QUALIFICATION: **CIPD DIPLOMA IN APPLIED HUMAN RESOURCES**

MODULE NAME: **5KIOP - UNDERSTANDING THE LINK BETWEEN INDIVIDUAL AND ORGANISATIONAL PERFORMANCE**

WORD COUNT: **3300**

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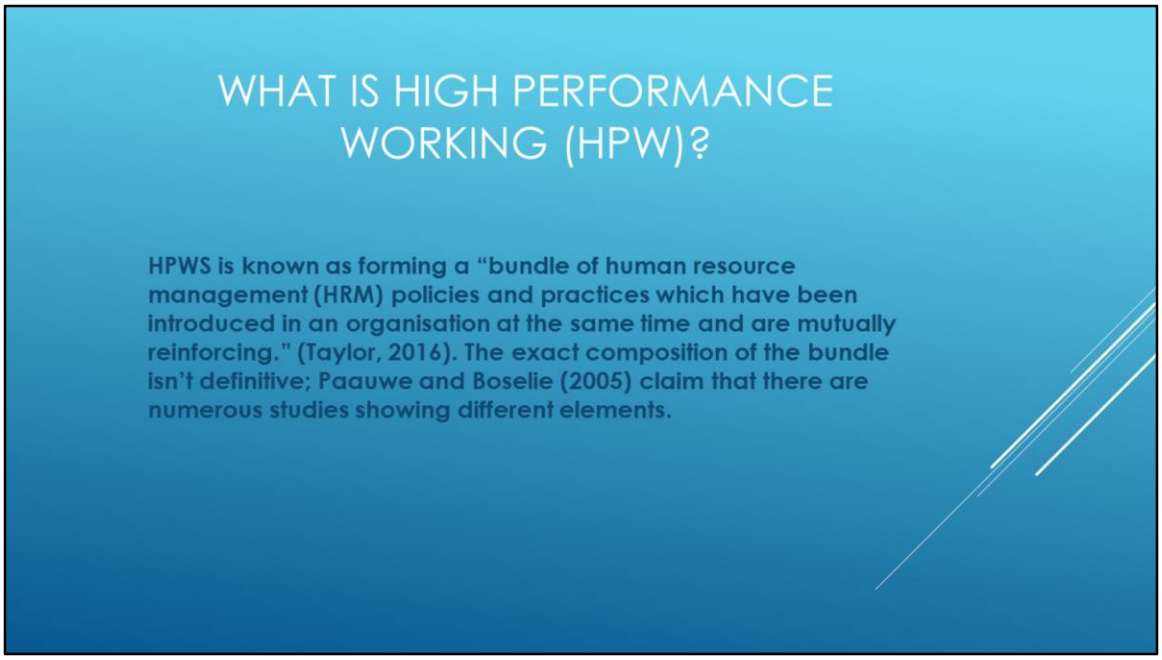
SIGNED: **K.L.BARRON**
DATE: **10/06/2019**

