



## DEVELOPMENT-FOCUSED PERFORMANCE MANAGEMENT FROM A RESOURCE-BASED PERSPECTIVE

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### **Abstract**

The resource-based view of the firm (RBV) indicates that HRM can generate sustainable competitive advantage through recruiting, developing and retaining exceptional human talent. To recognize and to develop exceptional talent viable performance management instruments are necessary. Traditional performance appraisals which focus on deficits and problems came under attack as their outcome often is a decrease rather than an increase in performance and they often seem to prevent development of talent instead of supporting it. From an RBV view the development function of performance management becomes even more important. This paper investigates the application of the alternative concept "development-focused performance coaching" to improve traditional performance management tools and to strengthen their development function. This paper develops an alternative performance management method which supports the achievement of competitive advantage. It improves the heavily criticized performance appraisal systems, provides an accessible bridge between RBV-theory and HR practice, and considers the request for integration of different domains and disciplines to advance HRM science.

Keywords: Performance Management; Resource-based View of the Firm; HR Development; Strategic Human Resource Management

Topic Groups: Human resource management and career development

## **INTRODUCTION**

In today's turbulent environments there is an increasing tendency to see change, flexibility and innovation as essential components of successful organizations. This might even be more important in times of tumultuous crises. Organizations need to run fast to keep up with the numerous and intensive changes taking place in their environments. The resource-based view of the firm (RBV) explains the importance of developing valuable and scarce resources and capabilities as the source of sustainable competitive advantage (Barney, 1991; Barney & Wright, 1998). The strategic goal emerging of the RBV is to create firms which are more "intelligent" and flexible than their competitors (Boxal, 1996). One of the most important objectives for Human Resource Management is to create and develop capabilities and competitive advantage. There is increasing evidence that HRM generates "human capital advantage" through recruiting, developing and retaining exceptional human talent, providing value that cannot be easily imitated by other organizations (Barney & Wright, 1998; Boxall, 1996). To recognize and develop exceptional human talent and competences, the use of viable assessment instruments is crucial. However, do traditional performance management systems in HRM support or prevent development?

Traditional performance management approaches often rely on mechanistic assumptions and focus on deficits, analyze failures and weaknesses, or concentrate on particular traits. Consequently traditional instruments often prevent development and change because they stabilize the perceptions of the actors. In contrast it will be demonstrated how these pitfalls may be overcome through the application of the alternative concept "development-focused performance coaching", and how to design new or redesign traditional performance management systems into development supporting systems. Traditional performance management systems are used with the aim of effecting change and development amongst staff to improve performance. The main focus should, therefore, be to ensure there is motivation and commitment to implement development in the workplace. In reality, classic performance management often achieves the opposite. Traditional performance management systems focus too much on the current situation (in fact the past), and force the assessors to commit to individual values (e.g. on scales). Additionally, the differences important for finding improvements are neglected. In many cases it becomes impossible to focus properly on the next steps to be taken and the future. Changes based on procedures grounded on stable values become more difficult. Therefore, a "change in the design of performance management" is called for. Such a modification must overcome difficulties such as unwillingness to change and unmotivated staff (Lueger, 2005; Lueger & Steinkellner, 2009; 2010). The concept "development-focused performance coaching" is presented as an alternative based on the principle of detecting and analyzing "differences that make a difference" (Lueger, 2006; Steinkellner & Czerny, 2010a; 2010b).

The purpose of this paper is to examine how the development function of performance management can be strengthened in using RBV, performance coaching (Latham et al., 2005) and solution focused ideas (Lueger, 2005), and to explore how alternative concepts can provide an accessible bridge between RBV-theory and performance management. To accomplish this, we will first shortly review how the RBV underpins the philosophy and approaches to strategic HRM. We will then discuss current criticism of traditional

performance management and their possible negative effects. To respond to this criticism we will introduce an alternative approach, "development-focused performance coaching", which seems to be more compatible with the RBV and a better way to develop people and organizations.

