is ready for promotion, who performs effectively as part of the managerial network, and who does not. As different competency dimensions are rated, distinguishing between only three categories nevertheless allows for the establishment of a competency *profile* across the different dimensions, indicating particular strengths and weaknesses through ratings in the top and bottom categories and, thus, guiding horizontal mobility and development.

Moreover, as elaborated in Sect. 3.1.1, most people, and especially managers, regard themselves as top performers and those who are not rated in the top category may react nonconstructively. With promotion incentives, the problem of nonconstructive response is mitigated, as people may tell themselves that only a limited number of vacancies are available for promotion and that they have closely missed promotion despite being a top performer. Three-category scales support such self-images as they differentiate only those who are promoted or nominated for the respective assessment centers.

Managers must interact and cooperate within their teams and networks more closely than others. Therefore, nonconstructive responses may be more harmful than in other staff categories. This also means that the costs of perceived injustice among average performers who are rated just below other average performers may be especially high. Beyond that, managers are expected to be normative intrinsically

[58] It will be explained in Sect. 5.6 how abstract cognitive processing of raters can be supported through appraisal training.

motivated rather than extrinsically. Thus, control over managers who tend to be rated in the middle category and who are actually aware that they may have little prospects of being promoted soon is exercised via socialization, integration into teams and networks, and organizational commitment.

Since the regular assessment also serves a secondary developmental purpose, it is proposed that the competency ratings should be complemented by a more detailed, written verbal assessment.

The output evaluation of **professional/occupational employees** involves concrete cognitive processing. Outputs are judged on the basis of visual appearance and other sensory qualities, which are captured in objective metrics or through concrete descriptions of the observed qualities. Thus, ideally, performance is not rated but measured. Whether rated or measured, performance outputs provide the basis for individual performance-related pay awards. As the hedonic intrinsic motivation of professionals is not necessarily directed to organizational goals and values, the alignment of their efforts with organizational interests requires extrinsic motivation. To avoid unmotivated professionals in the main category of a three-category rating system, it is suggested that five (or at the most seven) rating categories and performance-related pay levels should be differentiated for professional/occupational employees.

Akin to the output evaluation processes of professional employees, rating **industrial/clerical workers** also involves concrete cognitive processing and objective metrics where possible. Piece-rate standards may be set for as many as five to seven different levels of performance, eliciting the extrinsic motivation of workers performing at all different levels. The quality of outputs is assessed along two categories: Either the standards set in the performance blueprint are met or they are not. Given a legal defendability goal, one may potentially consider the use of behaviorally-based rating scales. Defining quality categories in terms of behavioral descriptors in the case of, for example, call center operators, may not add much in terms of rating accuracy, but it may make performance requirements more transparent and it may make it easier to pin down performance deficiencies of operators, especially if they have to be dismissed on that basis.

Team worker outputs are inspected at the group level using concrete cognitive processes. Based on concrete, observed or measured outputs, the teams are to be force-ranked, eliciting competition between different SMWTs and triggering identification with team goals and internal mutual monitoring processes. The formal peer evaluations at the individual level must be able to support dismissals of underperformers. Thus, concrete instances of performance and behavior must be recorded to enable objective justifications of dismissals at court. Again, the use of behavioral descriptors for rating categories may be considered to make transparent the kind of behavior that would result in respective actions. Since the peer evaluations are not intended to be the main motivator of performance, the number of rating categories may be low, distinguishing a category for below-standard performance, a regular performance category, and, potentially, a category for exceptional instances of performance. The peer evaluation is also proposed to be used for developmental feedback on the tasks not mastered yet. A written verbal assessment may be used to serve that purpose. Whether someone has mastered a task is to be determined through

work sample tests conducted with the help of an HR expert. This test would distinguish between two levels of performance – *standards met* and *standards not met*.

The evaluation of **casual workers** is based on objective output metrics, which are fed into a systems evaluation process. Beyond that, the output evaluation may serve to sort out underperforming workers and to identify nominees for SMWT selection processes. Thus, a three category scale is proposed. Where no objective output metrics are available, for instance in the case of casual secretarial staff, one may use either simple or behaviorally-based rating scales depending on what is considered more cost efficient. Simple scales are less costly in their development. However, they may require additional training expenses to enable a sufficiently reliable categorization of behaviors by raters.

Professional/occupational contractors are evaluated on the basis of their output and outcome deliverables. As the deliverables are contractually agreed, they can only be defined in terms of concrete, observable output qualities and metrics. It needs to be ascertained whether the specifications are met. A rating is not required.

5.4 Feedback Interventions

Feedback interventions are defined as "actions taken by (an) external agent(s) to provide information regarding some aspect(s) of one's task performance."[59] Feedback interventions may include factual information on performance results as well as normative information on how one should perform one's job.[60] Excluded from the notion of feedback intervention are the types of feedback which are not the result of an intentional intervention by an external agent, such as intrinsic and task-generated feedback. Intrinsic feedback is defined as the performers' perception and evaluation of their own performance. In the case of task-generated feedback, the performers receive positive or negative feedback signs as they observe the consequences of their behaviors.[61]

In their seminal review and meta-analysis of research on feedback, Kluger and DeNisi integrate various theoretical approaches into a **feedback intervention theory** (FIT).[62] According to FIT, feedback signals to the performer that accepted

[59] Kluger and DeNisi (1996, p.255).

[60] The psychological literature refers to factual feedback about performance results as knowledge of results (KR) interventions.

[61] Thus, the concept of *feedback interventions* is somewhat narrower than that of *feedback* as it covers only targeted and deliberate provision of feedback. Consider, for example, a definition of feedback by London (1997, p.11): "Feedback is the information people receive about their performance. It conveys information about behaviors, and it conveys an evaluation about the quality of those behaviors."

[62] Kluger and DeNisi (1996). The theories they draw from include Thorndike's law of effect, control theory, goal setting theory, multiple-cue probability paradigm, social cognition theory, and learned helplessness theory.

goals or standards are either met, not met, or exceeded, triggering different responses. If the feedback sign is negative, the first reaction of performers is typically to increase their effort in an attempt to attain explicit or implicit goals. If trying harder does not help, the next step is normally to change the approach toward the task, that is, engage in learning activity. If the likelihood that the goal can be met is still perceived to be low, however, the commitment toward the goal may be abandoned altogether or the feedback message may be rejected. If the feedback sign is positive, the likely reaction is either maintenance or reduction of effort.[63]

Thus, FIT proposes that people can respond to feedback on three different levels of cognitive processing. Normally, their attention is focused on the level of *task motivational processes*. At this level, individuals do not consciously think about how they perform a task. They apply known skills by means of automated processing. Goal–performance gaps are addressed by changing the level of effort expended without thinking about how the task is performed. If increasing effort does not close the goal–performance gap, attention is shifted either to so-called task-learning or to meta-task processes.

At the *task-learning level* of processing, people start thinking about how they perform the task. They question their current scripts for action and develop hypotheses about how to improve them. The hypothesis they consider most likely is applied to their behavior. The approach to the task is changed. The new task strategy is maintained if the hypothesis is confirmed through subsequent feedback interventions or through task-generated and intrinsic feedback. Otherwise, they may put further hypotheses into action and evaluate their performance impact.

Alternatively, the attention is shifted to the *meta-task level* of cognitive processing. Attention is diverted away from the task to the consequences of performance, such as reputation, self-image, and career prospects. Thinking about such meta-task issues may lead to the adoption of new goals. Or it may result in a perception that the tasks or the job currently performed do not contribute to the achievement of extant goals. Other tasks or jobs may be sought. Otherwise, it is also possible that the existing goals are confirmed, that the currently performed tasks and job are confirmed as instrumental in achieving these goals, and that attention is shifted back down to task-motivational processes. Further, during the process, self-set task standards may also be evaluated as inappropriately high and revised prior to returning to the task-motivational level.

As people's cognitive ability is limited, only one of the three levels can be in the foreground of attention at a given time. Shifts from one level to another occur in a particular sequence. Normally, the attention is at the task-motivational level. If feedback indicates a goal–performance gap, attention initially remains at this level, whereas performance scripts are performed with more vigor. If the goal–performance

[63] Kluger and DeNisi (1996).

discrepancy cannot be eliminated through increased effort, attention is shifted to the task-learning level, where action scripts are altered. Once the altered scripts are automated, attention shifts back to the task-motivational level, which enables optimal performance of the scripts. If the goal–performance gap prevails, attention may be shifted to the task-learning level to alter behavioral scripts again. If neither task-motivational nor task-learning activities are perceived to eliminate the gap, attention is shifted to meta-task processes to reconsider the relationships between the tasks performed and the goals pursued.

Instead of following this regular sequence, attention may be shifted to each of the levels directly by certain feedback cues. If, for example, feedback attracts attention to the manner in which task components are performed or if suggestions are made on how to improve the task strategy or components thereof, attention is likely shifted to task-learning processes directly. To be effective, developmental feedback interactions should help their recipients to reject erroneous hypotheses about what might constitute an optimal performance strategy. If a task is already performed well, developmental feedback cues may also have a negative impact on performance as they shift cognition from the task-motivational to the task-learning level, interrupting the automated processing of effective performance scripts.

Attention can be shifted directly to meta-task processes as a consequence of so-called *normative* feedback interventions. Normative feedback constitutes (or implies) a comparison with others. Examples include grades, rankings, salient negative (destructive) feedback, but also salient positive feedback, such as praise. Thus, normative feedback focuses the feedback recipients' attention on meta goals, such as their self-image, temporarily impairing performance on the task at hand. Not affected by normative feedback are simple tasks which require only little cognitive attention. Such tasks leave sufficient cognitive capacities idle for thinking about meta goals without affecting performance. Sometimes thinking about meta goals may be desirable even though it temporarily distracts from task performance. For instance, goals and tasks performed may have to be readjusted to changing conditions on a regular basis in dynamic environments.

Under the conditions of FIT, contingencies for using different types of feedback can be derived, including feedback with a normative focus, a developmental focus, and feedback provided through written communication and through face-to-face communication.

Normative feedback is likely to impair task performance. Sometimes, however, it may be necessary to trigger appraisees to think about the direction they are heading toward. Outstanding performance may be due to the fact that appraisees have outgrown their current jobs. Appraisers may want to encourage them to think about new goals by providing normative feedback such as praise or emphatic comparisons with others. Underperforming appraisees, by contrast, may have to be nudged to transfer to another role by giving salient negative feedback. Thus, emphatic normative feedback should be used to trigger a reorientation of employees.

Publicized feedback is an especially potent form of normative feedback, shifting attention immediately to nontask related issues such as reputation and career prospects. Feedback (or information about performance results) is typically publicized in the case of executive managers of public limited companies. Evaluations of professors by students are also publicized in regional newspapers by some German universities. Publicized feedback increases the likelihood that the feedback is perceived as a threat to the self, making it less likely that attention is quickly shifted back to the task-motivational level and more likely that people abandon a task or job.

There is research which indicates that individual levels of anxiety and self-efficacy influence the likelihood that the feedback recipients are able to maintain focus on the task despite the shift to the meta-task level and that they do not abandon the task in the face of a threat to their self.[64] As it is the job of executives to represent the organization externally, they may be more likely than others to possess the low levels of anxiety and high levels of self-efficacy required to endure any threat to their selves stemming from the publication of results for which they are considered responsible. A similar argument might possibly be applied to university professors, provided that the published evaluations are reliable and valid and provided that the dimensions of performance are considered sufficiently important to justify a potential fundamental reorientation of the professor in response to saliently negative (or positive) feedback.

A somewhat less threatening variant of public feedback provision is to publicize appraisal results within the organization, the organizational unit, or the work group. To a more limited extent, the effect is also that individuals start thinking about how they are perceived in comparison with their peers and about how they are doing with regard to their meta goals. Although internal publications of ratings may also be perceived as a threat to the self, the potential negative consequences are less damaging than those of feedback being literally publicized.

Feedback with a development focus draws the attention of the feedback recipient to aspects of performance that could be improved and feasible strategies for improving them. It should be provided when new scripts are to be performed, not when processes have already been internalized and automated. Developmental feedback may differ in terms of its frequency, intensity, and setting: feedback may simply be provided as part of the annual or bi-annual performance review meeting by the immediate supervisor of the appraisee. Alternatively, for added impact, the provision of developmental feedback may be **integrated into a training course.**[65] It would, for example, be conceivable that managers who have just been promoted to a new level in the managerial hierarchy with new competency requirements receive feedback on their assessment center ratings during an introductory training course. The assessment center ratings could be fed back confidentially to the managers at the beginning of the course. In the following, half a day may be devoted to each dimension of the competency framework of the respective level in the managerial

[64] Kluger and DeNisi (1996).

[65] Cf. London (1997).

hierarchy. Having received their feedback at the beginning of the training, the managers may be more able to relate the training contents to their own development needs and they may be more likely to understand and accept the feedback. At the end of the training, the managers may take away a personal development plan to pursue during the following performance periods and, ideally, all the way up to the next assessment center. Such a "milestone" training course may also have the added benefit of supporting the socialization and integration of new managers at a given level of the hierarchy.

The disadvantage of this approach is its cost, in particular, in terms of time spent not working. It may be argued, though, that a promoted manager entering a new work context with new performance expectations is likely to experience goal–performance gaps. Testing of different hypotheses may be necessary, developing behavioral scripts that can be automated subsequently. Hence, at this point in the career of a manager, the pay-off from an investment in an integrated feedback-development session may be especially large, possibly more than compensating for any costs associated with it.

Another intensive and extended form of developmental feedback is **coaching.** Coaching can be defined as the process of imparting or developing competencies in the context of actual work behaviors and problems of an employee. It can be characterized as a regular process, involving usually more than a single training session. Thus, coaching is typically used when competencies are too person-specific and multi-faceted to be developed in one training session, such as leadership or interpersonal skills. Coaching may be offered by supervising managers as and when relevant problems arise. Coaches may also be hired from outside the organization to provide advice to managers on various professional and interpersonal issues at work. Coaching is related to but not to be confused with mentoring. Mentors are experienced employees who support their junior protégés with regard to their professional and personal development and their career. Mentors may engage in coaching but also in other activities such as opening doors and introducing their protégés to networks.[66]

Coaching is costly in terms of time required for coaching itself and for training for the development of coaching skills among supervising managers. Coaching skills may be injected into the organization by hiring an external professional who coaches top managers. The latter may subsequently act as coaches for staff one level below them. Thus, each level in the hierarchy passes on the skills to the next level below, cascading them throughout the organization.[67] The process may be supported through the provision of training sessions on coaching and by making *coaching competency* an appraisal criterion for managers.[68]

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[66] Cf. Sect. 5.5.

[67] Cf. London and Smither (2002).

[68] Harris et al. (1995), for example, report on coaching as a rating dimension of assessment centers. Borman and Motowidlo (1993) identify "training, coaching, and developing subordinates" as one of six megadimensions in their competency framework for managers.

