

# Making Nonprofits more Effective: Performance Management and Performance Appraisals

Marlene Walk<sup>1</sup> & Troy Kennedy  
School of Public and Environmental Affairs  
Indiana University-Purdue University Indianapolis

## **Abstract**

Performance management and performance appraisals have long been regarded as key for effective strategic human resource management (SHRM) in the for-profit sector. When well-designed, performance management in general and performance appraisals in particular positively affect employees, managers, and organizations. Given the specific setup of nonprofit organizations, tools for performance management from the for-profit sector might not be easily applicable to nonprofit organizations. Nonprofit scholars have begun to study performance management, but to date the field lacks a comprehensive overview of this research. It is the aim of this chapter to summarize the research on performance management and performance appraisals in the nonprofit context and, based on this summary, to propose a comprehensive model of performance management and performance appraisals in nonprofit organizations.

## **Introduction**

Human resources are regarded as the most critical asset contributing to the success and mission achievement of nonprofit organizations. Nonprofit organizations are increasingly confronted with pressures to become more competitive, thus, knowledge concerning how to

---

<sup>1</sup> Corresponding author: Marlene Walk, PhD, 801 W Michigan Street, IN-46202, Indianapolis, [mwalk@iupui.edu](mailto:mwalk@iupui.edu), (317) 274-3098. Note: This is the pre-reviewed version as submitted to the editors of *The Nonprofit Human Resource Management Handbook: From Theory to Practice*. Taylor & Francis. August 2016.

effectively and efficiently manage human resources is vital. The implementation of performance management systems is regarded as a valuable way to demonstrate the continuous performance of employees to the organizations' stakeholders (Akingbola, 2015). Performance management also helps employees to identify their roles and responsibilities in mission achievement (Pynes, 2013). As such, performance management in nonprofit organizations is of both individual and organizational importance.

Performance management and performance appraisals have long been regarded as key for effective strategic human resource management (SHRM) in the for-profit sector (Devanna, Fombrun, & Tichy, 1984) and have been widely researched in for-profit contexts (Cawley, Keeping, & Levy, 1998; Fletcher & Perry, 2002; Levy & Williams, 2004). As part of SHRM, performance management attempts to increase the fit between human resource (HR) practices to enhance individual performance with the objective of maximizing organizational outcomes (Den Hartog, Boselie, & Paauwe, 2004). Well-designed performance management systems have been found to positively affect employees, managers, and organizations (Aguinis, 2009b; Thomas & Bretz Jr, 1994). For instance, performance management systems help employees to comprehend how their behaviors affect the results required of their work, boost their self-esteem, and identify their strengths and mitigate weaknesses. Performance management systems enable managers to learn about their subordinates, to develop their subordinates' performance awareness, and to better differentiate between good and poor performers. Through the introduction of performance management systems, organizations emphasize greater goal clarity, enable organizational change, and increase employee commitment and engagement (Aguinis, 2009b; Thomas & Bretz Jr, 1994).

Performance appraisals, now a key element of performance management, have, over time, evolved from being an annually reoccurring administrative requirement where individuals' strengths and weaknesses are discussed (Aguinis, Joo, & Gottfredson, 2011) and their past performance is documented (Lee, 2006) to a more strategic function within performance management (Den Hartog et al., 2004). Consequently, performance appraisals are now conceptualized as a process "including establishment of performance standards, appraisal related behaviors of raters within the performance appraisal period, determination of performance rating, and communication of the rating to the ratee" (Erdogan, 2003, p. 556). As such, performance appraisals today fulfill a broader, more holistic, function that is tightly integrated into the organizational strategy in form of performance management systems.

The mere existence of performance management systems might not be sufficient to increase organizational performance. To ensure a positive effect of performance management systems on organizational performance, the rating systems used should be reliable and valid to effectively discriminate between certain levels of performance (Twomey & Feuerbach Twomey, 1992). Moreover, scholars recommend a communicative process between managers and their employees (Den Hartog et al., 2004). It is important that the communication with the employee focuses on the organization's strategic objectives and the employee's contributions to achieve these while also being fair (Erdogan, 2003). Having bilateral processes in place facilitates the evaluation of employees, but also gives them a voice in the process (Erdogan, 2003; Roberts, 2003). Participative performance management systems that - by design - offer opportunities for regular feedback and ensure employee ownership in the evaluation of their performance, are more effective in attaining improved organizational performance (Roberts, 2003).

When implementing and evaluating performance management systems, scholars caution to pay attention to differences of employees' experience with performance management practices, how these practices are enacted by managers, and the initial intention when instituted by organizational leadership (Nishii & Wright, 2008). For instance, Farndale and Kelliher (2013) find that employees are willing to reciprocate benefits through increased organizational commitment if they perceive performance appraisals to be enacted fairly by their managers. As such, organizational performance is only likely to increase, when employees' perceptions and evaluation of performance management practices are acknowledged (Nishii, Lepak, & Schneider, 2008). Similarly, in another study employees' satisfaction with performance appraisals was found to contribute to organizational commitment and reduces employees' intentions to leave the organization (Kuvaas, 2008).

Similar to the for-profit context, a variety of functions of performance management systems in nonprofit organizations have been identified, such as the translation of organizational goals to individual activities, evaluation of employee engagement, legal mitigation, job design, and career planning (Akingbola, 2015) as well as strategic decision making on employee promotion, development and training, compensation, and retention or separation (Pynes, 2013). Despite the known merits of performance management systems including appraisals (Aguinis, 2009b; Den Hartog et al., 2004), the extent of which these systems are implemented in nonprofit organizations varies widely (Pynes, 2013), both domestically (Selden & Sowa, 2011) and internationally (Walk, Schinnenburg, & Handy, 2014).