## **THE RESOURCE-BASED VIEW AND HRM**

The resource-based view of the firm (RBV) is currently one of the most central theories in the field of strategic HRM. It blends concepts from organizational economics and strategic management (Barney, 1991; Conner, 1991). A fundamental assumption of this view is that organizations can be successful by gaining and maintaining competitive advantage (Porter, 1985). It shows the importance of developing valuable, unique and scarce resources and capabilities in an organization, including its human resources that produce its unique character and create sustainable competitive advantage (Barney, 1991; Barney & Wright, 1998; Collis & Montgomery, 1995; Wright et al., 1994). Competitive advantage is gained by implementing a unique value-creating strategy that competitors cannot easily copy and sustain (Barney, 1991), and for which there are no ready substitutes. To gain competitive advantage two conditions are needed: first, the resources must be variable among competitors, and second, these resources must be difficult to obtain. The basic objective is to generate, retain and expand these strategic resources (Jackson & Schuler, 1995). This growing acceptance of internal resources as sources of competitive advantage helped to justify HR's claim that people are strategically important to a firm's success, and it has provided the traditionally atheoretical field of HRM a profound theoretical foundation. It also contributed to the concept of Human Capital Management (HCM) (Baron & Armstrong, 2007) which is based on the idea of human capital advantage as formulated by Boxall (1996). So the integration of RBV into the HRM (and HCM) literature should be of no surprise (Wright et al., 2001).

HRM has a great influence on an organization's human and organizational resources and can therefore be used to gain competitive advantage (Schuler & MacMillan, 1984). This is supported by concepts such as knowledge (Argote & Ingram, 2000; Grant, 1996), dynamic capability (Eisenhard & Martin, 2000; Nelson & Winter, 1982; Schreyögg & Kliesch-Eberl, 2007; Teece, Pisano & Schuen, 1997), learning organizations (Fiol & Lyles, 1985; Fisher & White, 2000), human capital (Baron & Armstrong 2007) and competence (Czerny, 2009; Erpenbeck & Rosenstiel, 2005; Steinkellner & Czerny, 2010a) as sources of competitive advantage which all indicate an intersection between strategic resources and HR issues (Wright et al., 2001). There is increasing evidence that HRM can generate "human capital advantage" through recruiting, developing and retaining exceptional human talent that provides value and cannot be easily imitated by other organizations (Barney & Wright, 1998; Boxall, 1996).

The RBV has proven to be integral to the conceptual development of the HRM literature and RBV based HRM research has evolved in the last decade. The main cause for this might be the recognition that RBV provided a comprehensible explanation for why HR practices lead to competitive advantage. So the theoretical application of the RBV has been successful in stimulating a substantial amount of activity in the HRM field. There are three essential components of HRM that constitute a resource for the firm and are influenced by HR practices: (1) The human capital pool, (2) the flow of human capital, and (3) the dynamic processes through which organizations change and/or renew themselves (Wright et al., 2001). Performance management seems to influence at least two of these important

components: the human capital pool and the dynamic processes through which organizations develop themselves.

There are only a few studies that demonstrate that HR practices truly impact the skills or behaviors of the workforce, or that these skills or behaviors are related to performance measures (Wright et al., 2001). Arthur (1994) and Huselid (1995) found a positive relationship between HR practices and turnover. Wright et al. (1999) found that appraisal and training practices were related to the skills of the workforce. There is a need to recognize, however, that the inimitability of these competencies may be caused by unobservability, complexity and / or path dependence. So there might be no simple causal relationship between HR practices and sustainable competitive advantage, and HR management systems might impact this advantage in a variety of ways (Wright et al., 2001). These difficult aspects explicitly invite a more complex, less reductive view of organizations, their system-level, intangible resources (Colbert, 2004; Stacey, 2010) and therefore their HR systems. System-level resources (Black & Boal, 1994) are those organizational capabilities that exist only in relationships – in the interactions between persons and / or things. The importance of system-level, intangible resources has been highlighted throughout the RBV literature (Colbert, 2004).

On a more general level many studies confirm that a clear pattern is emerging in HRM research suggesting that HR systems geared toward increased commitment and employee-involvement can have a big positive impact on organizational outcomes (Lepak, 2007). A consistently positive relationship between high investment HR systems and aggregate performance measures has been found (e.g., Appelbaum et al., 2000; Arthur, 1992; 1994; Becker et al., 1997; Delery & Doty, 1996; Guthrie, 2001; Huselid, 1995; Huselid & Becker, 1996; Ichniowski et al., 1997; Koch & McGrath, 1996; Richard & Brown Johnson, 2001; Thompson, 2002; West et al., 2002; Wolf & Zwick, 2003; Youndt et al., 1996). These consistent findings support the view that people may be a strong potential source for achieving a sustainable competitive advantage (Barney, 1991; Pfeffer, 1994; Lepak, 2007).