Coaching entails a diversion of attention away from task-motivational to task-learning processes. Thus, coaches need to be sensitive about their feedback interventions, offering them only with regard to specific behaviors that can be improved relatively easily, not providing too many feedback interventions within a given period of time, and thus facilitating not only the development of competencies but also the continued performance of necessary task behaviors. Generally, coaching interventions are most justifiable in jobs with quickly evolving competency requirements, which would require frequent shifts to the task learning level anyway, such that coaching would not be the factor that triggers task learning but actually facilitates the automation of new scripts and a rapid return to the task-motivational level.

Hence, as a designer of an appraisal system, one may provide guidelines with regard to the provision of normative or developmental feedback and with regard to the intensity of the feedback, possibly resorting to feedback publication, integration of feedback into training, and coaching. A further design choice with regard to the feedback step of the appraisal process is between **written and face-to-face feedback**. The empirical research suggests that feedback provided through face-to-face communication is more lenient and at the same time better understood than written (computer-mediated) feedback. That is, the ratees usually seem to be able to read between the lines of the lenient feedback what the raters actually intend to say. Technically, this is referred to as meta-accuracy of ratings, which is, thus, greater with face-to-face than with written feedback, and which implies an awareness among both raters and ratees of the positivity demands of face-to-face communication.[69] Having to justify ratings in face-to-face appraisal interviews has also been shown to result in a better quality of written appraisal reports and, generally, in the appraisers investing more time and effort into the process.[70]

Based on these research findings, one may argue that feedback should be communicated personally if the primary goal is feedback acceptance. If rating accuracy is a goal, however, one cannot expect that social cues that may be hidden in lenient ratings are understood equally by different people, including the feedback recipient, other managers, and decision makers in the HR department. The feedback recipient may be more likely than others to correctly read the intended message between the lines, being exposed to the personal communication style of the supervisor day-by-day. Furthermore, ratings may not be distorted in equal measure by different raters, resulting in distortions of pay incentives and in the staffing of people in the wrong positions. Hence, where rating accuracy is a goal, it would seem to be more effective to feed ratings back through written, computer-mediated channels rather than to communicate them personally. The leniency effect has also been found when feedback is provided both in written and oral form.[71] Thus, to

[69] Hebert and Vorauer (2003).

[70] Ford and Weldon (1981), Rozelle and Baxter (1981), Mero et al. (2003).

[71] Hebert and Vorauer (2003); also Shore and Tashchian (2002), Klimoski and Inks (1990), Fisher (1979), Ilgen and Knowlton (1980); cf. Sect. 5.5.

phrase it more accurately, rating accuracy depends – among other factors – on the raters not having to justify their ratings to the ratees in person.

According to Kluger and DeNisi, face-to-face feedback furthermore increases the salience of feedback and, hence, tends to shift attention to the meta-task level of cognitive processing.[72] There may be additional beneficial effects from providing feedback face-to-face where employees are required to show initiative and think about how they can contribute to the goals of the organization. Conversely, where employees simply execute predefined scripts of action, thinking about meta-goals represents a distraction from the automated execution of these scripts.

Consequently, personal, face-to-face feedback may contribute to a feedback acceptance goal. Face-to-face communication may also give the feedback a normative spin, increasing the likelihood that the feedback recipients begin to reconsider the goals pursued and how their current activities contribute to those goals. Not having to justify feedback personally seems to contribute to rating accuracy.

A final piece of research information in the context of feedback interventions relates to **automatically generated feedback**, such as automatically generated counts of widgets produced by a worker in an automated production system. Performance feedback has been found less likely to be rejected if it is automatically generated as it is associated with a greater degree of objectivity than feedback based on personal judgment. It can be said to resemble task-generated feedback.[73]

Thus, it may be argued that **generalist managers** may be given feedback about the promotion assessment center ratings during an integrated feedback/training session when entering the new level of the managerial hierarchy. The regular competency ratings conducted either by the supervisor or as a multisource appraisal are communicated to the appraised manager both in written form and face-to-face. The multisource rating may be communicated to the appraisee by the supervisor in aggregate form. A formal rating and personal communication both increase the saliency of the feedback. If they involve praise or harsh criticism for positively or negatively outstanding managers, they may trigger a shift in cognitive attention to the meta-task level. Praise may then have the effect of encouraging the manager to press for promotion to the next level. Those who must be repeatedly given emphatic critical feedback may consider moving on to a better fitting job. In less extreme cases, normative feedback may simply result in a reconfiguration of the managers' goals and their approach to their job. A regular review of goals and job approaches

[72] The meta-analysis of the empirical literature by Kluger and DeNisi (1996) finds that, on average, verbal FIs "are likely" to attenuate FI effects. It is proposed that this effect would not have been observed if it had been possible to control for a variable such as "flexibility of the team structure." The analysis does control for task complexity, which displays relatively low interjudge reliability, though, reflecting "the difficulty in conceptualizing task complexity" (p. 275). Furthermore, task complexity is not equivalent to the flexibility of the team structure. Hence, due to the difficulty of measuring the contingency variable in question, the present work relies on the logic of the argument described above. The same applies to Kluger and DeNisi's empirical finding that some normative FIs (such as praise) generally impact negatively on performance.

[73] Kluger and DeNisi (1996).

of managers, instigated by normative feedback, suits the role of managers with their far-reaching role discretion. Managers may also be assigned a mentor who provides coaching to ensure continuous development over different assignments and functions.[74]

The outputs produced by **professional/occupational employees** provide the basis for IPRP and the alignment of their efforts with the interests of the organization. Rating accuracy is a prerequisite for incentivizing the right kinds of behaviors among those employees. Consequently, it is proposed that the evaluation of their outputs should be fed back to these employees in written form. As the evaluations are made in relation to employee-specific output specifications, the comparative and, hence, normative elements of the evaluations are less in the foreground than, say, with a numerical rating scale. Thus, it is less likely that the attention of these employees is shifted to the meta-task level, distracting them from the job they are hired to perform. Likewise, the professional development is not to take place within the boundaries of the organizational system. Professional employees are not expected to spend much time on identifying the right task performance strategies after they are hired. Some limited organization-specific development is expected to take place in the first weeks on the job. During that phase, the professional administrator and colleagues may provide informal developmental feedback.

In the same vein, **industrial/clerical workers** are to be given feedback in written form, if possible automatically generated. Given the simplicity of their tasks, the feedback is intended to trigger reactions at the task-motivational level only. Informal developmental feedback may be provided by supervisors and peers during the initial development phase.

The outputs and rankings of the SMWTs of **team workers** are suggested to be publicized internally, making the feedback emphatically normative at the team level and instigating the teams to consider and reconsider the goals and activities they pursue, if necessary. Also at the team level, they receive coaching feedback from their team facilitator with regard to their process management responsibilities. Thus, it is the call of the team facilitator to decide when it is necessary to shift the attention of the team to the task-learning level, triggering them to consider how they go about their managerial tasks and work processes. At the individual level, the team workers receive personal feedback via social control mechanisms, maximizing feedback acceptance while formal comparability is not required in this case. In contrast, the peer evaluations are supposed to have a normative effect, especially in the case of underperformers. An open, team internal feedback discussion, guided by the team facilitator, may add to that effect. The developmental part of the peer evaluation should, in any case, be provided face-to-face, in addition to the written verbal assessments, allowing for critical feedback to be provided in a face-saving manner.

The appraisals of **casual workers** are primarily used for systems evaluation purposes. If they receive any feedback on their performance, it should be provided

[74] Firms such as Coca Cola Foods and PWC have been reported to practice coaching of managers by senior mentors (Seijts and Latham 2005). Cf. Sect. 5.5.

informally and on-the-job. Similarly, **professional/occupational contractors** do not receive any formal feedback in that sense. The results of the output/outcome inspection would be communicated to them typically in written form, providing a basis for the determination of the performance-pay component.

5.5 Accountability and Problem Resolution

So far, the proposed appraisal systems are designed with the organizational interest, that is, functional requirements, in mind. If the story were to end here, the result might be some formal appraisal systems perfectly attuned to the strategic requirements of the organizational functions which may be sidetracked, however, by managers pursuing their own vested interests in conducting appraisals. Hence, this section is concerned with mechanisms to ensure that appraisers implement the appraisal systems in the interest of the organization instead of putting them to some other use.

Longenecker et al. have defined **organizational politics** as "deliberate attempts by individuals to enhance or protect their self-interests when conflicting courses of action are possible."[75] Setting out to investigate the cognitive processes of executive managers in appraising performance, they found that political considerations dominated the ratings of 60 interviewed executive managers to such an extent that they decided to publish a paper on the "why and how" of politics in appraisals rather than on cognitive processes. According to their findings and those of a later study, ratings are frequently, deliberately and systematically inflated with the following intentions:[76]

- To project the image of a caring boss
- To maximize merit pay increases of subordinates
- To protect or encourage subordinates whose performance was suffering because of personal problems
- To encourage subordinates whose performance was improving toward the end of the appraisal period
- To not harm the career chances of the subordinate, especially when the ratings were filed as a permanent record
- To avoid confrontations with subordinates, especially if the relationship is already strained by recent problems
- To avoid damaging effects on the subordinate's motivation and performance
- To promote people "up and out" when they do not fit into the team
- To avoid publicizing issues that are seen as internal to the team where the appraisal is reviewed by or accessible to outsiders
- To project a favorable image of the work unit led by the appraiser so as to reflect well on him or her personally

[75] Longenecker et al. (1987, p. 184).

[76] Longenecker et al. (1987, p. 184), Cleveland and Murphy (1992).

- To procure access to organizational resources and rewards

Sometimes ratings are also *deflated* in the pursuit of objectives other than the strategic appraisal objectives of the organization:[77]

- To shock subordinates performing below their potential and, thus, raise their performance to the expected level
- To demonstrate power, showing rebellious employees "who the boss is"
- To punish difficult or noncompliant subordinates
- To indirectly communicate to appraisees that they are not welcome and should consider leaving
- To minimize merit pay awards
- To comply with organizational restrictions on the number of ratings in the upper rating categories
- To build up evidence for dismissals and protect the organization against litigation

Those are the objectives of individual executive managers, freely admitted to during an interview with academics who did not belong to their organization. Some of these objectives appear valid, also in the sense that they may contribute to organizational effectiveness in some ways. Partly, such objectives are accommodated by the appraisal systems depicted in the previous sections and chapters. For example, if a manager's performance was suffering due to personal problems during a single performance period, this would represent only one among several accumulated indicators of competency in the proposed competency evaluation system. The system would allow for not adapting the competency rating in that case, or for making only a minor adjustment, which can be easily corrected during subsequent performance periods. Another political objective cited by Longenecker et al. was to indirectly communicate to appraisees that they are not welcome and that they should consider leaving by deliberately deflating the ratings. In the preceding section, it is suggested that emphatic normative feedback may be used to induce managers who lack the required competencies to consider reorienting themselves; it is not suggested, though, that ratings should be deflated, especially not if someone is not welcome on grounds other than functionally relevant competencies.

Most of the other above-mentioned political objectives do not serve the interest of the organization, resulting in suboptimal resource allocations, role–competency mismatch, attitudinal reactions to perceptions of procedural injustice, and incentivization of the wrong behaviors – provided the appraisal system is designed to serve the interest of the organization, that is. In some cases, deviation from organizational appraisal objectives may be indicative of problems with the appraisal system design. If, for instance, an over-engineered appraisal system for managers seeks to measure performance where it cannot be measured, appropriation of the appraisal for other purposes may result in higher levels of organizational effectiveness than

[77] Longenecker et al. (1987, p. 184), Cleveland and Murphy (1992).

sticking to a flawed appraisal procedure. Thus, if a group of employees collectively ignores the formal appraisal objectives, as in the case of the executive managers studied by Longenecker and colleagues, their views should not be dismissed summarily. They may provide cues to problems with the design or, alternatively, they may indicate that the appraisal system is not understood well enough by the managers, in which case appraisal training may remedy some of the problems.

If the appraisal objectives are not heeded despite the appraisal process being geared to organizational and functional requirements and despite requisite rater training, the root of the problem may be a lack of accountability for conducting the appraisals and rating in line with stipulated objectives. "**Accountability** [emphasis added] may be defined as accepting and meeting one's personal responsibilities, being and/or feeling obligated to someone else or oneself, or having to justify one's actions to others about whom we care."[78] The expectation of people that they must explain outcomes of their decisions and actions has been shown to have a positive impact on the quality of decision-making processes and decision outcomes.[79] Longenecker et al. have found that politics in appraisals occur less frequently where the appraisers believe that the appraisals are "seriously scrutinized, reviewed, and evaluated by their superiors."[80]

On the other hand, accountability has been shown to foster tactical behavior and impression management activities. In a laboratory experiment, the subjects ceased to exert effort at the point the standards they were accountable for had been accomplished. In other words, the subjects did exactly what they were held accountable for but did not exceed the standards. In the paper publishing the results of the study, this finding is presented as a disadvantage of accountability, implying that, had there not been any explicit accountability requirements, the subjects might have continued to exert effort beyond the standards set in the accountability setting.[81]

Research on accountability for performance appraisal has predominantly been concerned with the **appraisal interview** as an accountability mechanism. The gist of this research is that making the appraisers justify their ratings to the appraisee in a face-to-face feedback session results in the appraiser going about the appraisal more thoroughly; i.e., more time is invested in the appraisal process and the quality of performance-related notes and of appraisal reports improves.[82] At the same time, the expectation of having to justify appraisal ratings has been shown to lead to an increase in leniency.[83]

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[78] London (1997, p. 152).

[79] McAllister et al. (1979), Ford and Weldon (1981), Tetlock (1983a, b; 1985a, b).

[80] Longenecker et al. (1987, p. 186).

[81] Frink and Ferris (1998).

[82] E.g., Ford and Weldon (1981), Rozelle and Baxter (1981), Mero et al. (2003), Walker and Smither (1999), Larson (1984).

[83] Shore and Tashchian (2002), Klimoski and Inks (1990), Fisher (1979), Ilgen and Knowlton (1980).

If they are to be justified in personal feedback sessions, ratings have been demonstrated to be distorted in the direction of the expectations assumed or known to be held by the appraisee. This is referred to as *preemptive self-criticism,* that is, a tendency to anticipate and prepare for the situation in which the ratings must be justified and to preemptively accommodate the appraisee's views.[84] In particular, ratings have been shown to be distorted in the direction of the appraisees' self-assessments where these were available to appraisers prior to their evaluation. Self-assessments provide an *informational anchor* for appraisers where they are not sufficiently familiar with the performance to be rated. More important than this informational aspect of self-assessments is, according to the literature, a motivational aspect; i.e., access to the appraisee's self-assessment by the rater promotes "anticipation of particular reactions of that subordinate to performance feedback."[85]

Proving the obvious perhaps, self-appraisals have been shown to be more biased than other forms of appraisal. Hence, if ratings are distorted in the direction of self-assessments, providing raters access to self-assessments prior to rating may be argued to have a detrimental effect on rating accuracy. The exceptions to this are self-assessments made in the context of appraisals solely used for developmental purposes, which are more accurate than self-assessments made in the context of administrative appraisals. On the basis of this, one may argue that raters should be given access to self-assessments prior to their rating in the context of developmental appraisal purposes only.[86]

This discussion illustrates that using the appraisal interview as an accountability mechanism essentially means that the appraiser is made accountable to the appraisee. The logic of this is that the appraisees may be the ones who are best positioned to judge the quality of the appraisal process and of the ratings on the ground that no one else is more familiar with their own performance than themselves and that, usually, no one else has been involved in the appraisal interview. The problem with this is not only volition, that is, that the appraisees may not have any interest in admitting that a low rating is accurate, but also a lack of perspective, that is, that appraisees have typically not undergone appraisal training and that they are not aware of any strategic demands of the context which may have influenced their rating.