In this chapter, we follow Akingbola's (2015) definition of performance management as encompassing "all the activities, systems and processes that are deployed to enable and support employees to contribute the maximum of their knowledge, skills and abilities to the

organization” (p. 164). Performance management is characterized as a continuous process that identifies, measures, and develops individual and team performance aiming to align performance with the strategic objectives of the organization (Aguinis, 2009b). Performance appraisals are regarded as a key component of any performance management system (Akingbola, 2015; Selden & Sowa, 2011). However, more recently, performance appraisals have been conceptualized as a continuous process emphasizing the importance of ongoing communication between employees and their managers to ensure performance improvements (Akingbola, 2015).

Given the specific set up of nonprofit organizations, tools for performance management from the for-profit sector might not be easily applicable to nonprofit organizations (Speckbacher, 2003). For instance, employees in nonprofit organizations tend to be highly intrinsically motivated and identify with the mission of the organization. As such, their preference structure is different from those of for-profit employees, who tend to be characterized as extrinsically motivated. From an organizational perspective, nonprofit organizations cannot easily reward employee performance with financial incentives such as salary raises or bonus payments given their organizational characteristics (e.g., the non-distribution constraint) (Devaro & Brookshire, 2007; Speckbacher, 2013). Therefore, our objective is to summarize context-specific research on performance management and performance appraisals in nonprofit organizations and, based on this summary, to propose a comprehensive model of performance management and performance appraisals for the nonprofit context.

## **Methods**

We searched the academic literature to identify studies for our review. In particular, we searched Google Scholar and EBSCOhost databases using terms such as performance & management, performance & appraisals, performance & evaluation, employee & evaluation,

employee & performance, employee & appraisal followed by the classifier nonprofit organizations/nonprofits. We also manually searched four journals (*Nonprofit Management and Leadership*, *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, *Nonprofit Voluntary Sector Quarterly* and *Human Service Organizations: Management, Leadership & Governance* [formerly *Administration in Social Work*]) that we knew had published research on performance management and appraisals. Our search of the literature yielded 108 articles. This survey of the literature does not include unpublished papers (e.g., dissertations and conference papers) or books, but focuses on articles published in journals and, thus, is not exhaustive.

As nonprofit organizations are pressured to become more efficient and effective, our search resulted in a compilation of articles on a variety of performance-related topics such as organizational performance, performance measurement, performance accountability, financial performance, board performance, network performance and pay for performance. Given our focus on organizational procedures that enable employee performance (Akingbola, 2015), we discarded articles that did not specifically focus on performance appraisals and performance management. The final number of articles that form the basis for this review is 22. An overview of all included papers can be found in table 1.

As we were interested in a comprehensive overview of the past research on performance management and performance appraisals in the nonprofit context, we engaged in an inductive coding process whereby codes emerged as we went through the articles. We modified categories when new articles were added. We decided on our final coding scheme after having coded 6 articles.

Table 1: Article Review Sample

<b>Authors</b>	<b>Year</b>	<b>Journal Name</b>	<b>Category</b>	<b>Methods</b>
Wiehe	1980	Administration in Social Work	Technique	Quantitative
Pecora, Hunter	1988	Administration in Social Work	Technique	Conceptual
Millar	1990	Administration in Social Work	Technique	Conceptual
Potter, Smith	2009	International Journal Management in Education	Technique	Qualitative
Curran	2002	Journal for Nonprofit Management	Strategic tool	Conceptual
Davenport, Gardiner	2007	Total Quality Management	Strategic tool	Qualitative
Helmig, Michalski, Lauper	2008	German Journal of Research in Human Resource Management	Strategic tool	Mixed Methods
Becker, Antuar, Everett	2011	Nonprofit Management and Leadership	Strategic tool	Mixed Methods
Selden, Sowa	2011	Public Personnel Management	Strategic tool	Mixed Methods
Rodwell, Teo	2004	Public Management Review	Human resource strategy	Quantitative
Rodwell, Teo	2008	International Journal of Human Resource Management	Human resource strategy	Quantitative
Guo, Brown, Ashcraft, Yoshioka, Dong	2011	Review of Public Personnel Administration	Human resource strategy	Quantitative
Ridder, McCandless Baluch, Piening	2012	Voluntas	Human resource strategy	Conceptual
Ridder, Piening, McCandless Baluch	2012	Human Resource Management Review	Human resource strategy	Qualitative
Walk, Schinnenburg, Handy	2014	Voluntas	Human resource strategy	Qualitative
Selden, Sowa	2015	Human Service Organizations: Management, Leadership & Governance	Human resource strategy	Mixed Methods
Robineau, Ohana, Swaton	2015	The Journal of Applied Business Research	Human resource strategy	Qualitative
Rivas	1984	Administration in Social Work	Miscellaneous	Conceptual
Deckop, Cirka	2000	Nonprofit and Voluntary Sector Quarterly	Miscellaneous	Quantitative
Beem	2001	International Journal of Nonprofit and Voluntary Sector Marketing	Miscellaneous	Quantitative
Ebrahim	2005	Nonprofit and Voluntary Sector Quarterly	Miscellaneous	Conceptual
Packard	2010	Nonprofit and Voluntary Sector Quarterly	Miscellaneous	Quantitative