UNDERSTANDING THE LINK BETWEEN INDIVIDUAL AND ORGANISATIONAL PERFORMANCE

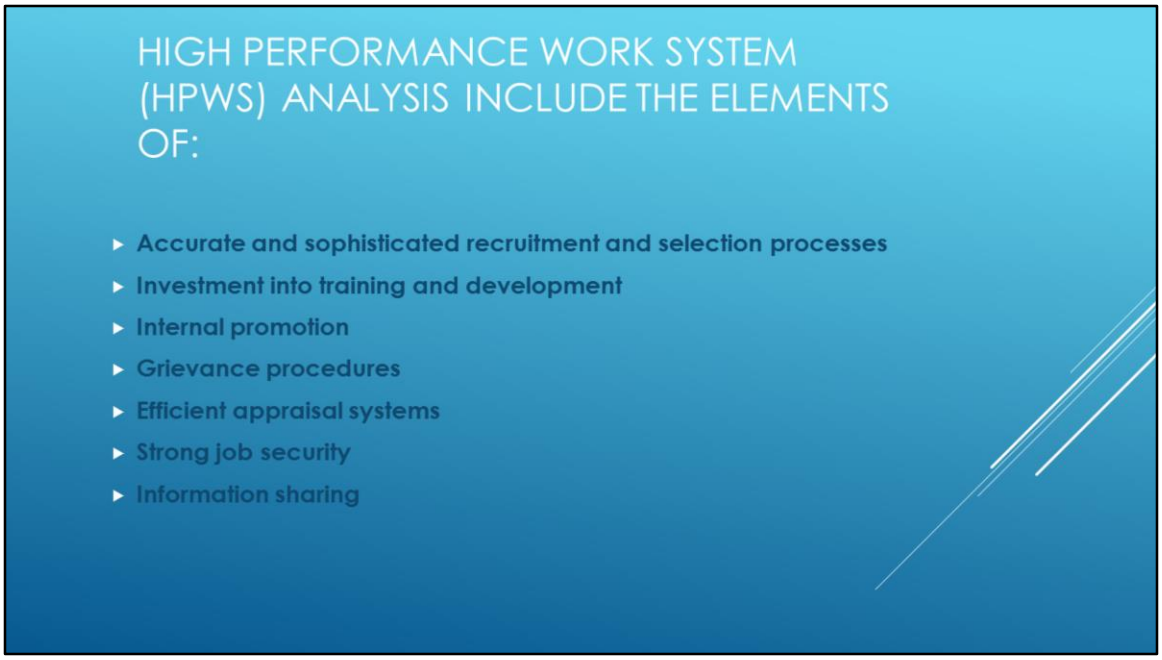


High Performance Working (HPW) research confirms whether basic management principles can be used to enhance organisational performance or not. During 1890's and beginning of 1900's, Frederick W. Taylor began researching into this with the advancement of "scientific management principles". With the change of time and motion studies, Gantt charts and assembly lines, the ways that manufacturing industries were organised altered.

As the sector expands and becomes increasingly technologically sophisticated, various principles were distinguished and applied; predominantly the human relations thinking, as it supported management systems and job design principles as this motivated staff; which lead to increase in productivity, commitment, happier working life and less unauthorised absences.

During the late twentieth century, the way organisations can maximise performance was looked at again as the industry was becoming more competitive and unpredictable due to the globalisation and technological movements. Research within this field is a continuous project, however the most influential principles discovered were those underpinning high performance work systems (HPWS). HPWS is known as forming a "bundle of human resource management (HRM) policies

and practices which have been introduced in an organisation at the same time and are mutually reinforcing." (Taylor, 2016). The exact composition of the bundle isn't definitive; Paauwe and Boselie (2005) claim that there are numerous studies showing different elements.



According to Boselie et al (2005); Datta et al (2005); Marchington and Wilkingson (2012), the following components are used in HPWS analysis: **Accurate and sophisticated recruitment and selection processes** enables vast applications making choices based on evidence and whom will perform best in the advertised role. **Greater investment into training and development** ensures employees are informed of development within their area which improves capability and skills and advances their careers. **Internal promotion system** based on excellence, improved investment in HRD and retaining those who have been invested in. **Grievance procedures** to be unfearful so that employees who believe to have been treated unfairly can comfortably challenge the problem. **Efficient appraisal systems** which allow the employee and organisation to work towards the same goal; aligning to the organisational strategy. **Strong job security** to attract and retain high performers and maintaining employee commitment and engagement. **Great levels of harmonisation** of organisational terms and conditions to ensure all employee are treated and respected fairly. **Information sharing** between managers and employees. Managers must be completely open and honest about any organisational issues and changes and future plans.

The bundle constitutes HR and general managerial principles which are often seen as

“best practices”. They are linked with high levels of organisational performance as it encourages people to work at organisations who take the “best practice” approach in managing employees. This encourages active and positively engaged employees, maximising commitment levels. Holbeche (2005) claim that HPWS strengthen the likelihood that employees will embrace organisational change as oppose to resisting it.

THE LINK BETWEEN HPW AND ORGANISATIONAL PERFORMANCE

- Pfeffer (1994)
- Huselid (1995)

Huselid (1995) calculations
A 1 standard deviation increase in HR practice yields A 7.05% decrease in staff turnover
$27,044 in increased sales per employee
$18,641 more in market value per employee
$3,814 more in profit per employee

- Combs et al (2006)

Much research has been conducted to link HPW with organisational performance; with encouraging results although not all are completely persuaded. Pfeffer (1994) looked at how HR methods in large organisations varied from less successful companies. His results showed that adopting HPW practices influence higher business performance. In 1995, Huselid researched various HR policies and practices from 968 businesses; obtaining information through detailed questionnaires. Huselid (1995) focused on turnover rates, the performance measures set out in the organisations' annual reports and measure "Tobin's q". This measure is the "organisational market value, divided by the book value of assets and at gross rates of return on capital invested. Huselid (1995) concluded that the more refined HR practices used, the lower the turnover and the market value and profits were greater."