In summary, the RBV demonstrates the importance of human resources and HR practices for achieving competitive advantage. HRM (and HCM) significantly influences an organization's human and organizational resources and can therefore be used to gain competitive advantage. It highlights the importance of complex, system-level, intangible resources and the importance of the interactions between persons, inviting to a more complex, less reductive view of organizations and their HRM systems. With this focus on system-level resources, on interactions and on a more complex, less reductive view of organizations, the RBV supports our thesis, that classic performance management (as well as most other traditional HR instruments) do not support but prevent the achievement of competitive advantages.

### **Effects of traditional performance Management**

Performance management is a systematic process for improving organizational performance by developing the performance of individuals and teams. According to Armstrong (2009: 55-56) performance management is "a process for establishing shared understanding about what is to be achieved and how it is to be achieved, and an approach to managing and developing people that improves individual, team and organizational performance. Performance management can also be described as a strategic and integrated approach to delivering sustained success to organizations that focus on performance improvement and employee development". Performance management has three distinct components. The first component consists of the definition of performance. The second component is the

measurement process; the third component is the communication between appraisers and appraisees about the extent to which individual behavior fits with organizational expectations (Banks & May, 1999; Landy & Conte, 2010). Traditionally the performance appraisal, which is most closely related to the second component, is a very important, but often heavily criticized component of performance management. Performance appraisals are not only according to this model but also in practice an essential part of performance management.

Performance appraisal is the ongoing process of evaluating and managing both behavior and outcome in the work place (Carrell et al., 1995: 348). Performance appraisal is a complex event and not the same as performance measurement as "raters in organization are not passive measurement instruments" (Murphy, 2008b: 198). It serves three purposes: feedback, development, and documentation. Several years ago the main purpose was feedback – to tell employees how they had done over a period of time and to let them know what pay rise they would receive. Today performance appraisals should increasingly focus on development concerns (DeCenzo & Robbins, 2010: 232), and from an RBV view the development function becomes even more important (Lueger & Steinkellner, 2010).

Most authors recognize that no performance management system can be perfect and performance management is often referred to as the "Achilles heel" of HRM (Pulakos et al., 2008). Ratings of job performance are widely viewed as poor measures of job performance as studies showed that there is usually only a weak relationship between job performance and ratings of job performance (Murphy, 2008a; 2008b). Many factors are known that can distort performance appraisals. This may be the result of poor appraisal training or obsolete measures. Problems for appraisals can also be caused by the dynamic environment in which employees work. Some jobs change so frequently that it is almost impossible to properly define job descriptions and objectives for the next year (DeCenzo & Robbins, 2010: 232). HR executives are dissatisfied with their current performance appraisal systems (Coens & Jenkins, 2002; Schrage, 2000) and as result, performance appraisal come more and more under attack (Barlow, 1989; Carlton & Sloman, 1992; Coens & Jenkins, 2002; Culbert & Lawrence, 2010; Curth & Lang, 1990; Furnham, 2004; Grassl, 1996; Grint, 1993; Grote, 2000; Lee, 2005; Lueger, 2005; Lueger & Steinkellner, 2010; McGregor, 1957; Nelson, 2000; Pfau et al., 2002; Pulakos et al., 2008; Sparrow, 2008; Stiles et al, 1997; Rowe, 1964; Schrage, 2000; Segal, 2000; Ulmer, 2000). The outcome of yearly performance appraisals frequently is a decrease rather than an increase in performance (Latham et al., 2005). Proposals for improving performance appraisals include an increased focus on the provision of performance feedback designing the performance review more as a counseling activity than a judgment process (Robbins et al., 2010: 502), and on the social context (e.g. feedback culture) (Levy & Williams, 2004).