A more effective accountability mechanism would require someone without a personal stake in the appraisal. An obvious solution would be to make the appraisers accountable to their own supervising managers, to whom they are accountable with regard to most other aspects of their performance as well. The problem is that supervising managers are not directly involved in the appraisal process or are too familiar with the performance of the appraisee. Thus, **supervisory ratings** on a competency such as *performance appraising* (or on *appraising* as a component of a competency such as *people leadership*) requires that the supervisor collates pieces of

[84] Tetlock (1983a).

[85] Klimoski and Inks (1990, p. 197), cf. Shore et al. (1988).

[86] Klimoski and Inks (1990).

information on how appraisals are conducted, for example, by overseeing the adherence to formal requirements, upward feedback by appraised staff, employee satisfaction surveys, and cross-sectional analyses of performance ratings.

Care should be taken that the quality of the appraisal process is not judged only on formal aspects such as appraisal completion rates, the quality of written reports, and whether the appraisal interviews have been carried out as and when required. Although formal aspects can be observed easily and may be relevant in relation to a *legal defendability* appraisal goal, they are not necessarily good indicators of rating accuracy or feedback acceptance. Indeed, if raters are aware that it is primarily the formal aspects that are evaluated, they may predominantly focus on those aspects while neglecting others.[87] Thus, if appraising is to be evaluated as a performance factor, it should be evaluated with regard to all applicable appraisal goals, even if the assessment of some aspects of appraisal performance requires the integration of various proxy measures and competency indicating observations by various sources.

Upward feedback processes may yield such proxy measures if items on the conduct and perceptions of the performance appraisal are included in the feedback forms. Upward feedback is usually collated anonymously and the outcomes are presented at an aggregate level for each manager. In addition to formal feedback by appraisees, their informal feedback may also be sought as a valuable source of information, especially where formal upward appraisal ratings indicate that there may be problems. Alternatively, the employees' views on the appraisal may be revealed through targeted employee surveys. Typically, such surveys seek to find out opinions on the appraisal system design rather than about the performance of individual supervisors. Therefore, they may be less suitable as an input to the evaluation of appraisal quality than upward feedback processes.

Further insights may be obtained from **cross-sectional analyses** of appraisal ratings. They involve the calculation of averages and distributions of performance ratings for different strata, such as ethnic groups, age groups, male and female employees, and the appraisees of different managers. Rating averages that deviate from the averages of other managers may potentially indicate problems with the rating behavior of the manager, for example leniency. However, there may be a range of alternative explanations for any differences in rating patterns, which may only be found out about in a personal conversation with the rater. Thus, it is proposed that quantitative analysis should be used as a competency indicator and that it should be firmly embedded in informed, qualitative judgment.

Besides systematic rating inaccuracies such as leniency and central tendency, cross-sectional studies may also help to detect systematic discrimination against particular social groups, such as ethnic minorities, female or male employees, and different age groups. If the analysis shows that a manager rates employees of a particular social group consistently lower than others, this must beg questions – again, without jumping to conclusions solely on the basis of a quantitative analysis.

[87] See below paragraphs on heuristics.

Thus, the supervising managers of appraisers should take into account various pieces of information in assessing their appraisal competency, including the adherence to formal requirements, formal upward feedback from appraisees, observations by various informal sources, targeted questioning of such sources, the appraiser, and appraisees, and cross-sectional analysis. It is important that multiple pieces of information are taken into account in assessing appraisal performance, avoiding various negative consequences associated with the use of heuristics in performance assessment. **Heuristics** are excerpts of performance or performance results which can be observed and evaluated easily and used by raters to draw inferences about performance as a whole. If the appraisees are aware of such shortcuts being used to assess them, they may focus on those aspects of performance that are observed and understood by the observers neglecting other aspects. Thus, while heuristics may initially correlate with comprehensive measures of performance, they may cease to do so once the performers become aware of them. It has further been shown that the use of heuristics may lead to simplistic views of the task, also by the performers themselves. As a consequence, performance may be rated effective by everyone involved although, in fact, it is ineffective with regard to the achievement of organizational goals.[88]

The above discussion on *appraising* as a performance dimension essentially suggests that several heuristics should be used to evaluate this dimension. The more heuristics (or performance indicators) are used, the more complete the picture, the more it resembles actual performance, and the less likely that it can be distorted by appraised appraisers who are aware of heuristics being used. That is, it may be more efficient for the appraisers to simply try to conduct the appraisal such that it is accurate and/or accepted by the appraisee rather than to manipulate a variety of different heuristics that may or may not be used to evaluate appraisal performance by their own supervisors.

The effect of establishing accountability for appraising may further be supported by making available a **problem resolution channel** outside the immediate hierarchical structures surrounding the appraiser and appraisee, such as an ombudsoffice, a mentor, the human resource management function, or employee representatives. Some of the misapplication of the performance appraisal process described at the beginning of this section is facilitated by the fact that the appraisal usually takes place behind closed doors. In the first instance, no one besides the appraiser and the appraisee will know about any inflations or deflations of ratings. Moreover, groups of employees, such as managers or employees in a particular organizational function, may collectively decide to use the appraisal system in ways different from what was intended by its designers. Thus, supervising managers of raters may condone inaccurate ratings themselves. Such structures may result in the incentive and resource allocation problems described above as well as in perceptions of being completely at the mercy of the supervising manager and, hence, perceptions of

[88] Cf. Tetlock (1985c; 1992), Tetlock and Boettger (1989), Tetlock and Kim (1987), Tetlock et al. (1989).

procedural unfairness among ratees. Perceived procedural unfairness has been suggested to have negative motivational effects.[89]

Empirical research has shown that whether appraisees have the opportunity to express their feelings in relation to the appraisal and to their ratings is the most important predictor of perceived fairness of appraisals (as well as of perceived accuracy), more important than the existence of a formal appraisal program, the supervisor's knowledge of the subordinate's performance, the existence of action plans to improve performance weaknesses, and the frequency of evaluations.[90] Problem resolution channels may represent an opportunity for appraisees to express their feelings in relation to the appraisal where the managers in their immediate surroundings are not willing to listen to them because they are accomplices in misusing the appraisal system. The mere existence of such channels may result in improved perceptions of procedural justice, even if they are not called on very frequently. If and when they are called on by employees, they may also represent a channel for the HR department and the generalist management of the organization to find out about any employee groups colluding in a systematic misuse of organizational systems.

"An **ombudsman** [emphasis added] is a neutral member of the corporation who provides confidential and informal assistance to employees in resolving work-related concerns."[91] The ombudsoffice is situated within the organization but outside its formal hierarchies, which provides the basis for neutrality in conflicts between parties within the hierarchical structures. Typically brought into the organization by its executive management, ombudspeople are trusted advisors in

[89] The academic literature distinguishes between distributive and procedural justice. Distributive justice concerns the equitability of a received outcome, i.e., the ratio of someone's own outcomes (e.g., performance ratings or pay) to inputs (e.g., performance levels) compared to the ratio of other people. Procedural justice, by contrast, is concerned with the fairness of the processes that led to a particular outcome. According to a two-component model of justice (Cropanzano and Folger 1996), distributive injustice energizes behavior, i.e., motivates people to do something about it. The direction of this behavior is determined by the perceived degree of procedural justice. If procedures are perceived to be fair, employees will respond with constructive behavior, expecting that this behavior will lead to the desired outcomes in future. If, however, procedures are perceived to be unfair, employees are more likely to retaliate through destructive behavior, expecting that constructive responses are unlikely to lead to the desired outcomes anyway.
The conclusion that increased appraisal fairness results in positive motivational effects among appraisees can also be arrived at using expectancy theory (Vroom 1964). This theory suggests that motivation is dependent on the attractiveness of anticipated consequences of performance for the individual ("valence"), the perceived probability that effort will lead to performance on a task or job ("expectancy"), and the individual's confidence that a particular level of performance will lead to a particular level of outcomes ("instrumentality"). Thus, increased fairness of the performance appraisal can be seen to have a positive impact on instrumentality, thus, increasing the motivation of the appraisees.
Schleicher and Day (1998) provide empirical evidence for a positive impact on employee attitudes of appraisal procedures that are perceived to be fair.

[90] Landy et al. (1978).

[91] Kandel and Frumer (1994, p. 587).

conflicts between managers and their subordinates, provide a channel for reporting unethical behavior, harassment, and discrimination, and assist those affected by such behavior. They may assume "all the functions of any complaint-handler except that of formal decision maker, investigator or arbitrator."[92] The actions ombudspeople may take range from informal advice and mediation between the conflicting parties to upward feedback provision and reporting of severe cases to senior managers.[93] Usually, ombudspeople are contacted on less severe issues, though.

> Because the existence of an ombuds office legitimates the idea that it is acceptable to raise questions (even small questions) and because there is almost no cost to contacting an ombudsman, people with questions and problems often come in early, when most disputes are more easily resolved.[94]
>
> [. . .] many managers and employees who seek out an ombudsperson come in just to blow off steam, or find out a fact or two, or to learn how to help themselves.[95]
>
> In other words, the corporate ombudsman acts as a safety release valve to let off some of the steam in the organization.[96]

In the context of performance appraisal, ombudspeople may clarify the meanings of ratings, appraisal dimensions, and consequences, ruling out that misunderstandings turn into a cause of dissatisfaction. And they may encourage constructive ways of dealing with critical feedback. During the process, the appraisees may be given opportunities to express their feelings and vent some of their frustration. The ability to do so has been shown to be the primary antecedent of the perceived procedural fairness of appraisals.[97] Beyond that, the ombudsofficer may, in the first instance, help appraisees to sort out their problems themselves, for example by suggesting ways of approaching the appraisers for additional feedback or of asking them to clarify seeming contradictions in their feedback. As a last resort, the appraisees may be supported in taking official action.

Thus, in the majority of cases, an ombudsoffice constitutes an early problem resolution mechanism, resolving issues that may be considered too minor for taking official action but which may also gradually accumulate to hinder the functioning of the appraisal process. It may also have the effect of strengthening the position of the appraisee in any conflicts with the appraiser, which may potentially add to leniency effects. An alternative behavioral model could state that the ombudspeople's commitment to confidentiality serves to protect the appraiser. Their taking away

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[92] Rowe (1991, p. 356).

[93] A broader definition is adopted by Rowe (1991) who describes "an internal ombudsman as a neutral or impartial manager within an organization, who may provide informal and confidential assistance to managers and employees in resolving work-related concerns; who may serve as a counselor, informal go-between and facilitator, formal mediator, informal fact-finder, upward-feedback mechanism, consultant, problem prevention device and change agent; and whose office is located outside ordinary line management structures" (p. 353).

[94] Rowe (1991, p. 359).

[95] Rowe (1991, p. 356).

[96] Kandel and Frumer (1994, p. 587).

[97] Landy et al. (1978), cf. above.

some of the appraisees' frustration in response to critical feedback might then reduce the incidence of conflict, making it perhaps even easier for appraisers to communicate critical feedback and reducing the need to adjust ratings upwards. Thus, theoretically, it seems that the availability of an ombudsoffice as resolution mechanism for appraisal-related problems and conflicts does not necessarily have to result in greater rating leniency.

The effectiveness of the ombudsoffice and its effects on the appraisal process may further depend on the extent to which it is perceived to be neutral and confidential by both parties – appraisers and appraisees. The neutrality of ombudspeople may be signaled by credentials from professional associations, by them being contracted rather than employed, and by the track record of the particular ombudsofficers who are hired.[98]

An alternative channel for resolving appraisal-related problems can be a mentor. A **mentor** provides support to a junior protégé undergoing a personal, professional, or career development process, which the mentor has previously gone through.[99] Mentoring relationships may develop informally or aided by formal, organizational mentoring programs, which may match mentors and protégés and provide process guidelines and training. Mentors may provide advice to protégés, establish contacts with relevant individuals within the organization, take them to conferences and client meetings, and generally offer them the opportunity to learn about organizational values and processes – socializing "young talent quickly to the ways and means of the organization."[100] Thus, mentoring may contribute to the absorption of the architectural knowledge of the organization by managerial talent and the development of their personal networks, which has further been argued to have a positive impact on the tenure of employees with their organization.[101]

Mentoring relationships have been shown to be more effective if they developed informally rather than through a formal organizational program. To some extent, the processes associated with informal mentoring may be imitated if the formal

[98] Professional associations include the International Ombudsman Association (www.ombuds-toa.org) and the Ombudsman Association (http://web.mit.edu/negotiation/toa). Usually, Ombudspeople are employed as regular employees, but they may also be hired as contractors to emphasize their independence from formal and informal organizational structures (Kandel and Frumer 1994, p. 591). Also cf. Fernie and Metcalf (2004).

[99] Elsewhere the mentor is defined as an influential individual, with advanced experience and knowledge, who is committed to providing upward support and mobility to his/her protégé's career (Levinson et al. 1978). Kram (1995) assigns two broad functions to mentoring – career development and psychological support. The former involves vocational support, including coaching, advising, exposing the protégé to key players in the organization, providing technical support and advice on specific skill development, minimizing protégé involvement in situations that may be political or controversial, and nominating the protégé for promotion. As part of the psychological support function, the mentor serves as a confidant, enhances the protégé's sense of competence, self-efficacy, and professional and personal development, and serves as a role model providing inspiration to the protégé (Scandura and Hamilton 2002).

[100] Clawson and Newburg (2002, p. 311).

[101] Clawson and Newburg (2002, p. 311).

programs support the self-selection of mentors and their protégés during a number of mentoring introduction events. Training and preparing mentors has also been argued to enhance the effectiveness of formal mentoring schemes, as has the systematic preparation of the protégés. The latter could, for instance, involve providing information about the program's objectives and instructions on "how to keep touch in appropriately assertive ways."[102]

Once the mentoring relationship has been established, mentors and protégés should have regular meetings to review the development process of the protégé. In addition to formally required meetings, they should be encouraged to stay in touch informally, resolving any issues as and when required. Regular and informal exchanges may then also be used to discuss appraisal-related problems. The role of mentors in such discussions resembles that of the ombudspeople, as they may represent a valve for releasing steam, provide clarification on the appraisal system, and aid the protégés in helping themselves. The difference between mentors and ombudspeople is that they are more involved in the organizational systems and networks, usually being part of the same career track as the protégé. Thus, trust of the protégé toward the mentor stems less from the neutrality and confidentiality of the mentoring function than from the personal bonds that may develop through repeated interactions between them over time. Mentoring, then, is a problem resolution channel which is associated with long-term employment relationships. It requires regular meetings between the mentor and protégé, whereas ombudspeople may be contacted only at the time a problem arises. On that basis, mentoring must also be expected to be a more time-intensive and costly problem resolution channel than an ombuds office.