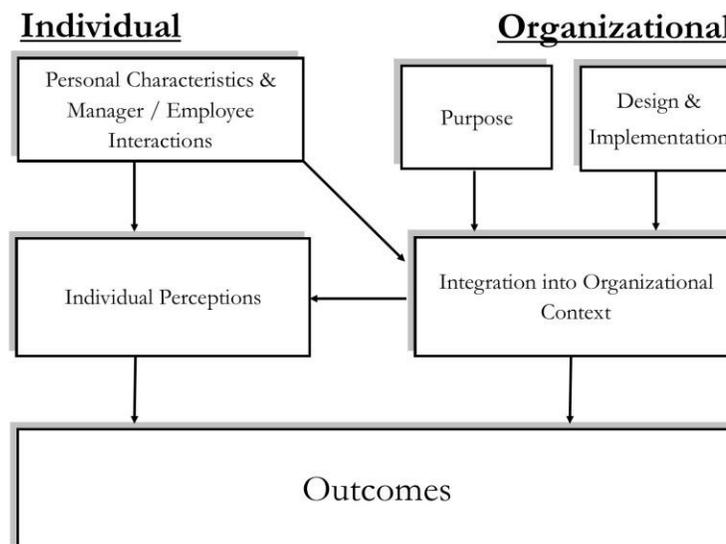
## **Findings**

In a first step, we identified four distinct clusters of studies when sorting the review articles. The first set focuses on performance appraisals as a stand-alone technique. Notably, three of four studies falling into this category were also the oldest studies in our sample (Millar, 1990; Pecora & Hunter, 1988; Potter & Smith, 2009; Wiehe, 1981). The second set of articles looked at performance management as a strategic tool to assess employee performance (Becker, Antuar, & Everett, 2011; Curran, 2002; Davenport & Gardiner, 2007; Helmig, Michalski, & Lauper, 2008; Selden & Sowa, 2011). These authors conceptualize performance appraisals as part of a broader performance management system. In the third set of articles, performance appraisals are integrated into human resource management strategies such as strategic human resource management or high performance work systems (Selden & Sowa, 2015; Guo, Brown, Ashcraft, Yoshioka, & Dong, 2011; Ridder, McCandless Baluch, & Piening, 2012; Ridder, Piening, & McCandless Baluch, 2012; Robineau, Ohana, & Swaton, 2015; Rodwell & Teo, 2004, 2008; Walk et al., 2014). In the final fourth set, neither performance appraisals nor performance management is the main focus of the respective studies, but aspects pertaining to either are discussed in relationship to other organizational constructs (Beem, 2001; Deckop & Cirka, 2000; Ebrahim, 2005; Packard, 2010; Rivas, 1984).

A clear trend emerges when looking at the first three clusters of articles. As three of the oldest articles in this review are forming the first category followed by newer studies in the next two categories, we can assume that, over time, performance appraisals were integrated into more holistic systems of either performance management or human resource management (Potter and Smith (2009) is an exception). This trend might be related to the increase of scholarly attention to effective practices in nonprofit organizations and the importance of bundling individual

practices (Ridder, Piening, et al., 2012), conceptualizing performance appraisals as one tool among a larger set of practices that—when well aligned—contribute to the strategic goals of the organization. Corresponding to this trend, we noticed the conceptualizations of performance appraisals were evolving overtime. Whereas earlier works defined “employee performance as an annual event” (Wiehe, 1981, p. 1), recent studies applied a more comprehensive view defining performance appraisals as “a formal and systematic process for reviewing performance and providing oral and written feedback to staff about performance at least annually” (Selden & Sowa, 2011, p. 253). These findings are well-aligned with trends in the for-profit context (Den Hartog et al., 2004).

**Figure 1: A model of performance management in nonprofit research**



As a second step, we engaged in an inductive analysis of the 22 articles. We particularly looked for patterns across clusters and identified 6 distinct categories: Purpose of performance appraisals, design and implementation of performance management and performance appraisals, integration into the organizational context, personal characteristics and manager/employee

interactions, individual perceptions, and individual and organizational outcomes. Based on these categories, we developed a model of performance management in nonprofit organizations. As shown in figure 1, some of these categories operate at the individual level, some at the organizational level, and one (outcomes) on both levels. We will discuss the individual parts of the model and the relationship between the 6 categories below.

#### Purpose of performance appraisals

Starting on the upper right-hand side of the model, we identified that a variety of studies focused on the purposes of performance appraisals as a management tool (Curran, 2002). Oftentimes, performance appraisals are implemented because they serve individual as well as organizational level purposes. Individual level purposes centered around increasing and sustaining employee motivation (Davenport & Gardiner, 2007; Ridder, Piening, et al., 2012), enabling employees to reflect on their work by making work expectations explicit (Millar, 1990) and through formal feedback (Ebrahim, 2005; Selden & Sowa, 2011), and increasing employee learning through development opportunities (Becker et al., 2011; Selden & Sowa, 2011). Moreover, appraisals afford employees the opportunity to influence their own job design (Potter & Smith, 2009; Walk et al., 2014) and provide them with the possibility to comment on performance results (Beem, 2001). Looking from an organizational standpoint, performance appraisals are also used to identify employee's training needs (Ridder, Piening, et al., 2012; Robineau, Ohana, & Swaton, 2015), to improve employee job satisfaction (Ridder, Piening, et al., 2012), to reward employees for their performance (Deckop & Cirka, 2000; Millar, 1990; Potter & Smith, 2009; Selden & Sowa, 2011; Wiehe, 1981), to determine the continuation or discontinuation of employment (Deckop & Cirka, 2000; Millar, 1990; Rivas, 1984; Wiehe, 1981), and to function as tool for quality control (Potter & Smith, 2009).