Huselid (1995) calculations
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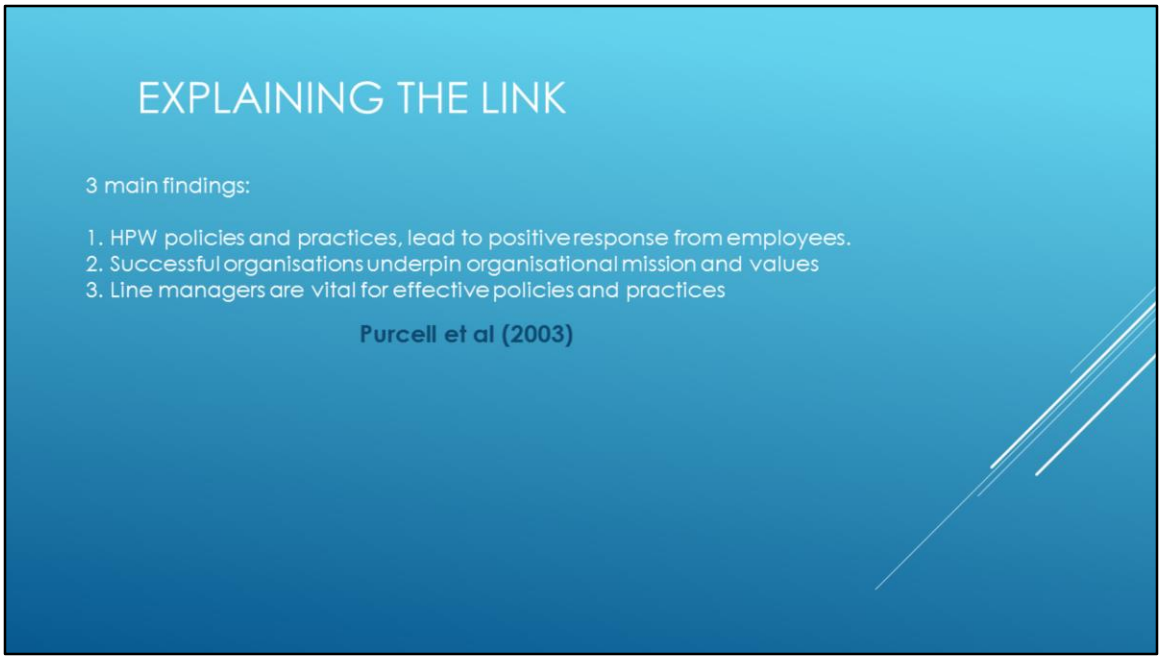
This study was the first to conclude with results proving that people-focused HRM pays off financially and significantly adds value.
Following the work of Huselid, Combs et al (2006) undertook a meta-analysis of 92 studies. Combs et al concluded that HPW practices link with '4.6% increase return on assets as well as a 4.4% reduction on staff turnover'.
Due to extensive research, HR managers and organisations are eager to embrace sophisticated and progressive approaches to managing staff. It is accepted that 'best practice HRM' as a bundle of practices are of great benefit for organisations to increase organisational performance and sustain 'competitive advantage' for longer whilst improving and maintain employee satisfaction and wellbeing (Taylor, 2016).

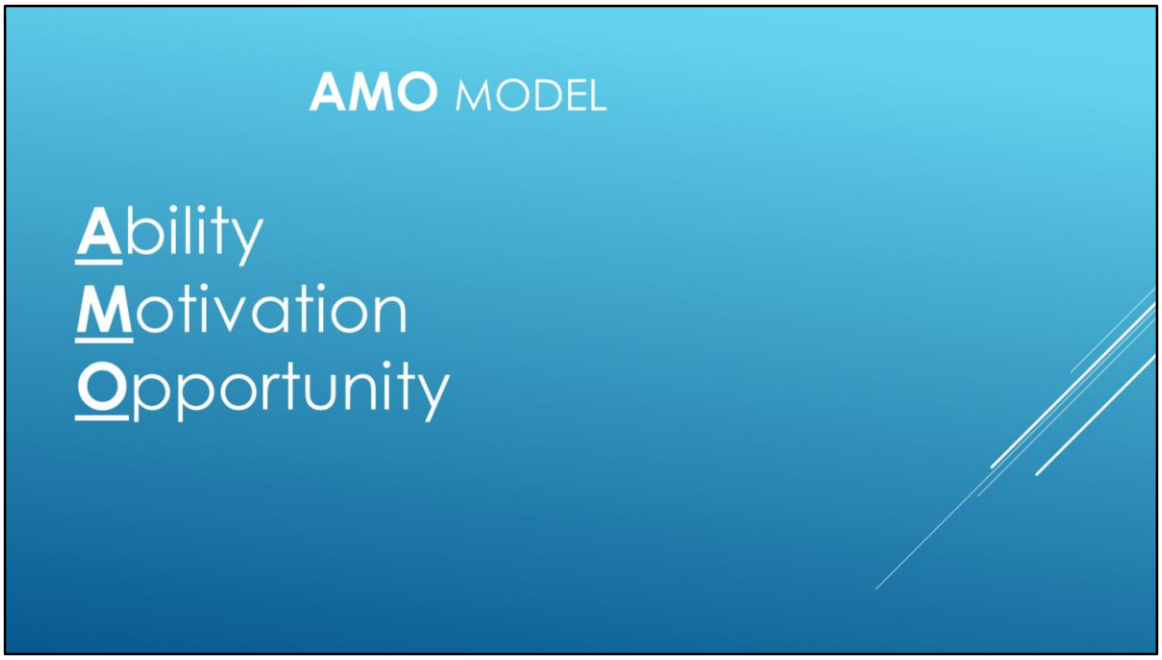


The extensive research into whether there is a link between HPW and organisational performance has been established. Now there's research into why there's such a link between the adoption of the best practice bundle and organisational benefits (Taylor, 2016).