The **HR function** represents a more traditional channel for the resolution of appraisal-related problems. Employees in the HR function are familiar with the appraisal systems and, hence, well positioned to clarify how the system works and resolve any misunderstandings in that respect. That is, the HR professionals, who are responsible for the administration of the performance appraisal, possess the professional competencies regardless of their function as problem resolution channel. Hence, they may be a less costly problem resolution channel than ombudsoffices and mentors, who may have to be trained with regard to the organization's appraisal processes, introduced to employees unfamiliar with the concept of an ombudsoffice or a mentor, and hired and remunerated specifically for the problem resolution function. The relative cost advantage of the HR function over ombudspeople as a problem resolution mechanism will decline with the number of problems that arise, and the capacity utilization of a dedicated ombudsfunction increases. The disadvantage of the HR department is that it neither possesses the confidentiality of the ombuds office nor develops the personal bonds with employees in other functions as mentors and their protégés do. In industrial contexts, the HR department is normally seen as a representative of the employer side and close to the supervising line managers.

[102] Clawson and Newburg (2002, p. 314) also cf. Scandura and Hamilton (2002).

Workers have traditionally been resorting to collective **worker representatives**, such as works councils and shop stewards in the case of any employment-related problems. Their effectiveness as an appraisal-related problem solution channel hinges on the powers of such extra- and intraorganizational institutions, stemming either directly from laws (as in Germany) or from collective organization enabled by laws (as in the case of the US and the UK). They are not appointed with the organizational interest in mind, as the previous alternatives, but with that of the worker collective. They do then not act as neutral and independent advisors but as employee advocates, helping the employees to maximize their outcomes in the wage-effort bargain. This more conflict-oriented role meets an important purpose in protecting employees where other resolution mechanisms are not in place or where they fail to function as the neutral institutions they were intended to be. However, employee representatives are unlikely to act as a catalyst to the effective functioning of performance appraisal systems by providing clarification on the meaning of performance dimensions and evaluations, clearing up misunderstandings, and minimizing dissatisfaction with the performance appraisal or the appraiser.

Consequently, four types of appraisal-related problem resolution channels can be differentiated. Ombudsoffices and mentors may be described as light problem resolution channels in that they primarily serve to solve issues without escalating them. Both of these channels may be perceived as less threatening by appraisers than the HR function or employee representatives: Ombudsoffices define themselves through their confidentiality, while mentors tend to be part of the same network as the appraisers. In contrast to that, employee representative bodies have no concern with the interests of the appraising managers and may even press for legal action against them and the organization. Depending on its particular role in an organization, the HR function may also be seen to be positioned outside the network of the appraising managers. In some organizations, appraisers may even be formally accountable to HR with regard to the performance appraisal. Hence, addressing the HR function about appraisal issues may be perceived as more of an official complaint by the appraisers than addressing a mentor or an ombudsoffice.

The appraisal system developed for **generalist managers** throughout this book provides the flexibility that seems to be required by the managerial system to operate effectively within a dynamic context (as indicated by studies such as those of Longenecker and colleagues and by the arguments presented in the previous sections and chapters). Thus, the system is designed to not hinder the functioning of the managerial system but to contribute to its effectiveness; managers should then take the proposed appraisal objectives seriously and they should also be held accountable for their accomplishment. It is proposed that appraising should be integrated as a factor in their competency framework, either as a dimension in its own right or, explicitly, as part of a summary category such as people leadership. The face-to-face appraisal interviews and upwards feedback systems represent additional accountability mechanisms. Adverse effects on leniency are less critical with the proposed appraisal system design, as (a) there are by default only a limited number of managers who can be rated at promotion level, (b) the

emphasis is on feedback acceptance as appraisal objective, and (c) the final promotion decision is based on an impartial assessment center rating. The rating of a manager's appraisal competency should be based on as many sources of information as possible. Besides upwards feedback, this would also include the monitoring of their ratings. If managers did rate too many of their subordinates in the promotion category, it should attract the attention of the supervising managers and be accordingly addressed in the rating manager's own performance appraisal. Any problems related to the regular appraisal should be resolved internally, facilitated by the mentor if need be. Any problems related to assessment center ratings must be addressed with the HR professionals who run the assessment center, possibly also facilitated by the mentor.

Given that **professional/occupational contractors** tend to be concerned with the organizational system only to the extent that it either serves their professional interest or the accomplishment of rewarded goals, the conduct of the appraisal should represent an appraisal factor itself, starting with the dedicated generalist manager who oversees the professional function. For the professional administrator and rank and file, goals related to the conduct of appraisals should not be overemphasized next to the professional output goals. They may be seen as a hygiene or threshold factor rather than a differentiating factor of performance and be defined in terms of minimum process standards. Having established such standards to guide appraisal processes and having set the right professional output goals at the functional level, the professionals themselves ought to have an interest in rating accurately: The accomplishment of performance standards at the subordinate levels directly impacts on the ability of superordinate levels to achieve their target specifications. To the extent that failure to accomplish specifications at subordinate levels are leniently tolerated by rating professionals at the superordinate level, they are likely not relevant to the functional output to be delivered at superordinate levels to obtain valued rewards. Any problems related to the goal setting procedure may most cost efficiently be resolved by those in the HR function who are responsible for the goal setting procedure.

The appraisal of **industrial/clerical workers** is carried out by first-line supervisors, who are members of the generalist management of the organization, or it is generated automatically, in which case there will also be some member of the management who is held responsible for the automatic evaluation and feedback processes. As with all managers, appraising should be evaluated as part of their competency framework. The managers who appraise the first-line supervisors may find out about how the appraisals are conducted through cross-sectional analyses of the ratings of the workers, the amounts expended on piece-rate awards, and any problems escalated by the workers. The workers' primary channel for escalating problems will be employee representatives, such as works councils or shop stewards. In the absence of employee representation, the chances are that, nowadays, industrial/clerical functions are performed through a core–periphery system. Otherwise, the HR department may represent a primary contact for addressing appraisal issues.

The appraisers of **team workers** should also be held accountable for appraising through the establishment of a respective performance dimension. At the team level, the

appraisers would be members of the generalist management again. At the individual level, the team workers should, in the first instance, provide feedback through their informal social control mechanisms if one of them does not take appraising seriously enough. There should also be a respective performance dimension for formal feedback in the peer evaluation system in case the informal control mechanisms fail. Any problems in the appraisal process should be solved internally as far as possible, supported by the team facilitator if necessary. Beyond that, this employment mode may warrant an investment in an ombuds office as impartial facilitator for cases which cannot be resolved internally, substituting collective employee representation and pre-empting the reestablishment of collective organization where conflicts escalate.

The managers responsible for **casual workers** will be generally held accountable for their effective management, which should include the conduct of cross-sectional analyses for systems evaluation purposes as outlined in Chap. 4. In this case, quantitatively analyzing performance is very much at the center of the management process, although the conduct of performance appraisals in the narrow sense of the word may not have to be evaluated. Given a cost minimization objective and short tenures, one would likely not establish problem resolution mechanisms specifically for this employee category. Since it is proposed that performance ratings or measures are not officially fed back to casual workers, there is a limited requirement for solving appraisal issues anyway, possibly with the exception of the selection of nominees for regular worker selection processes. It may then be in that context that institutions such as works councils or shop stewards are also available to these workers either as a result of bargaining with powerful collective labor organizations or due to legal requirements.

Accountabilities for output and outcome evaluations of **professional/occupational contractors** must be specified in the service contract. Any issues related to that must be resolved through negotiation, potentially by third-party mediation, or otherwise in court.

5.6 Appraisal Training

Certain types of appraisal training have been shown to have a large positive impact on rating accuracy.[103] At the same time, it is suggested in the literature that there are several shortcomings in the way appraisal trainings are conducted in practice. Firstly, appraisal trainings have been said to be mostly conducted when a new appraisal system is introduced; only few organizations appear to conduct them on a regular basis.[104] Secondly, it has been suggested that too much emphasis tends to be

[103] Woehr and Huffcutt (1994), see below.

[104] Bretz et al. (1992), Fletcher (1997), Drewes and Runde (2002). It has been shown that the positive effects of appraisal trainings begin to wear off significantly 6 months after the training, suggesting that they should be conducted on a more regular basis (Ivancevich 1979; Bernardin 1978).

placed on the procedure and on the paperwork associated with the appraisal, "as if they were the main purpose of the exercise."[105] Thirdly, trainings also appear to focus too much on avoiding rater errors and on increasing accuracy, while neglecting other appraisal objectives.[106]

In the following paragraphs, different types of appraisal training are introduced and linked to the different appraisal objectives, as described in Sect. 5.1. It will be elaborated how they may impact on various organizationally relevant outcomes and how they may be used to increase the effectiveness of the six archetypal employment systems. By illustrating a goal-oriented and evidence-based application of appraisal trainings, a case is made out for the adoption of what appear to be valid, performance-enhancing instruments.

There is a considerable body of literature providing evidence for the effectiveness of appraisal training in improving rating accuracy. At the end of the 1980s, it was claimed that this research strand has matured past the question of whether appraisal training works and that it should move on to examine how and why it works and for what purposes.[107] In 1994, a much-cited literature review and meta-analysis of 29 studies on appraisal training by Woehr and Huffcutt finally nailed the coffin of the appraisal training effectiveness debate, providing strong evidence for the effectiveness of different types of appraisal training in improving rating accuracy.

The training method that was overall found to be most effective in improving rating accuracy was the so-called **frame-of-reference (FOR)-training**.[108] It impacts on rating accuracy by aligning the personal performance theories of individual appraisers with the performance theory embraced by the organization and by shifting the cognitive responses to observed instances of performance from concrete to abstract.[109] At the beginning of the training, the trainees are given an introduction to the organizational performance theory and its performance dimensions. They are told about the rating scales, about what kind of behaviors relate to which rating scales and categories, and about how the aggregate rating is derived (if any). The introductory lecture is followed by a practical exercise. The trainees are shown various video-taped examples of behaviors, which they must relate to the appropriate performance dimensions and rating categories. The ratings are conducted by the trainees individually. Subsequently, the ratings are discussed in the group and an expert rating is revealed by the trainer as a suggested solution.[110]

Thus, through the lecture, the practical exercise, and the group discussion, a common frame of reference for evaluating performance is established. As a result, FOR-trained appraisers more consistently relate behaviors to performance

[105] Fletcher (1997, p. 83).

[106] Cf. Ilgen (1993), Landy and Farr (1980), Longenecker et al. (1987).

[107] Campbell (1989).

[108] The term was first used in a publication by Bernardin and Buckley in 1981. Cf. Sulsky and Day (1992; 1994); also Woehr and Huffcutt (1994).

[109] Cf. Chap. 4 on personal construct theory and Sect. 5.3 on associated systems theory.

[110] Pulakos (1984; 1986), Noonan and Sulsky (2001), Fletcher (1997).

dimensions and categories; rating accuracy increases. Additionally, a shift takes place away from representations of concrete behavioral observations toward more abstract categories, as FOR-trained raters are taught to form correct judgments "online" at the point of behavior observation. What is stored in the memory of the rater is the performance category associated with the observed behavior rather than the instance of behavior itself. Hence, FOR-training reduces the raters' ability to remember concrete examples of behavior at the time of the appraisal.[111] Furthermore, FOR-training has been said to be more time-consuming and costly than other training strategies.[112]

Behavioral observation training (*BOT*) aims to improve the recognition and recall of concrete behaviors. It is based on the assumption that better observation and recall of concrete behaviors result in increased accuracy, especially "as raters must often observe performance in noisy environments where they must deal with competing tasks and demands beyond performance assessment."[113] The training procedure has been suggested to include an introductory lecture and two exercises. According to that, the lecture would cover an explanation of the performance dimensions with samples of behavioral incidents, systematic errors of observation and perception, and tips for using diaries and taking notes. The systematic observational errors would include loss of detail through simplification, first impression effect, middle message loss, overdependence on a single source, contamination from prior information, contextual errors,[114] categorization error,[115] prejudice and stereotyping, halo effect, similar-to-me effect, and contrast effect.[116]

It has been argued that prejudice and stereotyping, halo, similar-to-me, and contrast effects can be the result of inadequate observation or recall of behavior. That is, if raters are not able to recall a sufficient amount of information for accurate ratings across all dimensions, they may assume that performance was as good across all dimensions as the instance of outstanding behavior they recall (halo effect); or they may make assumptions on the basis of character traits, educational background, etc. (prejudice and stereotyping, similar-to-me and contrast effects). Leniency may, in some cases, also be a consequence of raters not remembering sufficient detail of their ratees' behavior while assuming that an unjustified lenient rating is less problematic than an unjustified stringent rating. Hence, improved abilities of observation and recall are argued to increase the amount of information available to the rater and reduce the frequency of the said rating errors.[117]

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[111] Schleicher and Day (1998), Sulsky and Day (1992).

[112] Noonan and Sulsky (2001).

[113] Noonan and Sulsky (2001, p. 6).

[114] That is, letting the situation or setting influence observations.

[115] That is, forcing observations into categories instead of remembering the differences between ideas, behavior, and people.

[116] Campbell (1958), Latham et al. (1975), Thornton and Zorich (1980), Hedge and Kavanagh (1988).

[117] Thornton and Zorich (1980).

The first exercise following the BOT lecture involves the trainees memorizing behavioral incidents linked to the different performance dimensions from prepared lists and having to recall which dimensions the memorized incidents should be associated with. During the second exercise, video-taped vignettes show scenarios with relevant behaviors. Subsequently, the trainees must recall the frequencies of different types of behavior shown in the vignettes.[118]

Whereas the review by Woehr and Huffcutt singled out FOR-training as the most effective training strategy for improving rating accuracy, BOT also turned out to be effective in improving rating accuracy and, especially, observational accuracy.[119] The authors point out: "Given that a primary purpose of much appraisal is to provide specific feedback for training and development, observational accuracy is likely to be at least as important a criterion as evaluative rating accuracy."[120] Their evaluation of BOT was based on four data points only, though; it represented the least frequently studied training strategy among the four strategies that were reviewed. In the aftermath of Woehr and Huffcutt's paper, research concentrated even more on FOR-training – despite the fact that the little evidence that was available to date did indicate the effectiveness of behavioral observation training.

One study revealed that additional training of FOR-trained raters in behavioral observation did not result in incremental accuracy.[121] In another study, it was found that certain combinations of rating scale and training strategy resulted in more accurate ratings than other combinations. Specifically, FOR-training was most effective in improving rating accuracy on BARS. Behavioral observation training, in contrast, was the only training strategy that had a positive impact on rating accuracy on BOS.[122] Both of these studies indicate that FOR-trained raters produce accurate ratings because they correctly evaluate and categorize ratees *while* observing their behaviors. At the time of the appraisal, they recall the categories linked to the behaviors but not concrete instances of behavior. Those trained in behavioral observation remember concrete instances of behavior; the rating takes place at the time the performance appraisal is conducted. The two types of training appear to trigger different modes of cognitive processing, either the abstract or the concrete mode.

The third training strategy in Woehr and Huffcutt's meta-analysis, **rating error training**, yielded *on average* only moderate increases in accuracy. Similar to the previous strategies, the training typically includes a lecture, video-recorded vignettes, and a subsequent group discussion. Woehr and Huffcutt argue that the limited effect on rating accuracy is due to a wrong conceptualization of rating errors during trainings. That is, rating errors such as halo and leniency are often defined on the

[118] Pulakos (1986), Hedge and Kavanagh (1988), Bernardin and Walter (1977), Thornton and Zorich (1980), Latham et al. (1975).