Some studies discussed the purposes of performance management and performance appraisals in relationship to strategic planning and organization development. For instance, performance appraisals were targeted to facilitate organizational learning (Ebrahim, 2005), to enhance organizational performance and to create a competitive advantage (Potter & Smith, 2009). Similarly, performance management was implemented to cope with rapid growth and to ensure greater accountability (Becker et al., 2011).

While the reasons for implementing performance management systems were diverse, the overall aim was to facilitate organizational success, while being cognizant about the individual employee needs, the potential positive outcomes that performance management has for them and, ultimately, for the organization. Depending on the purpose, organizations might integrate performance management systems differently into the organizational strategy (see below).

#### Design of performance management systems and technical implementation

Some of the studies discussed the specific design of performance management and performance appraisals. Since performance management aims to support employees in their work and to help them improve their performance, performance management systems should be designed around employee motivations as well as factors that potentially demotivate them (Davenport & Gardiner, 2007). Simultaneously, it is important to ensure alignment of organizational intent, managerial enactment and employee perceptions (Selden & Sowa, 2011). The design of effective systems, however, is difficult as human judgments and bias are likely to produce results that do not accurately reflect reality and since those who are evaluating individual performance (most often managers) tend to have different motivations as those who they evaluate (Deckop & Cirka, 2000).

A handful of studies addressed the specific procedures and instruments used as part of the performance appraisal process pointing to the importance of having reliable and valid instruments in place that are able to differentiate performance levels properly (Millar, 1990; Pecora & Hunter, 1988; Wiehe, 1981). Some of the older publications discussed the advantages and disadvantages of (behavioral vs. trait-based) rating scales, checklists, and result-oriented approaches that provide the reader with a tool kit and “how to” advice (Millar, 1990; Pecora & Hunter, 1988). Newer studies continue to mention rating scales as effective tools and the importance of having reliable and valid instruments in place (Becker et al., 2011; Potter & Smith, 2009), but the emphasis lies on the importance of collecting data from co-workers for a more holistic evaluation (Potter & Smith, 2009). Aligned with the trend to a more holistic and process-oriented performance management approach, it seems that the nonprofit field has moved from a rather technical stage to an integrated phase that emphasizes the importance of alignment with and integration into the organizational strategy. Overall, it is expected that the design and implementation of performance management systems impacts how these are integrated into the organizational context (see Figure 1).

#### Personal Characteristics and Manager/Employee Interactions

Switching to the left-hand side of the model, an area that has received considerable attention among the reviewed papers are the individual characteristics of managers and employees as well as the interactions between managers and employees that serve as precondition for successful performance management. Employee intrinsic motivation is the most salient personal characteristic and related to fairness perceptions of (Deckop & Cirka, 2000) and positive attitudes toward (Helmig et al., 2008) performance appraisals. To increase the performance appraisal and performance management experience, managers’ skills have been

identified as another important predictor (Davenport & Gardiner, 2007). Particularly, their communication skills and goal setting strategies ensure proper implementation of performance management systems (Curran, 2002; Davenport & Gardiner, 2007; Potter & Smith, 2009). As both managers and employees engage in the performance management process, a considerable amount of studies has looked at the relationship and interaction between these two groups. Employees indicate a more positive evaluation of performance appraisals, if they have the opportunity to evaluate their leaders (Helmig et al., 2008), if the communication between managers and employees is open (Becker et al., 2011; Curran, 2002; Pecora & Hunter, 1988), and if feedback occurs in regular intervals (Becker et al., 2011; Curran, 2002).

The employee-manager relationship seems to be key when looking at the quality of performance appraisals, whereby this relationship is not uni-directional but works in both directions. Ultimately, it is expected that personal characteristics as well as manager-employee interactions impact the individual perceptions of performance management and influence how these systems are integrated into the original context.

#### Individual perceptions toward performance appraisals/performance management

Mirroring previous research in the for-profit context (Farndale & Kelliher, 2013; Kuvaas, 2008; Nishii et al., 2008; Nishii & Wright, 2008), employee and manager perceptions of the performance appraisal process have received some attention in the nonprofit context as well. Positive attitudes toward performance appraisals are generally related to individual and organizational level antecedents as well as outcomes (Helmig et al., 2008). These relationships are particularly salient, if employees perceive possibilities for personal growth (Helmig et al., 2008), if they are satisfied with how they were treated during performance appraisals (Becker et al., 2011; Curran, 2002), and if this treatment is perceived to be fair (Deckop & Cirka, 2000;

Helmig et al., 2008). Otherwise feelings of discomfort, anxiety, dislike, and hate are likely to surface among managers and employees alike (Becker et al., 2011; Curran, 2002; Millar, 1990; Wiehe, 1981) potentially leading to active resistance to the performance appraisal process (Rivas, 1984). Whereas these feelings are common among both managers and employees, Helmig et al. (2008) find that managers tend to be more positive towards performance appraisal systems as compared to their employees. Managers in other studies, however, tend to be concerned about the additional time commitment that a thorough performance appraisal process constitutes (Becker et al., 2011; Deckop & Cirka, 2000). Corresponding to Nishii & Wright (2008), nonprofit scholars observed differences between employee and managerial perceptions of performance management tools (Beem, 2001; Selden & Sowa, 2011). Following Ridder, McCandless Baluch, et al. (2012), it is likely that employee perceptions will subsequently influence organizational level outcomes, and, therefore, indicate the importance of paying attention to employee and manager perceptions of performance management systems.