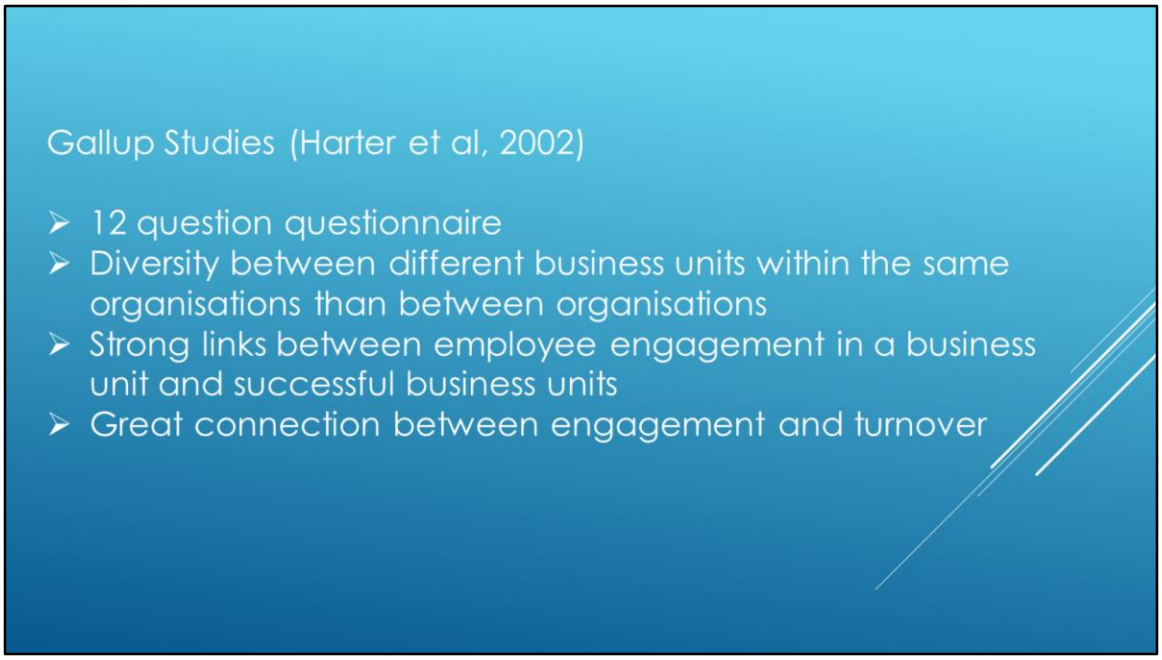
John Purcell began 'the black box studies'; named this due to the unknown reasons of the performance-HR connection. Following numerous interviews, Purcell et al (2003) concluded with 3 main findings. Firstly, if an organisation has a bundle or high performance policies and practices, the response from employees is far more positive than those of organisations who don't adopt the bundle/high performance policies and practices. The positivity generated productivity, motivation and job satisfaction. The second finding was that successful organisations have an idea underpinning their mission and values. This ensures that the organisational values are ingrained into the policies and practices; keeping the organisation 'together'. Finally, effective line managers are vital of 'the black box' as line managers/supervisors have day to day contact with employees, therefore employees found being treated positively and respectfully enhanced the effectiveness of the HR policies.

In conclusion, 'the black box studies' provided evidence that with the correct

approach, HR policies and practices link with great organisational performance. However, to ensure the link, other circumstances must be accepted to underpin the levels of performance; a condition such as the **AMO** model.



AMO is the Ability, Motivation and Opportunity to perform well (Taylor, 2016).



The Gallup studies is significant in this area of research; the results were collected from an analysis of data received through a 12 question questionnaire (Harter et all, 2002). Respondents answered questions by marking whether they strongly agree/agree or strongly disagree/disagree or have neither opinion. By 2002, around 198,514 people had completed the questionnaire. The volume of data gave this analysis great credibility and its key findings were the interrelationships between employee emotional and cognitive engagement, productivity, satisfaction, profitability and employee turnover statistics (Taylor, 2016). There's considerable difference between business units within identical organisations than between organisations; making the quality of line managers the variation. Another finding was that links between levels of employee engagement in a business unit and successful business units are strong; showing great connections between engagement and staff turnover.