[119] Observational accuracy refers to a rater's ability to recall specific behavioral events.

[120] Woehr and Huffcutt (1994, p. 200).

[121] Noonan and Sulsky (2001), also Smith (1986).

[122] Pulakos (1986).

basis of rating distributions, resulting in raters using distributions as a heuristic in making performance ratings. As a result of rating error training, the distribution-based measure of rating error improves while rating accuracy declines. Earlier studies argued that rating distributions indicating halo may not represent rating error but that outstanding performers and underperformers do tend to display a tendency to excel and underperform, respectively, across different dimensions.[123] Consequently, Woehr and Huffcutt differentiate between rater error trainings that define rating error on the basis of rating distributions and trainings based on valid conceptualizations of rating error. The former are associated with a small decrease in rating accuracy, the latter with a considerable increase. Finally, Woehr and Huffcutt also demonstrate that combining rating error training with FOR-training results in moderate accuracy increments. Nevertheless, the interest in rating error training vanished in the wake of Woehr and Huffcutt's influential review. Henceforth, research attention has focused almost exclusively on FOR-training, the benefits of which seem attainable regardless of any contingent factors, an understanding of the intricacies of performance appraisal, and the specific contents of the training.[124]

The fourth training strategy reviewed by Woehr and Huffcutt is performance dimension training. It represents a predecessor of FOR-training, covering only the relationship between certain behaviors and performance dimensions, but not performance standards and rating categories. This type of training has a moderate positive impact on rating accuracy.

While the reviewed studies have tested the impact of appraisal training on accuracy as appraisal objective only, it is conceivable that some of the training strategies may also impact on the appraisees' acceptance of ratings and feedback. The finding that BOT results in an improved ability to recall concrete behavioral instances during the appraisal, for example, may be associated with feedback acceptance. That is, feeding back concrete behavioral examples has been argued to be conducive to gaining the appraisees' acceptance of criticism.[125] Elsewhere, "judgments based on evidence" have been found to be among three factors influencing perceptions of the due process of the appraisal.[126]

Beyond the reviewed training strategies, the feedback acceptance objective may be served by enhancing systematically the appraisers' **feedback competencies**.[127] The perceived quality of feedback has been argued to depend on the appraisers' communication and coaching skills, their comfort with having to justify

[123] Bernardin and Pence (1980), Bernardin and Buckley (1981), Latham (1986).

[124] Levy and Williams (2004).

[125] Noonan and Sulsky (2001).

[126] Schleicher and Day (1998) find that *due process* appraisal systems are characterized by adequate notice, fair hearing, and judgments based on evidence.

[127] Cf. Fletcher (1997), Drewes and Runde (2002).

a rating face-to-face or in writing, and the organizational policies on performance feedback.[128] Enhancing the appraisers' feedback competencies may also have a positive impact on rating accuracy, as raters who do not know how to present critical feedback may seek to avoid difficult situations by rating leniently.[129]

Akin to the above training strategies, feedback training may encompass a lecture and some practical exercises, rehearsing different scenarios, such as providing emphatic normative feedback, dealing with nonconstructive response, and handling different interaction styles.[130] Where applicable, feedback training may also address and rehearse the provision of written feedback. Using the right linguistic cues to create a normal conversational style in providing written feedback is a skill that has to be developed independently from face-to-face communication.[131]

Not commonly a part of appraisal trainings is the issue of "which rewards to apply and when."[132] Rewarding staff for the achievement of past goals and for high performance ratings incentivizes staff to act on the appraisal and any goals set for the coming performance period. Hence, it has been suggested that rewards perhaps should be a common element of appraisal training.[133] This could mean that appraisers are made aware of any financial consequences of the appraisal and potential ramifications of different ratings and feedback interventions with regard to the attitudes and behaviors of the appraisees. Trainings could also cover nonfinancial rewards and how they may be used for different effects.

Some training time may also be devoted to **politics in appraising and accountability**. The study by Longenecker et al. demonstrates that political considerations may be prevalent in certain organizations and functions.[134] In some cases, the political actors pursue their own advantage and are aware that they may be acting against the interest of the organization. In some other cases, political considerations may be benevolent as appraisers may believe that they are being fair by rating politically or that they enable the sustained success of their organization. It is the latter type of political behavior which may be subject to influence by appraisal training. In the training, it could, for instance, be explained where appraisal systems do allow for benevolent adjustments and where they do not. Consequences of nonpermissible adjustments for the organization, ratee, and other ratees could be elaborated. Furthermore, the accountability system could be explained, indicating

[128] London (1997).

[129] Fletcher (1997), Drewes and Runde (2002).

[130] A review of 24 studies of appraisal trainings (Smith 1986) found that presenting training material on the basis of a lecture alone was mostly ineffective in improving rating accuracy. Despite this, lectures were found to be the most commonly used training method, on the grounds that they are the least time consuming. Methods that include one or more practical exercises followed by feedback from the trainer were found to be mostly effective in improving rating accuracy. Group discussions in combination with practical exercises further enhanced accuracy.

[131] Cf. Hebert and Vorauer (2003).

[132] Fletcher (1997, p. 46).

[133] Fletcher (1997, p. 46).

[134] Longenecker et al. (1987), cf. Sect. 5.5.

any consequences for the appraisers of not conducting appraisals in line with the organizational requirements. Hence, appraisal training may not only equip appraisers with requisite skills and abilities to conduct the appraisal but also with the motivation to do so in line with the organizational appraisal objectives.

If appraisers are to use a flexible goal setting procedure, the appraisal training may also provide information on **goal setting**. In contrast to observing and rating performance, goal setting is the process of defining or specifying performance dimensions, choosing measures for evaluation, and setting performance standards. The training agenda could practically represent a synopsis of the contents covered in Sect. 4.2, discussing, for instance, the importance of content validity and comprehensiveness of the set of goals, reliability of performance measures, the positive effects of specificity and difficulty of performance standards, the effects of proximal and distal goals, performance and learning goals, output and process goals, and the participation of appraisers in goal setting depending on their professional and personal maturity.

In practice, the acronym SMART is frequently taught to appraisers, which is intended to remind them that goals ought to be specific, measurable, attainable, results-oriented, and time-bound. The prevalence of this rule may partly be due to its implementability; i.e., it can be taught to virtually anyone within less than ten minutes. The use of this rule may result in the neglect of important aspects of goal setting, the most important one being the content validity of the set of goals. Not only does the acronym not cover content validity, it also may be understood such that goals should be set only if objective measures are available and not for potentially important performance dimensions which cannot be related to objective measures. It is proposed that this rule should not be taught as part of the appraisal training, or that it should be discussed critically, preventing its unreflected use by appraisers. If no more than ten minutes can be devoted to the flexible goal setting process during the appraisal training, it would be better not to mention about goal setting at all instead of propagating SMART.[135]

Anti-discrimination training may be offered not only if legal defendability is a primary goal but also to enhance rating accuracy or rating/feedback acceptance. Evidence shows that success of females who are appraised by males is more often attributed to luck or an easy task compared to males appraising males, females appraising females, or females appraising males.[136] Besides such instances of direct

[135] Generally, it has been suggested that training sessions should last for at least 3 h to be effective (Smith 1986; Noonan and Sulsky 2001; Fay and Latham 1982). Rating and feedback giving behaviors are well-ingrained habits, which are difficult to eliminate. Only repeated rehearsals of the new behavioral scripts ensure that they are also adopted during the actual appraisal process. Depending on the amount of content to be covered during the training, the duration of the training can also be longer. Some of the training sessions reviewed lasted up to 14 h (Smith 1986). Busy managers at the top- and mid-levels of the organizational hierarchy may have difficulties to find an uninterrupted time slot for a training course lasting for several hours. It has been suggested to break down the training for them into a couple of separate sessions (Fletcher 1997).

[136] Fletcher (1997, p. 98).

discrimination, discrimination may also occur indirectly through performance criteria that put males at an advantage. When it comes to criteria that involve flexibility of working hours or willingness to work long hours, for example, females may be at a disadvantage because they are still more frequently responsible for managing their family than males.[137] Besides gender, discrimination may be based on a variety of non-job-related characteristics of employees, such as ethnicity, religion, age, nationality, and sexual orientation. Anti-discrimination training aims to sensitize people about potential for discrimination and to inform about any sanctions for discriminatory ratings and discriminatory behavior in general.

Everything said in this section so far relates to the training of appraisers. **Training of appraisees** is not often found in practice,[138] however, it can have a positive impact on the functioning of the appraisal. For example, assertiveness training for appraisees in combination with the opportunity to self-appraise has been shown to result in greater trust in the appraiser and more positive attitudes toward the appraisal.[139] In addition to developing assertiveness, training of appraisees can include information on how to prepare for the appraisal, how to go about self-assessments, how to combat anxiety using imaging and relaxation techniques, how to respond to criticism, and how to derive and implement requisite actions from the appraisal.[140]

Formal requirements of the appraisal process should be addressed at the very end of the training. How to fill in forms and the frequency and timing of the appraisal are issues that tend to be less problematic than rating accuracy and some of the other issues discussed above. Yet, formalities are often at the heart of the appraisal training.[141] Placing formalities at the end of the training ensures that the focus of the training and the projected importance is on those issues that are actually critical for the functioning of the performance appraisal system.

In Sect. 5.3, it was suggested that the appraisal system of **generalist managers** is suited by the abstract mode of responding to impressions of performance-relevant behaviors. Only during the trainee program, one might possibly argue that concrete cognitive processing by the appraising supervisors is conducive to the trainees' acceptance of feedback, which, at that stage, serves solely a developmental purpose. Since the managers who supervise trainees supervise fully trained managers at the same time, one must decide whether to subject them either to FOR or to BOT (the former focusing the appraisers' minds on abstract, the latter on concrete cognitive processing). Because the abstract cognitive processes suit the process of gradually forming accurate competency judgments on the basis of various observed competency indicators, also during the trainee program, it is proposed that managers are generally subjected to FOR-training. This could be conducted during the

[137] Fletcher (1997, p. 98).

[138] Bretz et al. (1992).

[139] Korsgaard and Roberson (1995).

[140] Fletcher (1997).

[141] Fletcher (1997).

"milestone" training courses proposed to be held for managers who have been newly promoted.

The promoted managers will already be familiar with the competencies on the basis of which they must evaluate their new subordinates, because they provided the framework for their own assessments prior to their promotion. However, upon promotion, their perspective changes to that of the appraiser, requiring the development of new cognitive scripts that enable them to form the correct judgments during the process of observing various competency indicating behaviors.

Additionally, managers may have to be trained in goal setting, enabling them to set requisite distal and proximal learning goals for their subordinates, trainees, and mentees. Supporting the feedback acceptance objective associated with the managerial appraisal system, it is further proposed that their feedback abilities should also be trained, at least during the first milestone training course following the traineeship. Against the backdrop of evidence showing that the effect of appraisal training begins to wear off significantly 6 months after the training,[142] one may even argue that no harm would be done if the behavioral scripts related to feedback provision were to be rehearsed and fine-tuned on a recurring basis. Provided a manager reaches the next promotion stage, he or she will participate in a milestone training every few years at the most. Given the evidence of declining appraisal training effects, managers might potentially also be required to complete a computer-based training course online prior to the annual appraisal, recapitulating the most important points of all aspects of their appraisal training. If that is feasible at all, the courses should be kept brief to avoid appraisal fatigue among the managers.

The generalist manager who is dedicated to overseeing a given function of **professional/occupational employees** should, as a trained manager, possess the competencies required for setting goals at the functional level. Owing to the complexity of specialized professional tasks, goals at the levels below must be set by the professional administrator and, if there are more than two levels below, by other professional employees themselves. Hence, the organizational goal setting processes must be introduced to these professional employees. A goal setting training may be complemented by feedback training, rehearsing the provision of feedback in the required written form, discussing the effects of various feedback cues, including the effects of emphatic normative feedback (which are not desired in this case), and covering various appraisal-related problems that may occur. Depending on the nature of the professional tasks, the professional employees may, in some cases, also be subjected to behavioral observation training, fostering the use of concrete cognitive processes for observing professionally relevant behaviors where outputs are not directly observable by the supervising professional.

Those managers who are to supervise **industrial/clerical workers** may have to be primed to use concrete cognitive processing by undergoing BOT – depending on the task. That is, with certain industrial processes, the workers' performance measurement may be generated automatically by the system or the supervisory

[142] Ivancevic (1979), Bernardin (1978).

evaluation may be very straightforward and, therefore, does not require observation training. In other jobs, such as those of call center operators, the appraisers may have to be enabled to recognize relevant behavioral categories when they observe (or hear) them, store them in memory for a certain period of time, and recall frequencies of different types of behavior to evaluate whether quality standards are met. Such processes may be supported by behavioral observation training. Serving a primary appraisal objective of legal defendability, appraiser trainings may also cover risks of discrimination and respective legal requirements as well as appraisal formalities relating, for instance, to record keeping.

The various evaluations to be conducted by **team workers** also require the storing of and feedback on concrete behavioral observations rather than the formation of abstract categories of judgment across several performance dimensions. BOT would be conducive to the development of requisite cognitive processes. Feedback training may be specifically tailored to the mutual feedback processes within SMWTs, explaining and rehearsing how the teams' social structures can provide an early, nonintrusive control mechanism. The use of the peer evaluations as a formal sanctioning mechanism where social control fails may be explained. Providing for the legal defendability of the evaluations and for a general awareness in a social structure which may be prone to dynamic social processes such as group think, antidiscrimination training may also be warranted. The managers who monitor the outputs at the SMWT level do not require appraisal training contents other than the ones proposed for all generalist managers above. The team facilitators may have to be exposed to some additional feedback or coaching training.

Those managers responsible for overseeing the sourcing and work of **casual labor** may receive additional training in methods of quantitative analysis, enabling them to draw the right conclusions from the statistical analyses that are proposed to be conducted by them in Sect. 4.3.5.[143] Easy observation of task performance is a prerequisite for the staffing of a function with casual workers. Hence, usually, no additional observation training should be required. If casual workers form a part of SMWT arrangements, the supervising team workers are trained in behavioral observation anyway; monitoring, control, and feedback processes related to casual workers may additionally be covered by team worker appraisal trainings, if applicable.

Since **professional/occupational contractors** are not appraised in that sense, no rater training needs to be conducted. The professional employees or managers who are responsible for their contracting may, however, benefit from an understanding of how the setting of various types of goals and incentives may impact on performance. Above, professional employees as well as managers are proposed to be generally trained in goal setting. With regard to the management of professional/occupational contractors, the goal setting training may be suggested to encompass the use of different kinds of rewards and incentives.

[143] Cf. subsection "slicing the data," Sect. 4.3.5.