#### Integration into organizational context.

The role of performance appraisals and/or performance management in relation to the wider organizational context has also attracted some recent research attention and can be divided into operational and strategic aspects. Operational aspects that are essential on a day-to-day basis include transparent communication of the performance appraisal aims and the process of performance assessment (Helmig et al., 2008), possibilities for employee participation in the process (Davenport & Gardiner, 2007), and the buy-in of senior management and immediate managers into the aims and processes (Becker et al., 2011). However, scholars caution the feasibility of these aspects as there might be other, more immediate, issues that require

managerial attention besides performance management, especially if it is not tightly integrated into the strategy of the organization (Selden & Sowa, 2011).

Strategic aspects have a long-term focus and aim toward a consistent integration of performance management into the organizational strategy. An alignment to the organizational mission and culture is especially important; scholars particularly emphasize the driving force of the mission, which oftentimes serves as a guide for the development of performance management practices (Becker et al., 2011; Curran, 2002). Some studies refer to the specific integration into strategic human resource management (Guo et al., 2011; Ridder, McCandless Baluch, et al., 2012; Rodwell & Teo, 2004, 2008) or high performance work systems (Selden & Sowa, 2015; Robineau et al., 2015), while highlighting the fit between the HR function and the organizational strategy. For instance, Guo and colleagues (2011) propose a strategic HRM Index consisting of 13 core HR practices. Performance management was reflected in two of these practices through the evaluation of employees through multiple performance assessment strategies and the provision of opportunities for systematic employee feedback. When surveying 229 nonprofit organizations, the authors, however, find that performance management related practices were less likely to be implemented in practice than others (i.e., using the organizational mission to attract employees). Studies looking at performance management as a stand-alone practice emphasize a similar fit to the organizational strategy (e.g., through strategic planning) to achieve competitive advantage (Becker et al., 2011; Curran, 2002; Davenport & Gardiner, 2007). The research evidence in the nonprofit field to date points to the importance of an integration of performance management into the organizational strategy in order to provide it with legitimacy and to emphasize the long-term focus needed to achieve sustained organizational performance.

As indicated earlier, there are a variety of purposes that performance appraisals fulfill. These purposes might vary in their implementation depending on the underlying HR architecture in nonprofit organizations. HR architecture is defined as a coherent human resource management system consisting of internally consistent practices (Becker & Huselid, 2006). Four prevalent types have been identified in the nonprofit context: administrative, motivational, strategic, and values-based (Ridder & McCandless, 2010). Nonprofits applying an administrative HR approach tend not to implement performance appraisals (Ridder, McCandless Baluch, et al., 2012); those nonprofits with a motivational approach to HR use performance appraisals as a tool to identify employee needs and to increase employee motivation (Ridder, Piening, et al., 2012), organizations with a more strategic orientation towards HR tend to conceptualize performance appraisals as strategic investment (Ridder, Piening, et al., 2012), and organization with a values-based approach align performance appraisals with other HR practices to form specific bundles that will help to achieve the organizational mission.

Given this evidence, the specific HR architecture influences the value given to performance appraisals and, thus, impacts individual and organizational level outcomes (as discussed below). Ultimately, then, the particular use of performance appraisals along with other HR practices leads to differences in both individual and organizational performance (Ridder, Piening, et al., 2012). Therefore, it is important for organizations to be reflective about the individual HR practices offered as part of their HR architecture and the influence on subsequent outcomes.

### Outcomes

A fair number of studies investigated the relationship between performance management /performance appraisals and subsequent outcomes. Besides serving as an antecedent, employee

intrinsic motivation has also been identified as an individual-level outcome (Davenport & Gardiner, 2007; Millar, 1990; Potter & Smith, 2009). In particular, motivation is likely to increase if employees hold positive attitudes toward performance appraisals (Helmig et al., 2008) and if the process is perceived to be fair (Deckop & Cirka, 2000). Employee retention and voluntary turnover form a second category that received considerable research attention. Findings, however, are inconclusive. Selden and Sowa (2011) find a significant relationship between employees' perceptions of the performance management process and intentions to stay as well as levels of voluntary turnover in the organization. Similarly, Becker et al. (2011) identify increased levels of turnover for dissatisfied employees after a new performance management system was initially implemented. Contrary, Selden and Sowa (2015) find no relationship between performance appraisals and voluntary turnover, but caution the importance of the quality of implementation and the influential role of employee perceptions during the appraisal process. Scholars have also focused on increases in individual and organizational performance (Becker et al., 2011; Rodwell & Teo, 2004, 2008). For instance, data collected from nonprofit executives indicate a positive relationship between perceptions of performance appraisals and organizational performance (Rodwell & Teo, 2004, 2008). Scholars also identify links to other outcomes such as organizational commitment and quality of collaboration with colleagues (Helmig et al., 2008), job satisfaction, enjoyment of work, job commitment, and intentions to stay (Selden & Sowa, 2011), as well as less uncertainty and more collaborative problem solving (Potter & Smith, 2009).

## **Discussion and Conclusion**

Our goal in completing this review was to contribute to a better understanding of the current research on performance management and performance appraisals in the nonprofit

context. We searched the literature and identified 22 articles published in academic journals over a time span of 35 years (1980-2015). First, we noticed that the articles fell into four distinct sets: 1) those focusing on performance appraisals as a stand-alone technique, 2) those looking at performance management as strategic tool to assess employee performance, 3) those integrating performance appraisals into human resource management strategies, and 4) those whose main focus was not on performance appraisals/performance management but discussed aspects pertaining to either in relationship to other organizational constructs. In a subsequent step, we inductively reviewed all articles. By going back and forth between the articles, we identified 6 categories: Purpose of performance appraisals, design and implementation of performance management and performance appraisals, personal characteristics and manager/employee interactions, integration into the organizational context, individual perceptions, and individual and organizational outcomes. Based on these categories, we built a model that illustrates the relationship between these categories (see figure 1) as emerging from the articles and provides an overview of the current research on performance management/performance appraisals in the nonprofit context.