The Gallup and black box studies are similar in that HR policies and practices enable great business performance due to the assistance with motivating staff to perform well. "Discretionary Effort" is used to describe the black box studies whereas the Gallup studies promote the term "Employee Engagement". Both studies argue that Huselid's link is due to employees responding positively to the presence of the 'best

practice bundle’ of HPW in their organisations which can influence individual performance.

HPW AND EMPLOYEE WELL-BEING

- Current studies focus on employee well-being.
- The 'best practice bundles' promote employee well-being and improves performance.
- Peccei et al (2013) aims research at developing human capital and atmosphere of ER.
- Employee well-being includes happiness, health and relationships (Grant et al, 2007)
- Boxall et al (2013) demonstrates the importance of HPW and well-being

Current studies concentrate on analysing areas of performance to discover if there's a specific component explaining the link. Therefore, many studies have focused on employee well-being. It's proposed that the 'best practice bundles' promote employee well-being and a considerable element of improved performance. Other research such as Peccei et al (2013) has been aimed at developing human capital and atmosphere of ER. Although, as of yet there is no exact conclusion as to how restricted these concepts are, particularly in explaining Huselid's link.

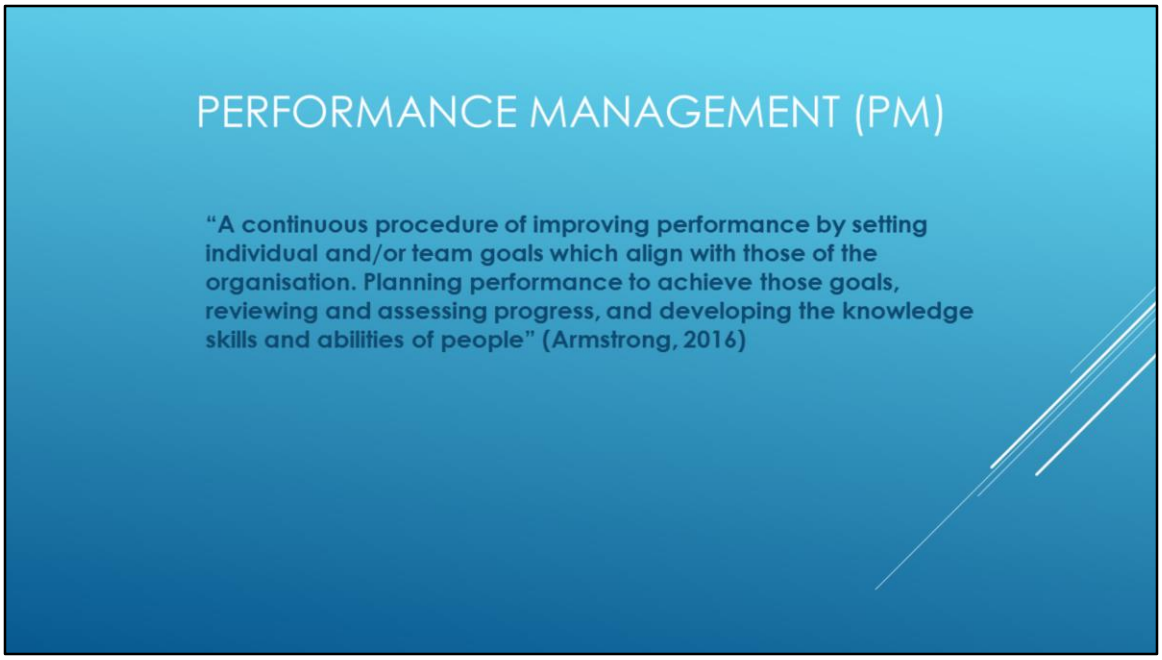
Boxall et al (2013) analysis on employee well-being and high-involvement working practices (HIWP) demonstrates that participation and freedom in decision-making and organisational involvement has positive outcomes. The more involved an employee feels, job satisfaction and work-life balance is enhanced; having no correlation to stress and fatigue. Employee well-being includes happiness, health and relationships (Grant et al, 2007). HIPW is a valuable component of HPW, therefore the survey initiated by Boxall et al (2013) shows the importance of HPW and employee well-being.

CRITIQUE'S CLAIM:

- Best practice HRM can't be measured or confirmed.
- Correlation might be obvious, but isn't always the source.
- Employees are responsible for strong business performance and HR rhetoric disguises reality.
- Employees are responsible for superior business performance (Fleetwood et al, 2010).