5.7 Overview Archetypal Appraisal Process Designs

Table 5.1 Appraisal process configuration of generalist managers

Generalist Managers	
Appraisal objective	*Assessment centers* at promotion points: rating accuracy
	Regular competency appraisals: feedback acceptance (primary) and rating accuracy (secondary)
Performance observation	*Assessment centers:* test situation
	Regular appraisals: multisource / supervisory appraisals
Performance rating	*Assessment centers:* concrete cognitive processing
	Regular appraisals: abstract cognitive processing
	Simple scales, three rating categories (e.g., "promotion level", "effectively integrated in management system," and "below expectations"), verbal written assessment
Performance feedback	*Assessment centers:* feedback integrated in "milestone" trainings for managers entering new level
	Regular appraisals: feedback communicated face-to-face and in written form
	Emphatic normative feedback to trigger top performers to press for promotion/ underperformers to move on
	Coaching by mentor to ensure continuous development
Accountability and problem resolution	*Assessment centers:* HR department (facilitated by mentor)
	Regular appraisals: appraising as a performance factor, accountability of appraisers to supervising managers
	Upwards feedback
	Internal problem resolution facilitated by mentor
Appraiser training	*Regular appraisals:* Frame-of-reference, feedback, and goal setting training during milestone trainingsPotentially brief computer-based training refreshers prior to regular appraisals

Table 5.2 Appraisal process configuration of professional/occupational employees

Professional/Occupational Employees	
Appraisal objective	Rating accuracy
Performance observation	Output inspection
Performance rating	Concrete cognitive processing
	Objective metrics, simple rating scales with five rating categories
Performance feedback	Written feedback
	Avoidance of emphatic normative feedback
	Informal developmental feedback during initiation phase focused on organization-specific processes
	No professional developmental feedback through organizational systems
Accountability and problem resolution	Appraising as a threshold performance factor (setting of a respective process-based goal)
	Problem resolution via HR function
Appraiser training	Goal setting and feedback training

Table 5.3 Appraisal process configuration of industrial/clerical workers

Industrial/Clerical Workers	
Appraisal objective	Rating accuracy, legal defendability
Performance observation	Direct observation (personal or electronic monitoring)/output inspection
Performance rating	Concrete cognitive processing *Production quantity:* simple scale with five rating categories linked to piece-rate scheme; based on objective metrics *Production quality:* potentially behavioral descriptors
Performance feedback	Written feedback, automatically generated if possible Informal developmental feedback during initial development phase
Accountability and problem resolution	Appraising as performance factor (supervising managers) Cross-sectional analyses of performance ratings / piece-rate awards Problem resolution through employee representatives and/or HR function
Appraiser training	Antidiscrimination training Focus on formal requirements (Behavioral observation training)

Table 5.4 Appraisal process configuration of team workers

Team Workers	
Appraisal objective	Rating accuracy (team output evaluation, work sample tests, peer evaluations on mastered tasks) Feedback acceptance (social control mechanisms, developmental feedback on tasks not yet mastered)
Performance observation	*Group level:* output inspection *Individual level:* peer observation
Performance rating	Concrete cognitive processing *Group level:* forced ranking *Peer evaluation:* simple scales, three rating categories, potentially behavioral descriptors *Work sample test:* standards met (yes/no)
Performance feedback	*Group level:* outputs and ranking internally publicized Coaching by team facilitator on process management tasks *Individual level:* face-to-face feedback through social control mechanisms Normative feedback for consistent underperformers
Accountability and problem resolution	Appraising as performance factor both at team and individual level (supervising managers and peers, respectively) Internal problem resolution facilitated by team facilitator and ombuds office
Appraiser training	Behavioral observation training Feedback training Antidiscrimination training Coaching training for team facilitators

Table 5.5 Appraisal process configuration of casual workers

Casual Workers	
Appraisal objective	Cost efficiency
Performance observation	Direct observation (personal or electronic monitoring)/output inspection
Performance rating	Concrete cognitive processing Objective metrics, three rating categories (standards met: yes/no, nominees for SMWT selection process)
Performance feedback	Informal feedback if any
Accountability and problem resolution	Analyzing performance as central management activity and performance factor (including cross-sectional analyses) Workers may in some organizations have access to institutionalized worker representation
Appraiser training	Methods of quantitative analysis

Table 5.6 Appraisal process configuration of professional/occupational contractors

Professional/Occupational Contractors	
Appraisal objective	Rating accuracy
Performance observation	Output/outcome inspection
Performance rating	Concrete cognitive processing Concrete output qualities and metrics of contractually specified deliverables; no rating required
Performance feedback	No feedback in that sense; results of output/outcome inspection provide basis for determination of any performance-pay awards
Accountability and problem resolution	Accountability for evaluation as specified in contract
Appraiser training	Goal setting training, use of rewards

Chapter 6
Summary and Concluding Remarks

Six archetypal employment systems have been distinguished. Each of them has been explored in depth for the HR functions that are immediately related to performance appraisal, that is, control, staffing, and development. The control, staffing, and development configurations coupled with a performance appraisal purpose have been referred to as performance management systems. These have been further explored by specifying performance dimensions and appraisal process configurations. An integration of the detail of behavioral and psychological micro approaches into the abstract macro approach of employment systems theory has, thus, been accomplished.

This concluding chapter is to provide an integrative perspective on employment and performance management. In the first instance, the employment and performance management configurations are recapitulated in a summary description for each employee group. Subsequently, links between the different employment and performance management systems are emphasized, demonstrating how the different employee groups integrate into a coherent organizational system. Finally, limitations of this work, practical implications, and areas for future research are discussed.

6.1 Employment and Performance Management

The proposed employment system for **generalist managers** is geared toward their function of aligning productive work with the demands of the markets and of society. Their employment system entails the development of extensive organization-specific competencies and it requires broad generic competencies as a prerequisite. In the organizational competency acquisition process, the managers are socialized into the managerial network of their organization, which results in their identification with the employing organization. Control is exercised through this network, heeding to flexibility demands of the managerial function, which can be seen to be located at the fringes of the organizational system to dynamic global

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markets. The employment relationship can be characterized as an exchange of consummate effort and commitment to organizational goals in return for a career within the organization. That is, there is no guarantee of lifelong employment; however, a genuine commitment on both sides to an ongoing employment relationship and the longevity of it are preconditions for the functioning of this employment system.

The proposed control system of generalist managers can be characterized as an input control system, which encompasses institutionalized socialization, integration into social networks, organizational commitment and the ongoing monitoring and development of competencies. The proposed process of organizational competency development begins with a trainee program upon selection into the managerial system. The supervising managers in the various departments, functions, and teams to which the trainee is assigned ought to set proximal learning goals to guide the development process. Supervisory appraisals with a developmental purpose should be conducted during the trainee period. An assessment center is suggested to be conducted upon completion of the trainee program to provide a basis for the first permanent staffing of the junior manager. The assessment criteria are provided by a competency framework for junior managers, which at the same time represents a development framework for the proximal learning goals that should be set during the trainee period. The competency framework may be defined using an inductive method, such as the rep grid or critical incidents method. The number of proximal learning goals set by each supervising manager for the trainee at a given time is to be limited, taking account of the learning opportunities in the respective department, function, and team and of the particular development needs of the trainee. Thus, the developmental appraisals by the supervisor need to assess strengths and weaknesses of the trainee. The overall development process during the trainee program may be guided by a mentor with the competency framework for junior managers in mind. The staffing decisions during the traineeship are essentially development decisions.

Competency requirements differ across the levels of the managerial hierarchy. It is therefore proposed that separate competency frameworks are developed for, say, junior, middle, and senior managers. Consequently, a management trainee who has successfully passed the assessment center will be evaluated according to the competency framework for junior managers. Analogous to the first assessment center upon completion of the trainee period, an assessment center is proposed for candidates for promotion to middle management. Usually, a time period of several years is expected to pass between successful participation in the junior management assessment center and the nomination for the middle management assessment center of a given manager. The nomination for the middle management assessment center is based on supervisory and multisource competency appraisals. Because managerial competency cannot be directly observed, competency assessments take shape gradually as relevant instances of performance are observed. Individual development goals may be set and evaluated by the appraising managers within the confines of the competency framework.

Those who – according to supervisory and multisource assessments – have fully developed the competencies of the junior management competency framework may

be nominated to participate in the middle management assessment center. The assessment center represents a constructed test situation which allows for a first, systematic observation of instances of performance relevant to the middle management competency framework. A manager who passes this initial assessment may corroborate or alter the perceptions and judgments of his or her competencies by displaying competency-relevant instances of performance on the job. The performance instances are not observed systematically. As the manager acts integrated into and, to some extent, confined within the managerial network system, they are often also influenced by factors not under the control of the manager. Consequently, the competency assessments should display some inertia over time and across different observations. In other words, they should not fluctuate to the same extent as performance outputs but change only gradually with relevant observations of performance or consequences of performance.

A middle manager who has mastered the middle management competency framework may be nominated for the senior management assessment center. Those who pass become subject to the senior management competency framework. The division of the managerial hierarchy into junior, middle, and senior management serves only an illustrative purpose. Depending on factors such as their size, organizations may divide the managerial hierarchy into more or fewer than three levels.

Thus, following the prescriptive analysis of this work, two types of appraisals or assessments ought to be conducted for generalist managers, one being the assessment centers at the promotion points, the other the regular supervisory and multisource competency appraisals. The primary appraisal objective of the assessment centers is rating accuracy. They provide a "hard," objective assessment of managerial, competency-indicating performance in isolated test situations, that is, situations in which performance is observable and can be attributed wholly to the capabilities of the managers. Thus, it is avoided that promotion decisions, for example, from junior to middle management are made on the basis of the subjective judgment of supervising middle managers and other members of the managerial network, who may not yet have mastered the competencies of the framework for middle managers themselves. Basing promotion decisions on accurate assessments is a prerequisite for an effective match of role requirements and competencies as well as on perceptions of fairness, both of which, in turn, impact on organizational effectiveness.

The regular competency appraisals are to be conducted by supervisors and complemented by multisource feedback, countering the fact that managerial performance is difficult to observe. The primary objective of the regular appraisals should be feedback acceptance; rating accuracy should be a secondary objective. This is not to say that critical feedback should be generally avoided. However, feedback should be presented such that nonconstructive responses are minimized as far as possible and the ongoing collaboration within managerial networks is facilitated. The consequences of an individual assessment are not immediate. Only if several assessments confirm that a manager has mastered a competency level, he or she will be nominated for the assessment center. The final promotion decision will be based on the assessment center rating alone. If a manager is consistently rated to

not possess the required competencies, he or she may be triggered to move on through the repeated provision of emphatic normative feedback before formal action is taken. Because of the design of the managerial employment system, the need for such action should, however, arise less frequently than with other employee groups.

It is proposed that simple rating scales with three rating categories are used, which could be labeled *promotion level* (indicating the mastery of a competency), *effective* (indicating that the competency level enables the manager to function effectively as part of the managerial system), and *below expectations* (indicating that a competency is not up to the standard required for effective system performance). The vast majority of managers would be expected to be rated in the middle category. Several organizations have recently reduced the number of rating categories to three. The rationale of using fewer rating categories is especially applicable to the system of generalist managers, as has been elaborated in Sect. 5.3.

It is proposed that, upon promotion to a new level in the managerial hierarchy, a "milestone" training is conducted. Feedback on the promotion assessment center ratings may be provided during the training, combined with an introduction to each of the competencies of the competency framework at the new level. Individual development plans may be offered as a take-away for the managers. The preparation for the role at the new managerial level should also cover appraiser training, in particular, frame-of-reference, feedback, and goal-setting training.

Appraisal-related accountability and problem resolution mechanisms should be built into the managerial network system. That is, problems related to the regular appraisals should ideally be solved between the appraiser and the appraisee, and if need be, facilitated by the mentor of the appraisee. Problems related to assessment centers may be solved via the HR department, which is responsible for conducting the assessment center, and, if applicable, also facilitated by the mentor. Appraising should be covered as a factor in all managerial competency frameworks, either as a separate dimension or included in a leadership-related dimension (while being referred to explicitly). Thereby, appraising becomes subject to performance appraisal itself. Accountability for appraising is strengthened through upward feedback processes.

The employment and performance management systems of **professional/occupational employees** are geared toward their function within the organization, which is a specialized technical function performed on an ongoing or regular basis. The specialized technical expertise of the professionals is developed within institutions associated with the profession or occupation. Their allegiance is with that profession or occupation. Organizational systems must exercise control over specified outputs while leaving discretion to the exercise of professional judgment in choosing task strategies. The employment relationship can be summarized as the ongoing delivery of specified outputs in return for a monthly salary given more limited expectations with regard to the longevity of the (open-ended) employment relationship.

Organizational control over the specified outputs can be accomplished via output goal setting linked to individual performance-related pay. Staffing and

development processes of professionals occur within professional systems, which can be regarded as embedded within the organizational system. Different professions and occupations have developed different mechanisms for staffing and development, suiting their respective professional purpose. Typically, credentials play an important role in the staffing of professionals. For the effectiveness of professional functions within organizations, the professionals should be granted leeway by the organizational systems in managing their own staffing and development processes. The organizational performance management systems ought to be focused primarily on the control of professional outputs and, hence, interest alignment.

Output goals are cascaded down from the top-level functional output goals. A dedicated functional manager and the principal professional are responsible for setting professional goals, which are generally to be defined as proximal, task-based output goals. The goals of a professional should primarily be related to professional task outputs; however, they may be complemented by other process goals if they are essential for the sustainable effectiveness of the professional function, such as process goals related to knowledge-management or budget-management activities. Process-based goals may also be set in lieu of valid and reliable task-based output measures in the absence thereof (and only then). Generally, and in particular when task-related process goals are set, the goals should be set in a participative manner, yielding to professional autonomy demands, albeit the superordinate professional (respectively the dedicated functional manager) must have the last say.

Given the appraisal purpose of directing the efforts of professional employees toward the goals of the organization, rating accuracy has been derived as the primary appraisal objective. Objective metrics should be used as far as possible. Based on the metrics (or, where unavailable, based on judgment), performance should be classified on a simple rating scale with five (or at the most seven) rating categories. Compared to the managerial system, additional rating categories are intended to avoid unmotivated professionals positioned somewhere in the middle of the main category of a three-category rating system – performance ratings play a more immediate role in the organizational control processes and direction of effort of professional employees compared to generalist managers.

To create appraisal accountability, it is recommended that a respective process-based goal should be set with regard to the appraisal process for all professional employees who supervise others. A goal setting and feedback training ought to be conducted to equip them with the requisite competencies. The goal setting process should be taken seriously by professional employees, albeit it should not dominate the all-important task-related goals. To emphasize that, it is recommended that the process-based appraisal goals should be set as threshold rather than as differentiating performance factors. Not setting any goal relating to the conduct of appraisals would likely result in the neglect of the respective activities. The setting of performance goals causes people to do what is specified in the goals – exactly and only that. Hence, if performance goal setting is used, it is crucial that the set of goals is comprehensive. The goal setting process should be overseen by the HR

department, which also represents a contact for cost-efficiently solving any appraisal-related problems.