We particularly want to highlight two findings. First, over time, performance appraisals became more integrated into performance management or human resource management strategies. Whereas some earlier works focused on practical aspects of performance appraisals (“how to do it?”), most of the more contemporary research focuses on performance appraisals in relationship to distinct sets of antecedents and outcomes (“what is the significance?”). Second, this review shows that the individual actors (employees, managers) and their interactions as well as the organizational context are important determinants of individual perceptions of performance appraisals and performance management systems. Operating on multiple levels, it

seems, requires multilevel approaches to the study performance management and performance appraisals.

A few other observations are worthy of elaboration. Given the number of research articles that we discarded during the analysis phase (n=86), we can say that performance management—at least how we conceptualize it in this chapter—is not a widely researched field in the nonprofit context. When discarding articles that did not fit our definition of performance management, we realized that there is no uniform way in which the term performance management is used in the nonprofit research literature yet. For instance, performance management was used in relationship to organizational performance, effectiveness and accountability; concepts that mainly operate on the organizational level. Here, scholars defined performance management as “a specification of the processes that generate firm performance and hence a specification of how management decisions can control firm performance” (Speckbacher, 2003, p. 268). We also noticed the language that scholars used in the articles originates in the for-profit context (e.g., inputs, accountability, effectiveness, efficiency, strategy). As such, research in performance management follows the overall trend of mirroring policies and procedures of for-profit companies (Maier, Meyer, & Steinbereithner, 2014). The trend of becoming more businesslike might be eventually harmful to nonprofits ability to efficiently and effectively provide services while still maintaining a bond to civil society (Eikenberry & Kluver, 2004).

As indicated earlier, the relationship between employees and their managers seems to influence the perceptions of performance appraisals and the evaluations thereof. But the relationship between managers and employees is by no means unidirectional, since employees value to be able to evaluate their manager (Helmig et al., 2008). Therefore it is striking that the

nonprofit literature to date is relatively silent when describing the characteristics of the two-way relationship between leaders and followers, or the quality of leader-member exchange (LMX), a construct that is widely researched in the for-profit context (Graen & Uhl-Bien, 1995).

Similarly, with the exception of Deckop & Cirka (2000), perceptions of justice and trust between managers and employees has not been the center of attention in the nonprofit research on performance appraisals, but have been widely discussed in the for-profit context (Erdogan, 2003). These would be important areas for future research (especially focussing on the leader-follower dyad) that nonprofit scholars might want to consider.

A variety of research methodologies were applied across the 22 papers (see table 1). Six papers were conceptual in nature, 5 were qualitative, 7 used quantitative methodologies and 4 studies were based on mixed methods. We noticed several shortcomings across methodological categories. For instance, some of the qualitative papers do not adequately report data collection procedures and data analysis strategies. The quantitative papers tend to base their findings on small sample sizes (range: 22 - 228), achieve varying, mostly low, response rates (range: 18% - 42%), use scales with questionable psychometric properties (e.g., low reliability) and most of the research uses only one source of data for information gathering. Moreover, it was surprising to notice that only one study was based on longitudinal research (Deckop & Cirka, 2000), even though most of the scholars claim causal effects between performance appraisals and/or performance management and individual and/or organizational outcomes. Furthermore, we were intrigued by the fact that there currently is no multilevel research on performance management in nonprofits, despite the importance of individual perceptions. Given the lack of methodological rigor, the lack of longitudinal research and multilevel approaches, we are currently not able to fully disentangle the causal mechanisms between antecedents, performance

appraisals/performance management, and outcomes. Since performance management is mission critical and the “most important system link between employee performance and organizational performance” (Akingbola, 2015, p. 189), we echo others (Selden & Sowa, 2011) and conclude that there still is a lack of comprehensive research in the context of nonprofit organizations. Based on our evaluation, we especially encourage future research to 1) replicate previous findings while ensuring the application of statistical and methodological rigor, 2) utilize longitudinal research approaches and 3) to specifically consider multilevel dynamics between employees and their manager within and across nonprofit organizations.

Future research could also investigate the differences in HR architecture in relationship to the implementation of performance appraisals, especially related to a potential variation within nonprofit subsectors and organizational size. Moreover, as we were not able to identify studies that looked at the prevalence of performance appraisal or performance management systems as currently used in the nonprofit sector, future studies might investigate the extent to which these practices are used and how they are implemented to help further clarify the importance in contemporary nonprofit practice.

Recent performance management scholarship in the for-profit context addressed the importance and feasibility of narrowing the gap between academic research and practice (Aguinis, 2009a). Aguinis (2009a) particularly argues that performance management systems can only be used effectively and efficiently by practitioners, if performance management is viewed as more than just an annual administrative necessity, but regarded in alignment with other HR strategies and the overall organizational goal. Similar to the for-profit context, performance management systems are rarely used in the nonprofit sector (Selden & Sowa, 2011; Walk, et al., 2014) or fall behind in importance when comparing to other HR practices (Guo et

al., 2011). Overall, we seem to know a lot about performance management/performance appraisal techniques from the general literature, but do not have a sufficient evidence base on how effective these are in the nonprofit context. An increased dialogue between nonprofit researchers and practitioners might help to find feasible approaches to implement and subsequently evaluate performance management systems.