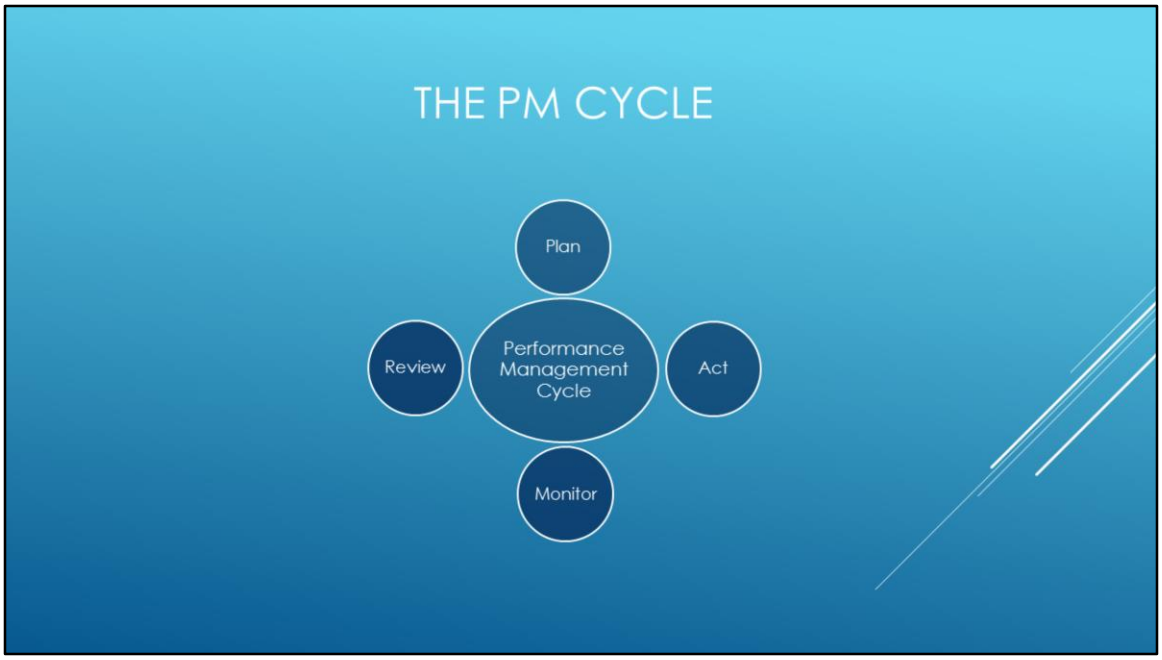
The link between HPW and business performance has been publicised, although critiques of research claim that although best practice HRM could have a positive influence, it can't be measured or confirmed. Another argument is that, although correlation might be obvious, this isn't always the source. With Legge (1995) in mind, critiques also argue the distinction between rhetoric regarding HRM and the reality experience by workers; perhaps it's the employees that are responsible for strong business performance but the HR rhetoric disguises reality.

Fleetwood et al (2010) published their criticism on the research claiming that the employees are responsible for the business performance. They believed that there is a connection, however one doesn't cause the other. They claim, HR play an enabling role in superior business performance as oppose to the reason why it exists; superior business performance is delivered from people not the HR architecture and financial terms of HR interventions aren't predictable.