Some authors even suggest avoiding appraisal systems and using instead informal employee conversations, informal meetings and the use of systemic language (Brandt & Schache-Keil, 2000; Culbert & Lawrence, 2010; Grassl, 1996; Steinkellner, 2007; 2009). More optimistic are Marcus & Schuler (2006) who write that some of the criticism is justified, but that chances of performance appraisals are higher then their risks, and DeCenzo and Robbins (2010: 232) state: 'Regardless of potential problems, one can expect performance management systems survive in some format'. Latham et al. (2005: 85) suggest a shift from traditional annual performance appraisal to continuous performance management with included coaching: "Together, performance appraisals that lead to ongoing coaching ensure a highly trained, highly motivated workforce. It is the essence of performance management". Beside all the critics there seems to be as well an increased attention to performance management (e.g. Armstrong, 2009; Armstrong & Baron, 1998; 2004; Houldsworth &

Jirasinghe, 2006; Latham et al., 2007; Lawler & McDermott, 2003; Mohrman & Mohrman, 1995).

The authors also believe that performance appraisals will survive, but do not think that assessor training and avoiding known distorting factors will be a successful way forward. This goes conform to the conclusion of Murphy (2008a: 158) "that improving the rater (e.g., with training, better scales, behavior diaries, etc.) is only part of the solution". In addition to the above-mentioned issues, these traditional assessment methods have more fundamental problems. They prevent change and development because they are too static and they also stabilize current situations. They prevent the achievement of competitive advantage instead of supporting it as requested by the RBV - the central thesis of our paper. Performance appraisals should therefore not be used primarily as performance measure but with a development target.

Usually performance appraisals are based on static criteria (e.g. average performance level) and often ignore within-person variability in performance. But performance varies not only across people, but also within people (Fisher, 2008; Reb & Greguras, 2008). Murphy (2008b: 201) concludes: "The use of static criteria [...] to represent dynamic phenomena might be sensible in some settings and problematic in others". This might be true for the target of performance measurement, but not for the target of development as this static view might prevent performance improvement as we will show below. This contradiction between stable metrics and dynamic patterns may be the main problem in performance management, as it often produces a "stability trance" in tying down one single value for the dynamic pattern of performance. According to Lueger (2005) it is difficult to focus on the differences because the format of the instruments creates assumptions of stability.

As a consequence performance improvements become more difficult and often such improvements seem to be impossible. Appraisals frequently show the following pattern (Bernardin et al., 1995): bad results lead to demotivation and prevent behavioral change. Good results lead to satisfied appraisees and this as well works against change. Often these methods create deficits and weaknesses (e.g. when a superior tells his employee: "you are only moderately customer-oriented") that are solely the result of the method used. Conversations in performance reviews based on traditional ratings tend to be difficult especially when the rating is low. People involved in such processes start to argue and to list examples of differences in behavior or performance. An example illustrates a very common pattern of conversation: Assume the assessment with an "overall performance" scale of a staff member is 2 (on a 5-part scale). If the employee concerned and his/her superior discuss this value, the employee refers to examples where he finds his/her performance "very good" or at least "good" (and certainly such examples will be found), while the superior refers to examples and experiences of at best mediocre performance. It is fairly obvious that this reinforces latent or manifest conflicts and that any agreement of steps for improvement is difficult. This pattern, however, is the result of a "conceptual trap" of the methods in use. The conversation has to take place in a "prison" of "either/or" and the participants cannot escape to a "possibility space" of "as well as" (Lueger, 2005; Lueger & Steinkellner, 2010).

## **DEVELOPMENT-FOCUSED PERFORMANCE COACHING**

Our approach includes ideas from Latham et al. (2005: 85) to improve performance management. According to them ongoing performance coaching brings two important advantages to performance management: It helps people see the relationship between what

they do and the outcome, and it instills a “can-do” mindset. Moreover our performance coaching approach integrates ideas from systemic thinking, solution focus, postmodernism and complexity theory (Bateson, 1972; de Shazer, 1997; Lueger, 2005; Stacey, 2010) and thus offers a true alternative to traditional performance management. It enables a focus on possible alternative realities and that take more complexity into consideration. Two important principles are used: (1) a focus on dynamic differences instead of stable determined values, and (2) a positive language focused to the more positive events.