Most nonprofit organizations are highly reliant on their workforce as they constitute the main potential for competitive advantage (Akingbola, 2006; Frumkin & Andre-Clark, 2000), scholars and practitioners might therefore put more attention to performance management as it relates to providing employees with a supportive structure that allows them to contribute their full potential to the organization. However, even though we acknowledge the benefits of performance management, we would like to caution that over-engineering of job roles and responsibilities might limit individuals' autonomy in the workplace (Schwartz, 2015), thus, potentially inhibiting proactive employee behavior (Wrzesniewski & Dutton, 2001).

### **Discussion Questions**

- 1) Have you had experiences with performance appraisals? How would you evaluate these?
- 2) Given that nonprofit employees are predominantly motivated intrinsically, what would be good incentives in your opinion?
- 3) How can nonprofit organizations ensure that employees perceive performance management systems in general and performance appraisals in particular as beneficial and valuable tool and not just as another requirement dictated by HR?

### **References (\*part of the review sample)**

Aguinis, H. (2009a). An expanded view of performance management. In J. Smither & M. London (Eds.), *Performance Management: Putting Research into Action* (pp. 1-43).

- Aguinis, H. (2009b). *Performance Management*: Pearson Prentice Hall Upper Saddle River, NJ.
- Aguinis, H., Joo, H., & Gottfredson, R. K. (2011). Why we hate performance management— And why we should love it. *Business Horizons*, 54(6), 503-507.
- Akingbola, K. (2006). Strategy and HRM in Nonprofit Organizations: Evidence from Canada. *International Journal of Human Resource Management*, 17(10), 1707-1725.
- Akingbola, K. (2015). *Managing Human Resources for Nonprofits*: Routledge.
- Becker, B. E., & Huselid, M. A. (2006). Strategic Human Resources Management: Where Do We Go From Here? *Journal of Management*, 32, 898-925.
- \*Becker, K., Antuar, N., & Everett, C. (2011). Implementing an employee performance management system in a nonprofit organization. *Nonprofit Management and Leadership*, 21(3), 255-271.
- \*Beem, M. J. (2001).  
Fundraising in the balance: An analysis of job performance, appraisals and rewards. *International Journal of Nonprofit and Voluntary Sector Marketing*, 6(2), 164- 171.
- Cawley, B. D., Keeping, L. M., & Levy, P. E. (1998). Participation in the performance appraisal process and employee reactions: A meta-analytic review of field investigations. *Journal of Applied Psychology*, 83(4), 615-633.
- \*Curran, C. (2002). Performance management: A help or a burden to nonprofits. *Journal for Nonprofit Management*, 6(1).
- \*Davenport, J., & Gardiner, P. D. (2007). Performance management in the not-for-profit sector with reference to the National Trust for Scotland. *Total Quality Management & Business Excellence*, 18(3), 303-311.
- \*Deckop, J. R., & Cirka, C. C. (2000). The Risk and Reward of a Double-Edgedsword: Effects of a Merit Payprogram on Intrinsic Motivation. *Nonprofit and Voluntary Sector Quarterly*, 29(3), 400-418.
- Den Hartog, D. N., Boselie, P., & Paauwe, J. (2004). Performance management: A model and research agenda. *Applied Psychology*, 53(4), 556-569.
- Devanna, M. A., Fombrun, C. J., & Tichy, N. M. (1984). A Framework for Strategic Human Resource Management. In N. M. Tichy, C. J. Fombrun, & M. A. Devanna (Eds.), *Strategic Human Resource Management* (pp. 33-55). New York: Wiley.
- Devaro, J., & D. Brookshire (2007). Promotions and incentives in nonprofit and for-profit organizations. *Industrial & Labor Relations Review*, 60(3), 311-339.
- \*Ebrahim, A (2005). Accountability myopia: Losing sight of organizational learning. *Nonprofit and Voluntary Sector Quarterly*, 34(1), 56-87.
- Eikenberry, A. M., & Kluver, J. D. (2004). The marketization of the nonprofit sector: civil society at risk? *Public Administration Review*, 64(2), 132-140.
- Erdogan, B. (2003). Antecedents and consequences of justice perceptions in performance appraisals. *Human Resource Management Review*, 12(4), 555-578.
- Farndale, E., & Kelliher, C. (2013). Implementing performance appraisal: Exploring the employee experience. *Human Resource Management*, 52(6), 879-897.
- Fletcher, C. and E. L. Perry (2002). Performance appraisal and feedback: A consideration of national culture and a review of contemporary research and future trends. *Handbook of industrial, work and organizational psychology, Volume 1: Personnel Psychology*. N. Anderson, D. S. Ones, H. K. Sinangil and C. Viswesvaran. Thousand Oaks, CA, Sage Publications Ltd. pp. 127-144.