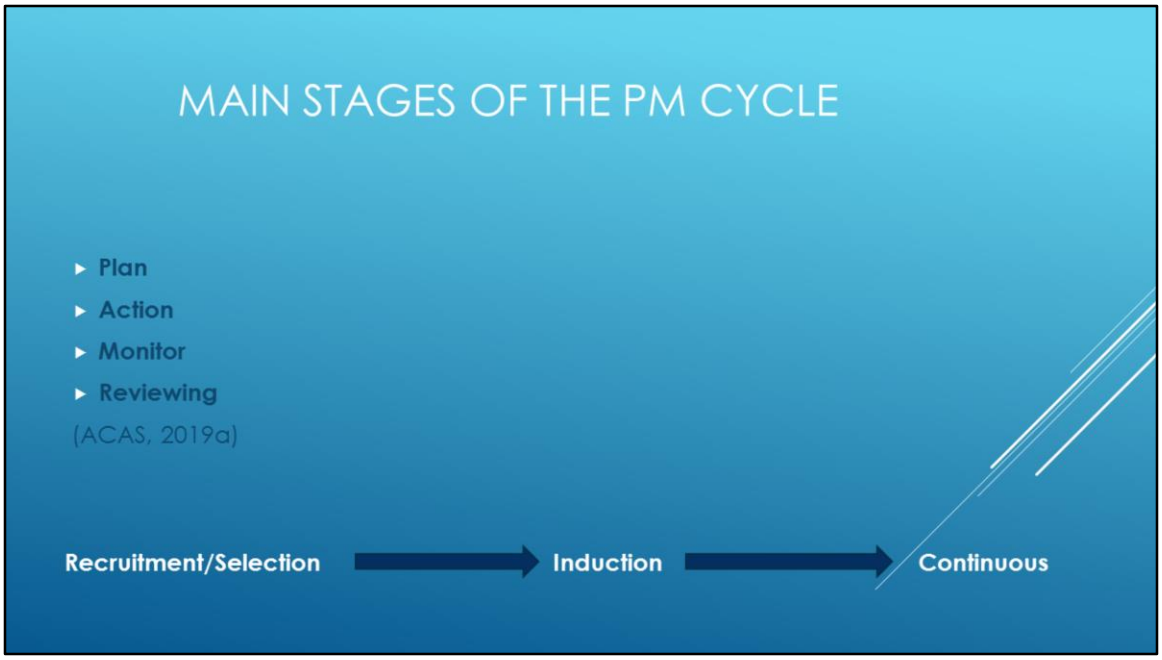


Armstrong (2016) describes **Performance Management** (PM) as a "continuous procedure of improving performance by setting individual and/or team goals which align with those of the organisation. Planning performance to achieve those goals, reviewing and assessing progress, and developing the knowledge skills and abilities of people".

CIPD (2018) explain PM as a process which creates objectives, improves performance and links performance with rewards, career progression and termination of contracts.



As defined by Armstrong (2016), PM is a continuous cycle associated with the performance and development, managing performance throughout the year, reviewing performance and assessments. The cycle is a logical sequence of action that contributes to improving performance. However, the cycle is only successful if the process is managed accurately; putting pressure on the employees and managers (Lee, 2005).



The main stages of the PM cycle is communicating the organisations vision and objectives; enabling employees to plan their SMART objectives to align with departmental/organisational goals. These are put into action by carrying out role, implementing the personal development plan and achieving the objectives. Employees performance should be monitored throughout each year by overseeing progress, giving regular feedback, overcoming problems and dealing with underperformers; offering coaching and guidance. When reviewing performance, achievements should be revised and discuss areas of strength and improvement. Learning and development needs, actions and career goals should be discussed and agreed. It's important to link individual outcomes to team and organisational outcomes (ACAS, 2019a)

PM begins during recruitment and selection, through to induction and continues throughout their employment. What an organisation does with an employee at the beginning is an investment as it lays foundations for PM and reinforces the organisational values and behaviours. Organisations must choose employees that fit within the organisations values; the ability to do this is enhanced through job descriptions and advertisement (Mearns, 2014). This allows prospective candidates to self-select; apply to organisation whose values align with their own (ACAS, 2019b).

Bloom et al (2012) claims 23% of organisations have increase productivity when targets, incentives and monitoring are introduced; performed through formal PM processes such as appraisals and annual reviews. The employer can understand, evaluate and develop the employee whilst recording and suggesting action points. Formal PM aims to improve morale and communication, reinforce organisational objectives, improve overall performance and recognise prospective development (Taylor, 2016).

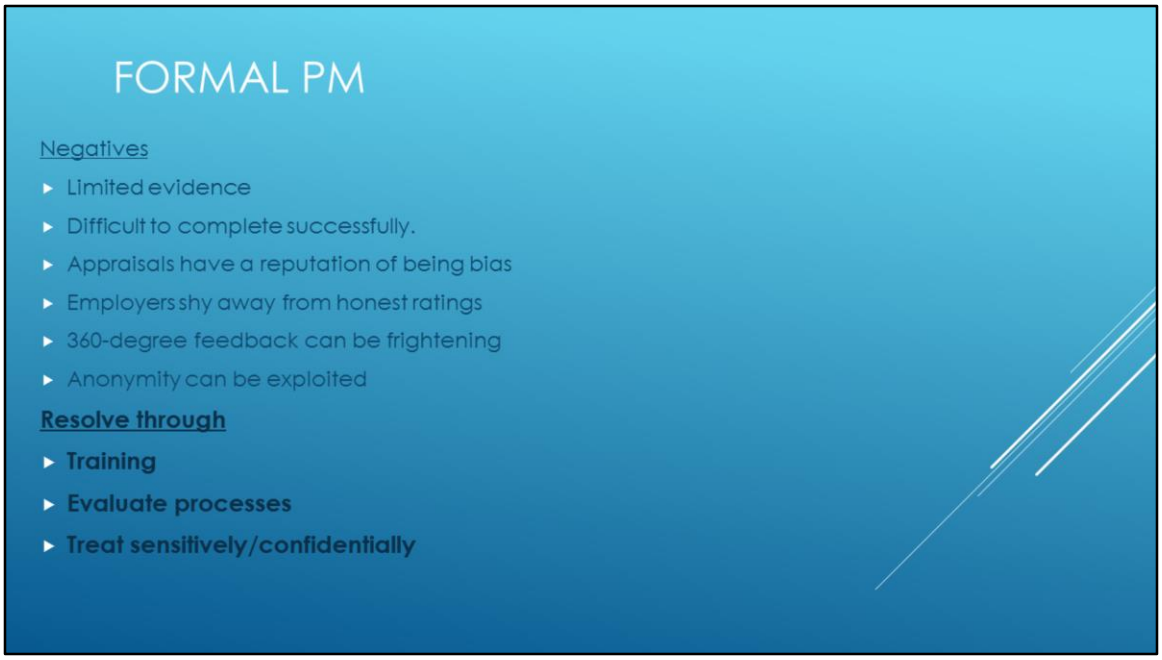
Research into the impact of PM has revealed diverse opinions; although there's considered to be many benefits of PM.