Industrial/clerical workers perform simple, narrowly defined tasks in scientific management systems. The skills required to perform such functions are widely available in the labor market. Hence, industrial workers are at a disadvantage in the bargaining process with employers, and, hence, they have traditionally been organizing collectively to create a labor monopoly. The interest of the workers is to strengthen the worker collective. According to the philosophy of scientific management, their behaviors must be aligned with the interests of the organization through close supervision of outputs and/or behavior. This system results inevitably in them-and-us attitudes and a permanent wage–effort bargain, whereby both parties constantly seek to improve their output–input ratio in the employment relationship.

The narrowly defined tasks must be performed according to standard processes specified by management. Performance is measured according to the number of times a task is performed while meeting the standards. Thus, control is exercised on the basis of production quantities. This entails the specification of acceptable minimum standards of performance and of quotas for piece rate schemes. Performance is assessed at the individual level. Performance standards are set using methods analysis and time-and-motion studies. An iterative industrial job review system is proposed.[1]

Under the traditional industrial/clerical system, the goal is not to identify potential or the particular strengths and weaknesses of individuals and to take account of those in the system or job design. Rather, it is assumed that each worker performs exactly according to the prespecified performance standards and that the scientifically designed work system functions, so to speak, like a machine, regardless of the worker who performs a task. This is not only in line with Frederick Taylor's principles of scientific management but also with the interest of the labor collective and its representatives. Narrowly and generically defined jobs represent a prerequisite for collective bargaining over the terms and conditions of employment and over the exact types of input and effort to be expected for a given level of pay. The amount of managerial judgment in assessing the performance of a worker is minimized. Thereby, the possibility of employers obtaining more from the workers than what they pay for is also minimized. In that context, the promotion of industrial/clerical workers has traditionally been taking place in the form of a seniority-based progression through collectively defined pay bands. Horizontal staff movements are decided on according to the (ad hoc or planned) demand and availability of workers rather than on assessments of a job-competency match.

Performance must adhere to the prespecified standards. Repeated underperformance may require dismissals on the grounds of performance. Thus, the upgrade promotion of industrial/clerical workers is contingent on seniority and on continued performance according to prespecified standards. The competency demands of

[1] Cf. Sect. 4.3.3.

workers are limited to the learning of the standard processes they must perform, which may take place on the job. Thus, no formal appraisals of performance are required for the purposes of staffing or development. The primary appraisal purpose for industrial/clerical workers is the control/monitoring of quantities of performance produced according to specified standards. This applies both to traditional industrial workers in production environments and to clerical workers such as call center operators.

Rating accuracy can be derived as the primary appraisal objective for this employee category. Given the ease of observing and measuring performance, the main challenge likely lies in making the appraisals legally defensible, though: against the backdrop of them-and-us thinking and collective organization, nonreceipt of pay awards or dismissals on the grounds of performance or behavior are particularly likely to be subjected to scrutiny.

The specifics of the appraisal process configuration may be affected by the demands of collective labor to a larger extent than under other employment modes. Nevertheless, those responsible for the design of the appraisal system and those representing the employer in collective bargaining, it is suggested, should aspire for a quantity-based performance–pay system linked to simple rating scales with, say, five different rating categories. A relatively large number of rating categories may elicit motivation to improve performance among a greater number of workers than with only three categories, provided it makes sense technically to distinguish that many levels of performance. Minimum standards of performance must always be defined. Beyond performance quantities, standards must also be defined with regard to the quality of performance or outputs. In certain cases, such as those of call center operators, it may make sense to attach behavioral descriptors to relevant levels of quality, making the performance requirements transparent.

A manager or a group of managers is responsible for conducting the performance appraisals of industrial/clerical workers, that is, first-line supervisors. They are held accountable for appraising and in order to enforce this accountability, the managers who evaluate the first-line supervisors may resort to cross-sectional analyses of ratings and piece-rate payments and to reports of problems escalated by the workers. The primary channels for escalating appraisal-related problems are employee representatives, such as works councils and trade union representatives. The HR department is involved in solving such problems.

The first-line supervisors may be prepared for conducting the appraisal in line with the appraisal objectives through anti-discrimination training and training on the formal requirements of the appraisal. Adherence to appraisal criteria and standards defined through systematic job analysis (such as methods analysis or time-and-motion studies) is to be emphasized as a central prerequisite for the legal defensibility of appraisals. For certain types of industrial/clerical workers, such as call center operators, raters may additionally be subjected to behavioral observation training.

Work which has for many decades been performed by industrial/clerical workers has more recently been performed by team workers, casual workers, or, if both types of workers are used in combination, through the so-called core–periphery systems

of employment. **Team workers** perform as groups the tasks otherwise performed by a group of industrial/clerical workers. As self-managing work teams, they are additionally responsible for various tasks which are otherwise the responsibility of managers, for example, the organization and monitoring of work. Each team worker performs several or all of the tasks to be performed by the team, yielding a high level of resource flexibility. SMWTs develop a system of values, norms, and rules to guide the behaviors and decisions of their members. Them-and-us attitudes and allegiance to the labor collective are overcome through employment security, job enlargement and enrichment, rigid performance standards set for workers individually, and fair wages. The allegiance of the team workers is directed toward their team. Various mechanisms for eliciting this allegiance have been elaborated, the most important ones being intergroup performance comparisons and group-performance–based rewards.

Output control is exercised at the group level. At the individual level, control is not merely or even primarily exercised on the basis of commitment to team goals – as it is in the case of generalist managers. The commitment to the team's goals (and, consequently, to its values, norms, and rules) only triggers a mutual monitoring process among all team members. As a result, all the behaviors of the team workers are subjected to concertive-coercive control, the tightness of which has been said to exceed that of traditional industrial control systems. Consequently, the benefits of SMWT arrangements do not so much have to do with the ideas associated with worker democracy but with improvements of productivity and resource flexibility and with savings of supervision costs. SMWT arrangements are also associated with greater wage costs and costs of training and development. The benefit–cost ratio is largest against a backdrop of flexible working requirements.

Evaluations of performance for control purposes must be conducted at the group level by a responsible supervising manager, determining output quantities and qualities as a basis for intergroup comparisons. The output requirements and performance dimensions are to be defined on the basis of an (internal) customer requirements analysis. The standards are set implicitly through the intergroup comparisons. The primary appraisal objective at this level is rating accuracy. Technically speaking, the evaluations provide a basis for a forced ranking of SMWTs performing comparable tasks. Outputs and rankings are suggested to be publicized internally, accomplishing a normative feedback effect, which contributes to the development of inter-team competitive behavior. This represents a prerequisite for the identification of workers with their team. The publication of internal rankings may be followed by a discussion involving the team facilitator, who should encourage learning from more successful teams with regard to their management and operating processes.

Mutual monitoring at the individual level entails peer evaluations. These also serve a purpose of controlling or monitoring performance, as they may have nonmaterial and material consequences for the workers. In the worst case, the peer evaluations must serve as a basis for dismissals on the grounds of performance or behavior. Given a fundamental need for sustainable collaborative working in SMWTs, critical formal evaluations with material consequences ought to be

preempted through an informal social or lateral control mechanism. That is, responsibilities for providing informal feedback in the case of performance problems ought to be defined with the help of the team facilitator, for instance, that those who get on well are responsible for providing feedback to each other. Critical formal ratings should be provided only if unobtrusive social control mechanisms fail. Since the formal ratings may have to provide a basis for dismissals of underperformers and, thus, must be legally defensible, they must be based on a formal job analysis. While the SMWT should be ultimately responsible for the performance processes and standards, it is suggested that the conduct of methods analyses and time-and-motion studies for setting performance standards is facilitated by an HR expert and/or the team facilitator to ensure that the criteria and standards adhere to legal requirements. Performance factors related to group interaction and managerial processes of the team may be defined using, for instance, the rep grid procedure or, if the team is newly established, a managerial task statements list.

A simple scale with three rating categories is proposed for the formal peer evaluations. Similar to the scales proposed for generalist managers, the workers should normally rate in the middle category. Especially the bottom category should be used rarely and only if informal social mechanisms have repeatedly failed. Appraising may itself be made a performance factor if there are second-order free-rider problems in an SMWT. Appraisal-related problems should in the first instance be solved internally, supported by the team facilitator. As the team facilitator is a representative of the employer and will, in the case of an escalating conflict, be perceived as such, it is proposed that a neutral external problem-solving mechanism is introduced additionally, for example, an ombudsoffice. Such a neutral, trusted facilitator may also help to prevent the (re)emergence of them-and-us attitudes and identification with the worker collective in response to unresolved conflicts. Given the importance of the mutual monitoring and appraisal processes for the effective functioning of SMWTs, team workers should also be exposed to appraiser training covering aspects such as behavioral observation, feedback giving, and avoiding discrimination.

The basic pay of SMWT workers is typically based on the number of the team's tasks a worker can perform, which is intended to provide an incentive to develop the respective competencies. Whether a worker can perform a given task such that he or she should be paid for it is to be ascertained through a work sample test. Thus, the basic pay of team workers can be classified as competency-based pay (in contrast to industrial/clerical workers, who receive job-based pay). The evaluation criteria for the work sample test should also be based on a formal job analysis to make the pay decisions legally defensible. They may be defined together with the performance dimensions and standards for the formal peer evaluation.

While a team worker develops the competency to perform a task, it is proposed that he or she is given developmental feedback by peers who have already mastered the tasks. Thus, peer evaluations may also serve a developmental purpose in the case of tasks not yet mastered. The performance dimensions should correspond to the dimensions and standards defined for the work sample test. The objective in providing developmental feedback should be feedback acceptance.

Casual workers perform the simplest jobs at the worker level. They are hired without an implicit or explicit contract for ongoing employment in order to cut costs of wages and fringe benefits and in order to increase the numerical flexibility of the workforce. The flexibility rationale is especially relevant in the context of core–periphery systems of employment, where a stable core of team workers performs the more skilled tasks supplemented by casual workers as the demand requires. Casual workers are also used to supplement or substitute industrial/clerical workforces, albeit the evidence shows that their prevalence is lower where trade unions or other labor representatives are influential. It has been shown that a clear-cut differentiation of functions and responsibilities of casual workers from those of the regular workforce is a prerequisite for the sustained coexistence of both types of workers. Given that casual workers perform similar jobs as industrial/clerical workers at a lower cost, differentiation is more difficult to accomplish and casual workers are more likely to be perceived as a threat by the regular workforce.

It is suggested that, for effective core–periphery systems, casual engagements should represent an entry point into the internal labor market. In other words, team workers ought to be recruited out of the casual workforce. This represents an incentive to the casual workers, motivating the display of effort beyond a purely transactional exchange relationship. At the same time, this represents a source of heightened stress for the workers, who experience a protracted selection process. If not managed systematically, this may also be a source of problems and failure of core–periphery systems. A promotion rule is proposed which specifies the duration of casual employment before an upgrade promotion decision is made; that is, the testing phase should be limited and made known to the workers. A maximum duration of casual employment for a given worker is also proposed, reducing the likelihood that casual workers gradually take over the same functions as regular workers and, thus, undermine the terms and conditions of the core workers' employment relationship. Finally, workers who undercut a minimum standard of performance ought to be replaced.

Some form of assessment is required to decide which casual workers ought to be upgraded to regular worker status, which ones are to continue working as casual workers for a set period of time, and which ones are to be substituted on the grounds of performance. It is proposed that all workers are evaluated with regard to their productivity. Given that casual workers perform the simplest of tasks, an assessment of production quantities can be conducted relatively easily and at low cost, often automatically. The most productive casual workers can be nominated for the team worker selection procedure. Thereby, it is ensured that casual-to-regular worker promotions serve as incentive. Any demands on team workers beyond their productivity may be tested for in the team worker selection procedure.[2]

Thus, one purpose of appraising casual workers is control/monitoring performance. Another, equally important purpose is systems evaluation. That is, organizations may choose between different sources of casual workers, including different temporary worker agencies and individually hired workers. In developed temporary

[2] Cf. Sect. 4.3.4 on input factors for team workers.

worker markets, different agencies must position themselves through a unique profile of their workers. This entails differences in costs and in the qualities of the workers from different sources. It is argued that the hiring organization should monitor performance at the source level in order to provide a basis for future staff-sourcing decisions. Thus, a simple productivity measure is required which can be aggregated at source level. Sourcing decisions may be made on the basis of a variety of different statistics, including average productivity and performance variability (both cross-sectionally and longitudinally). Cost calculations should cover hourly fees and wages, fringe benefits, costs of administration, and the value of scrap produced by the workers. Depending on the functions performed by the casual workers, different organizations and different parts of organizations may find different sources most suitable to meet their demands. The collated statistics may also be analyzed to reveal fluctuations in the supply and demand of labor. Cost efficiency gains may be achieved by shifting demand to times of high levels of supply where this is feasible, for instance, through changes in shift systems or seasonal shifts in production. System-level performance analyses may also be used to fine-tune the management systems for casual workers, for instance, by evaluating the effectiveness of different casual-to-regular worker promotion rules.

The challenge of appraising casual workers lies in intelligently analyzing and using the performance data that is collected. Compared to that, the process of appraising itself is relatively straightforward. Performance data may be collected automatically or performance may be observed relatively easily. The workers may be classified into one of three rating categories with labels such as *nominee for SMWT selection, minimum standard met,* and *minimum standard not met*. Depending on the contractual arrangement, the employer should not have to make a legally defensible case for dismissal if a casual worker or a source of casual workers is to be substituted. The primary appraisal objective should be cost efficiency. Feedback ought to be provided informally, if any. Those who are responsible for the sourcing and evaluation of casual workers may receive training in methods of quantitative analyses.

Professional/occupational contractors fall, like casual workers, into the category of contingent employees. In the literature, the two types of staff are frequently treated as a homogenous group on the grounds that they are both hired on the basis of close-ended contracts. In terms of the function performed and the rationale of substituting regular employees through them, the two staff groups differ significantly, though. While casual workers *supplement* functions that are internally staffed, professional contractors can be said to *complement* internally staffed functions. Furthermore, the internal functions they correspond to resemble those of professional employees rather than those of workers. That is, they perform technical functions requiring a high degree of generic (non-organization-specific) specialization which, however, are not needed on an ongoing or frequent basis. Additionally, the motivation of professional contractors differs from that of casual workers. The latter tend to desire regular employment, whereas the former are more often content with their status as contingent staff. They may identify with a professional value system or, if they are hired through a business service organiza-

tion, with that organization and not with the values of the hiring organization. Control must be exercised on the basis of specified outputs and/or outcomes. The employment relationship may be characterized as transactional.

When organizations staff temporary functions with professional contractors, they essentially share specialized expertise with other organizations. A boundary-crossing network of professionals is temporarily integrated with the organizational system. The ongoing exchange of knowledge among inter-organizational professionals results in a higher level of specialized professional expertise than can be achieved with professionals who only work for one organization. The functions for which professional contractors are hired also require a limited amount of organization-specific knowledge, otherwise it would be economically rational to outsource the functions entirely. Hence, professional contractors must collaborate with professional employees of the hiring organization. The contractors contribute the latest professional expertise, the employees the understanding of how the professional system works in the particular organizational context and of the particular challenges associated with that.