- Frumkin, P., & Andre-Clark, A. (2000). When missions, markets, and politics collide: Values and strategy in the nonprofit human services. *Nonprofit and Voluntary Sector Quarterly*, 29, 141-163.
- Graen, G. B., & Uhl-Bien, M. (1995). Relationship-based approach to leadership: Development of leader-member exchange (LMX) theory of leadership over 25 years: Applying a multi-level multi-domain perspective. *The Leadership Quarterly*, 6(2), 219-247.
- \*Guo, C., Brown, W., Ashcraft, R., Yoshioka, C. F., & Dong, D. (2011). Strategic Human Resource Management in Nonprofit Organizations. *Review of Public Personnel Administration*, 31(248-269).
- \*Helmig, B., Michalski, S., & Lauper, P. (2008). Performance Management in Public & Nonprofit Organisationen. Empirische Ergebnisse zum Teilaspekt Performance Appraisal. *Zeitschrift für Personalforschung/German Journal of Research in Human Resource Management*, 22(1), 58-82.
- Kuvaas, B. (2008). An exploration of how the employee-organization relationship affects the linkage between perception of developmental human resource practices and employee outcomes. *Journal of Management Studies*, 45(1), 1-25.
- Lee, C. (2006). Feedback, not appraisal. *HRMagazine*, 51(11), 111-115.
- Levy, P. E., & Williams, J. R. (2004). The social context of performance appraisal: A review and framework for the future. *Journal of Management*, 30(6), 881-905.
- Maier, F., Meyer, M., & Steinbereithner, M. (2014). Nonprofit Organizations Becoming Business-Like A Systematic Review. *Nonprofit and Voluntary Sector Quarterly*, 0899764014561796.
- \*Millar, K. I. (1990). Performance appraisal of professional social workers. *Administration in Social Work*, 14(1), 65-85.
- Nishii, L. H., Lepak, D. P., & Schneider, B. (2008). Employee Attributions of the "why" of HR Practices: Their Effects on Employee Attitudes and Behaviors, and Customer Satisfaction. *Personnel Psychology*, 61, 503-545.
- Nishii, L. H., & Wright, P. (2008). Variability within organizations: Implications for strategic human resource management. In D. B. Smith (Ed.), *The people make the place: Dynamic linkages between individuals and organizations* (pp. 225-248): CRC Press.
- \*Packard, T. (2010). Staff perceptions of variables affecting performance in human service organizations. *Nonprofit and Voluntary Sector Quarterly*, 39(6), 971-990.
- \*Pecora, P. J., & Hunter, J. (1988). Performance appraisal in child welfare: Comparing the MBO and BARS methods. *Administration in Social Work*, 12(1), 55-72.
- \*Potter, J. A., & Smith, A. D. (2009). Performance appraisals and the strategic development of the professional intellect within non-profits. *International Journal of Management in Education*, 3(2), 188-203.
- Pynes, J. E. (2013). *Human Resources Management for Public and Nonprofit Organizations* (4th ed.). San Francisco, CA: Jossey-Bass Publishers.
- Ridder, H.-G., & McCandless, A. (2010). Influences on the Architecture of Human Resource Management in Nonprofit Organizations. *Nonprofit and Voluntary Sector Quarterly*, 29(1), 124-141.
- \*Ridder, H.-G., McCandless Baluch, A., & Piening, E. P. (2012). The whole is more than the sum of its parts? How HRM is configured in nonprofit organizations and why it matters. *Human Resource Management Review*, 22, 1-14.

- \*Ridder, H.-G., Piening, E. P., & McCandless Baluch, A. (2012). The Third Way Reconfigured: How and Why Nonprofit Organizations are Shifting Their Human Resource Management. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, 23, 605-635.
- \*Rivas, R. F. (1984). Perspectives on Dismissal as a Management Prerogative in Social Service Organizations. *Administration in Social Work*, 8(4), 77-92.
- Roberts, G. E. (2003). Employee performance appraisal system participation: A technique that works. *Public Personnel Management*, 32(1), 89-98.
- \*Robineau, A., Ohana, M., & Swaton, S. (2015). The Challenges Of Implementing High Performance Work Practices In The Nonprofit Sector. *Journal of Applied Business Research (JABR)*, 31(1), 103-114.
- \*Rodwell, J. J., & Teo, S. T. (2004). Strategic HRM in For-Profit and Non-Profit Organizations in a knowledge-intensive Industry. *Public Management Review*, 6(3), 311-331.
- \*Rodwell, J. J., & Teo, S. T. (2008). The Influence of Strategic HRM and Sector on perceived Performance in Health Service Organizations. *International Journal of Human Resource Management*, 19(10), 1825-1841.
- Schwartz, B. (2015). *Why We Work*: Simon and Schuster.
- \*Selden, Coleman S., & Sowa, J. E. (2011). Performance management and appraisal in human service organizations: Management and staff perspectives. *Public Personnel Management*, 40(3), 251-264.
- \*Selden, Coleman S., & Sowa, J. E. (2015). Voluntary Turnover in Nonprofit Human Service Organizations: The Impact of High Performance Work Practices. *Human Service Organizations: Management, Leadership & Governance*, 39(3), 182-207.
- Speckbacher, G. (2003). The economics of performance management in nonprofit organizations. *Nonprofit Management and Leadership*, 13(3), 267-281.
- Thomas, S. L., & Bretz Jr, R. D. (1994). Research and practice in performance appraisal: Evaluating employee performance in America's largest companies. *SAM Advanced Management Journal*, 59(2), 28.
- Twomey, D. F., & Feuerbach Twomey, R. (1992). Assessing and Transforming Performance Appraisal. *Journal of Managerial Psychology*, 7(3), 23-32.
- \*Walk, M., Schinnenburg, H., & Handy, F. (2014). Missing in Action: Strategic Human Resource Management in German Nonprofits. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, 25, 991-1021.
- \*Wiehe, V. R. (1981). Current practices in performance appraisal. *Administration in Social Work*, 4(3), 1-11.
- Wrzesniewski, A., & Dutton, J. E. (2001). Crafting a job: Revisioning employees as active crafters of their work. *Academy of Management Review*, 26(2), 179-201.