The focus of the first principle is on the performance rating differences occurring with time. The above example of a staff member illustrates, that things occasionally can be worse or become disastrous, and sometimes goes better. This difference can be seen as a potential, and assists in finding out what the specific difference regarding “better” is, which builds a powerful foundation for performance improvement. In this way a resource- and solution-oriented view is practically engrained within this method, because it shows that there will always be found positive developments at some time points. And this increases self-reliance and self-efficacy (Bandura, 1997), as the appraisees see that their actions can lead to positive effects. In this way even traditional performance appraisals can be adapted to serve development and performance improvement, as they can easily be redesigned to visualize positive differences (see Lueger, 2005).

The second principle is the use of a positive language focusing on the more positive events (“solution talk”, de Shazer, 1994). Using again the example above regarding the performance of a staff member, some questions can illustrate a conversation focused on positive differences:

- What happens specifically when the rated performance is “better”?
- What do the top management, customers, etc. notice when something is working better?
- What specifically is different then?
- How do you accomplish that? What is helpful?
- What should happen to increase the likelihood of “better events”?

The use of solution talk helps to work out concrete steps of change and enhances, therefore, the probability of successful development and performance improvement. Additionally it facilitates the central advantages of performance coaching highlighted by Latham et al. (2005: 85): a “can-do” mindset and the clarification of the relationship between the actions of people and the outcome.

There are first empirical findings that the use of development-focused performance coaching has positive effects (Kotrba, 2006; Lueger, 2006; Lueger & Steinkellner, 2010; Steinkellner & Czerny, 2010a; 2010b). The evaluation study of Kotrba (2006) for example showed clear improvements at performance appraisals after the implementation of solution focused performance appraisals.

## **DISCUSSION, IMPLICATIONS & CONCLUSIONS**

We want to close with a critical reflection on the limits of this work: The significance of this paper is limited as the development of the new concept “development-focused performance coaching” is primarily based on theoretical research. So far there are hardly any empirical studies focusing on the results of this concept, therefore further evidence is needed to underline the proposed improvement of performance management.

The first evidences support the proposition that this approach helps managers not to give great answers about the performance of their employees, but to ask great questions. Latham et al. (2005) noted that according to Drucker in the 21st century great leaders will have to ask great questions. The shift of the focus from performance appraisal to performance coaching may enable this. "Together performance appraisals that lead to ongoing coaching ensure a highly trained, highly motivated workforce. It is the essence of performance management" (Latham et al., 2005: 85). The use of the positive power of development-focused performance coaching may even further improve the above mentioned results of performance coaching. It helps employees to improve continuously and is a powerful way to enhance the competencies and the performance of employees.

This paper shows that development-focused performance coaching may help to improve traditional performance management to support positive change and development for humans and organizations. Development-focused performance coaching helps to find "differences that make a 'difference'" (Bateson, 1972) in order to support development and change. It considers the complexity of organizational reality (Stacey, 2010) and the "dynamic nature of performance" (Reb & Greguras, 2008: 194) and not only takes "within-person performance variability seriously" (Fisher, 2008: 185) but also uses this differences as basis for employee development and performance improvement. The combination of these concepts builds the basis for development-focused performance coaching and helps to overcome much of the criticism of performance management. As an HRM method it can improve the heavily criticized performance appraisal systems, enhance the development and the performance of the employees, and support the achievement of competitive advantage. This shows that alternative approaches to performance management can provide an accessible bridge between RBV-theory and HR practice.

The main contribution of this paper to science is the development of a performance coaching model which integrates performance management on the macro level with strategic management, and on the micro level with concrete proposals to improve performance coaching through development focused language. The paper shows an example of an accessible bridge between RBV-theory and HR practice which is an answer to the critique that RBV-theory is too abstract and theoretical to derive concrete HR methods. It considers Boxall's requests for HRM to (1) integrate the two subdomains micro HRM and macro HRM as overspecialization brings problems for HRM and much can be done to enhance learning from one domain to another, and (2) build much stronger links to companion disciplines such as strategic management and organization theory (Boxall et al., 2007). Additionally this paper draws on further disciplines like psychotherapy and philosophy to advance performance management methods through the use of systemic and solution-focused language in performance coaching. It shows that the integration of different domains and disciplines can lead to new promising ideas to improve HR practices such as performance management and to advance HRM science.

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