A particular challenge for the effective integrated functioning of professional contractors is knowledge management. A typical risk associated with the hiring of contractors, such as management or IT consultants, is that they generate a solution which corresponds to prespecified output standards, yet does not find acceptance among the regular employees, is not implemented, or does not function as intended in practice. A central explanation of such problems is that the organizational specifics have not sufficiently been accounted for in the solution. To preempt the production of such isolated solutions by contractors, it is recommended that the deliverables are not only specified in terms of outputs but also in terms of outcomes that are to be accomplished through the deliverables for the hiring organization. A financial reward ought to be linked to the accomplishment of specified outputs and outcomes. In some instances, the reward can be paid out only a certain amount of time after the completion of the project. Consequently, contractors are incentivized to engage in all necessary activities required to accomplish the desired outcomes, including knowledge management and integration activities. The integration of external and internal knowledge may additionally be facilitated by the hiring organization through the support of some limited socialization activities, including social events and professional community of practice forums within the organization.

An evaluation of deliverables must be conducted. If the function has been performed by professional contractors within the organization before, a past-oriented inductive method, such as the rep grid or critical incidents method, may be used to specify output and outcome deliverables. Given that professional contractors are hired to perform functions that occur infrequently, it may often be the case that little previous knowledge related to the function in question is available within the organization. It is then suggested that the future-oriented scenario planning technique is used to define output and outcome deliverables for professional contractors. Given that the contractors are hired for their expertise which, in that form, is not available within the organization, it is suggested that, beyond the

specification of output and outcome deliverables, the contractors are given discretion in how the deliverables are arrived at.

The key challenge in managing the performance of professional contractors represents the setting of the right goals and incentives and the negotiation of service contracts which enforce the incentives. It is suggested that the responsible professionals or managers participate in a respective training course. The evaluation process itself should, if the deliverables are specified accurately, be relatively simple. The primary evaluation objective should be evaluation accuracy, avoiding that the hiring organization pays for more than what is delivered. If the deliverables fall short of the specification, the evaluation must be legally defensible. This is less a problem of how the evaluation is conducted than how the deliverables are specified in the service contract, which represents a challenge for the lawyers of the hiring organization. A rating in that sense is usually not required, unless different levels of output or outcome effectiveness are specified in the contract and associated with different rewards. Such contractually agreed, staged service levels must be based on objective measures – output and outcome evaluations for professional contractors resemble a measurement more than a rating process. Any disagreements between the parties on output and outcome measurements must be resolved through negotiation, third-party mediation, or in court.

6.2 An Integrated Organizational System

Throughout this work, it has been elaborated how the functional requirements for performance management differ for six archetypal employee groups and on how a performance management system may be fine-tuned for these employee groups. This was the research perspective assumed by this work. It is one perspective among several that could have been assumed. One could have, for example, taken a more integrative perspective, focusing more explicitly on the interconnections between different employee groups. In the present work, such interconnections are taken account of and described whenever it is relevant to the pursuit of the stipulated research objectives. Thus, the described employment and management systems are subsystems of an integrated organizational system.

It has been elaborated in the respective sections how casual and team worker systems integrate into a core–periphery system, how they yield flexibility for the organization, and how, on the downside, they may partly result in the lowering of the terms and conditions for workers. Casual jobs represent an entry point into the internal labor market; a casual-to-regular worker promotion system has been proposed. It has been argued that, if casual workers are directly integrated with SMWTs, their work ought to be overseen by team workers. It has also been shown that it is essential to the functioning of core–periphery systems that the responsibilities of casual workers are clearly differentiated from those of regular workers.

Interconnections between the subsystems of the organizational system have been highlighted in the context of the generalist management system. It has been argued

that it is the ultimate responsibility of the management of an organization to integrate the various productive functions of the organization with each other and with the demands of the markets and society. The organizational–professional interface has been explored. It has been suggested that a dedicated representative of management ought to be responsible for managing the interface. The professional subsystem is embedded within the organizational system and represented at the interface by the principal professional or professional administrator. The process of alignment of the professional subsystem with the organizational functional requirements has been elaborated.

Staff flows between the professional and managerial systems have been discussed. Transfers from the managerial into the professional system are rare because of the professional qualifications required by the professional functions. Transfers from the professional into the managerial system do take place. This has been discussed critically. The evidence indicates that such transfers tend to be ineffective if the promotion out of the professional into the managerial system represents a reward for top-performing professionals due to fundamentally different competency requirements: the best IT administrators, researchers, engineers, and other professionals are rarely the best managers. Furthermore, professionals tend to be not extrinsically motivated but by professional value systems, which include values such as autonomy and the desire to perform professionally interesting work. Hence, a professional career trajectory centering around professional value systems has been outlined which intends to offer professional employees a development perspective without their having to aspire for promotion into the managerial ranks (and also without that career trajectory emulating managerial hierarchical structures). It has also been argued that, when professionals do get promoted into managerial ranks, they should possess the requisite generic competencies and undergo the organization-specific development process proposed for managers.

Also dealt with have been interconnections between professional contractors and the professional employees who are responsible for hiring them in the organization. It has been explained that the work of professional contractors may occasionally be overseen by generalist managers in the absence of regular employees belonging to the respective profession. A case has been made that an internal professional function should be retained in order to facilitate the integration of contractor knowledge with organization-specific knowledge and to ensure the continuous functional development and alignment with organizational needs. Only in cases in which a function is entirely separated from any organization-specific knowledge, a function may be outsourced wholly. Interactions between professional contractors and employees with regard to the integration of their know-how are explored in depth.

It is argued that a systematic contractor-to-regular professional promotion system akin to that proposed for casual workers would not be economic, albeit contractors and former contractors may be considered as candidates if and when a vacancy in the professional function of an organization arises. Vice versa, it has been argued that it is possible for professional employees to become self-employed professional contractors at a later stage of their career. The slight differences

in competency demands between professional employees and contractors are described. It is further shown that transfers into a self-employed existence are more difficult to accomplish for managers than for professionals due to the organization specificity of their competencies.

Interconnections between the managerial system and the worker systems are primarily such that the management of an organization is responsible for the overall integration of the respective productive and clerical functions in the organizational value-adding process. Supervisors of industrial/clerical workers and team facilitators of SMWTs are members of the managerial system of an organization. Besides that, it has been argued that ambitious and apt workers may be nominated for participation in the selection processes for the management function. This should not take place after a worker has progressed through the seniority-based grades of the industrial system but as early as possible on the basis of aptitude. Although this would tend to be the exception rather than the rule, it is, thus, conceivable that a casual worker is promoted into the regular workforce, nominated and selected as a management trainee, and promoted through the managerial ranks. Occasional cases of workers progressing to have a career in an organization provide an incentive and a development perspective for other ambitious workers. Moreover, it may add an additional perspective, experience, and competencies to the managerial network of an organization.

Hence, various interconnections and exchanges between the different organizational subsystems have been identified. They integrate into an organizational system, which is itself not a closed system but integrates with other systems such as the professional networks that are tapped into via professional contractors.

6.3 Limitations, Practical Implications, and Areas for Future Research

In concluding this dissertation, attention is drawn to a number of its inevitable limitations, which also represent a basis for deriving future areas of research and discussing practical implications.

One aspect which may be regarded critically is the **combination of descriptive and prescriptive approaches** which is typical of this research strand. It reflects a practical sequence in which basic features of employment systems have emerged and are institutionalized while these systems may still be refined and shaped with regard to the detailed design of associated HR and performance management practices. A starting point is given by six historically emerged employment systems. They represent an economic rationality, which describes how things ought to be, given a number of parameters centering around the human capital function in the production process. It is due to their economic rationality that these systems emerged and survived during “windows” of economic change. Subsequently, the basic rules underlying these systems took on some rigidity due to institutional forces. Hence, six archetypal, economically rational systems of employment are

known, can be conceived, and can be implemented in practice. Historical accounts of the emergence of employment systems agree to a certain extent on what the emerged systems are and on the basic features of these systems. There is less agreement on the economic rationality underlying the systems, owing to the complex interplay of various factors which has been begun to be explored only recently. A logically consistent combination of economic theories integrated with an institutional approach has been proposed in this dissertation. Up to this point, the approach may be considered descriptive in that it describes the logic of existing systems.

There is value in understanding the mechanisms underlying the different employment systems for academic purposes. It might be argued that there is little behavioral research on human resource management which is genuinely normative in the sense that it prescribes rational action removed from a preceding descriptive analysis of real world behavior. Expected utility theory would represent an example of a genuinely normative theory in the field of economics as it defines a set of basic axioms and, on the basis of these axioms only, derives rules for rational behavior. In contrast to that, behavioral or cybernetic systems research on HRM is based on observations and systematic descriptions of patterns of behavior and interaction of individuals, groups, and systems. Based on an understanding of patterns of behavior and interaction of human systems, prescriptions can be made, for instance, with regard to the design of HR practices, to accomplish stipulated objectives. When using an accurate terminology, such research should not be classified as normative but as prescriptive (even though the two terms are sometimes used interchangeably). The fact that behavioral HR research is generally descriptive and prescriptive does not necessarily have to be seen critically. There is value in understanding patterns of behavior not merely for academic purposes but also as a basis for deriving rational prescriptions of action within the context of observed behavior of people and systems. A descriptive/prescriptive approach to research has recently been pursued in other fields, such as behavioral finance and economics.

Thus, up to the point at which the rationality of six archetypal employment systems is elaborated, the present approach may be regarded to be descriptive, where the term *descriptive* also covers descriptions of a causal logic of existing systems. An understanding of the rationale of the basic features of employment systems represents a prerequisite for the refinement of the basic features of these systems and their extension to cover HR and performance management practices. The performance management and appraisal process configurations follow the described economic rationale of each of the employment systems. Nevertheless, the resulting performance management configurations are prescriptive. That is, the organizational decision makers have a choice of designing performance management systems in different ways. It is suggested that the recommended configurations are more effective in accomplishing certain economic goals than other configurations, based on the economic rationale of the employment systems and on expectations regarding patterns of behavior and interaction derived from theories relevant to various aspects of the performance management system.

Hence, the entire strand of research this dissertation intends to contribute to may be criticized for a lack of awareness of and distinction between descriptive and prescriptive theory. In Chap. 2, it has been explained where the employment systems originated from and how the economic theories relate to institutional approaches in defining and explaining the existence of the different systems. Above, an attempt is made to explain how descriptive and prescriptive elements integrate and add value. In that vein, future researchers in this area ought to be more aware of the distinction between descriptive and prescriptive research and how both types of research may be integrated for the purposes of employment systems theory.

A further characteristic of the research approach of this dissertation, which would represent a limitation if one intended to immediately apply the research outputs in practice, is that the derived employment and performance management **configurations are archetypal**. The approach constitutes a theoretical one and not an attempt to immediately solve practical problems. It may be argued that any academic research in the field of HR must, to a certain degree, be abstract and that the main purpose of academic research in this field is to collate and organize the available (explicit and tacit) knowledge and to provide a basis for the preparation of students for a career in HR or for solving HR-related problems as managers. Few academic researchers in HR have immediately solved a practical problem through their academic work. It is not their raison d'être to do that and they are not in the position to do so because of a lack of in-depth familiarity with practical problems. It is the task of HR practitioners to solve practical problems.[3]

Given that organizations are open and complex social systems which differ according to the purpose of the organization and various contextual factors, it is not possible to teach students, practitioners, and others who read academic publications a single set of concrete solutions which can be immediately applied to practical problems in any organization. Academic knowledge in this field must possess a certain degree of organizational transferability to prepare students for the challenges they may face in whatever organization they may work in. That is, it must possess a certain degree of abstractness.

As the employment systems of the proposed model are archetypal, one would expect actual employment systems of organizations to be clustered around the proposed configurations. As the proposed performance management and appraisal configurations are furthermore prescriptive, a descriptive study of performance management practices might find that the actual performance management systems deviate further from the model, unless all organizations in the sample have optimally configured their performance management systems. What one would expect is a correlation between the match of actual performance management configurations with the proposed configurations for the different employee groups and a requisite measure of effectiveness.

Thus, the archetypal performance management and appraisal process configurations represent models which organizations should aspire to according to an

[3] Cf. Krausert (2008).

economic-behavioral logic while taking into account their various idiosyncrasies and the particular constraints they are subject to.

One type of constraint which may vary across organizations and across national systems is the **labor law**. The strand of research this work builds on and contributes to and the English-speaking international audience it is addressed to is concerned with organizations operating in a legal framework such as that of the US or the UK, which provides organizations and their managers considerable freedom in establishing and negotiating employment and management systems as they see fit. Many companies operating under the German legal framework are more constrained in devising employment systems for certain employee categories, in particular workers and nonexempt professional/occupational employees. The terms and conditions of these categories are regulated through collective bargaining at the regional industry level. Leaving the multi-employer bargaining system is for many organizations practically not feasible. The same employee categories are also represented by works councils within the organization, which have extensive rights of codetermination, further limiting the freedom of the organizational management to devise employment and HRM systems as they see fit.

Given that this dissertation addresses an international academic audience and relates to a particular strand of research, it is not within the scope of it to conduct an analysis of national legal systems which may partly constrain the implementation of the employment and performance management systems. For representatives of organizations operating, for instance, in a German context, the present work may provide information with regard to the employment and management systems one should aspire to from an economic-behavioral perspective. Thus, managers who find the economic-behavioral logic of this work appealing may work toward a gradual implementation of the proposed systems, where some of them may be implemented more immediately than others. This may also represent an opportunity for further research. Researchers with an interest in labor law and HRM might, for instance, explore the legal constraints of German organizations in implementing a system which would be rational from an economic-behavioral point of view. Competitive implications for German-based companies and implications for an international HRM system of multi-national organizations may further be examined.

The proposed employment and performance management configurations may also provide input for managers of German-based multi-national companies who are responsible for designing an international performance management system. The UK-based multinational Vodafone, for instance, operates a European performance management system for its employees. In some national subsidiaries, in particular Germany, the international system needs to be adapted to a greater extent than in others, while, generally, a consistent implementation across Europe appears to be feasible. The US-based consultancy Accenture operates an international performance management framework across different employee groups, which is consistently implemented on a global basis. If a German-based multinational were to introduce an international performance management system, it would be the question whether it is economic to base it primarily on the familiar HR practices of the German headquarters, especially if the majority of employees is no longer based

in Germany and given that the German (legal) constraints on the system deviate from those of most other countries. One might want to consider designing a system at the international level according to an economic logic and subsequently adapting that in some countries the laws of which do not permit a full implementation of the international system. The present work provides the kinds of analyses that would be required if such an approach were to be adopted. The abstract nature of the proposed configurations (which owe to the academic objectives of this work) may, in that case, also represent an advantage from the point of view of the practitioner, as an internationally implementable system would require a certain level of abstractness and transferability, too.

It has already been stated at the beginning of this dissertation that it is not only intended to be theoretical as opposed to practical but also **theoretical as opposed to empirical**. Whereas the employment systems model introduced in Chap. 2 builds immediately on the extant theoretical research, the subsequent chapters are to be considered explorative in deriving performance management and appraisal practice configurations. As a suggestion for further research, there may be value in testing the configurations through an empirical study. The value of empirical research might, in the first instance, be greatest in testing the employment systems model introduced in Chap. 2, which already builds on an extensive discussion and theoretical development through various past contributions to the respective literature. It may be regarded as the latest step in a discussion which is gradually beginning to mature.

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