Alongside the 'bundle of HPW practices', effective PM systems help maximise individual and organisational performance. However, to maintain high performance in the workplace, a high-performance culture must be embedded; engaging employees in successfully reaching organisational goals (Taylor, 2016).

Research conducted by Holbeche (2005) shows successful psychological contracts between the employer and employee is crucial in ensuring a high-performance culture; done by setting reachable expectations. To develop high-performance culture, managers must invest time in offering opportunities and training to enhance employees' capability, "both personally and professionally". Employees who feel that the organisation is adequately committing to them, respond with high levels of commitment. Employees must feel involved and respected in processes. Entrusting employees with involvement in managing change provides a positive response and displays willingness to flexibly approach challenges.

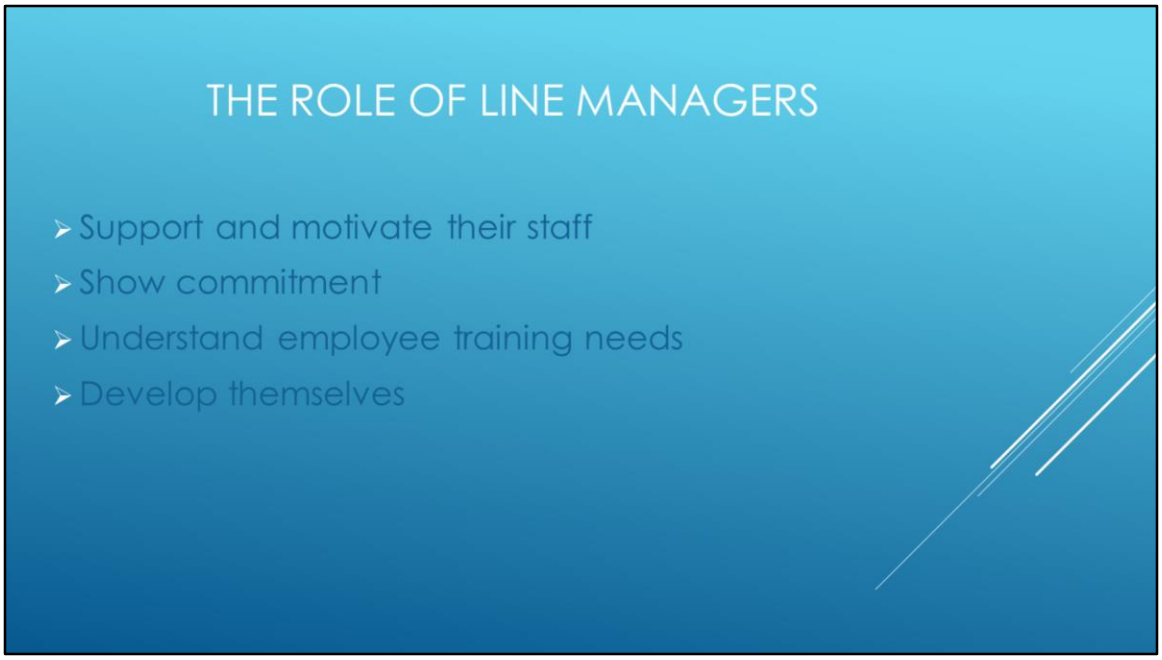
When executed correctly, PM can reward employees with recognition through

feedback. Evidence based feedback gives an opportunity to recognise employee achievements and allows suggestions for development. (Armstrong and Baron, 2005). Kuvaas (2006) identified the link between pay and performance; suggesting that money may lower long-term intrinsic motivation which influences performance. Research conducted by Deci et al (2001) suggested that rewarding employees in attempt to increase motivation can be dangerous as it's possible that interest and self-regulation disconnects. However, Cameron et al (2001) claims that rewards don't negatively affect motivation.



Formal performance appraisals and 360-degree feedback are known to be criticised due to the limited evidence proved that it strongly improves performance and can be difficult to complete the activities successfully. Appraisals have a reputation of being bias; often employers strongly rate an employee overall as they performed one task well or avoiding giving lower ratings to prevent upsetting staff although a lower rating might prompt the employee to develop within that area. However, these issues can be resolved through effective training and evaluation on the current appraisal process.

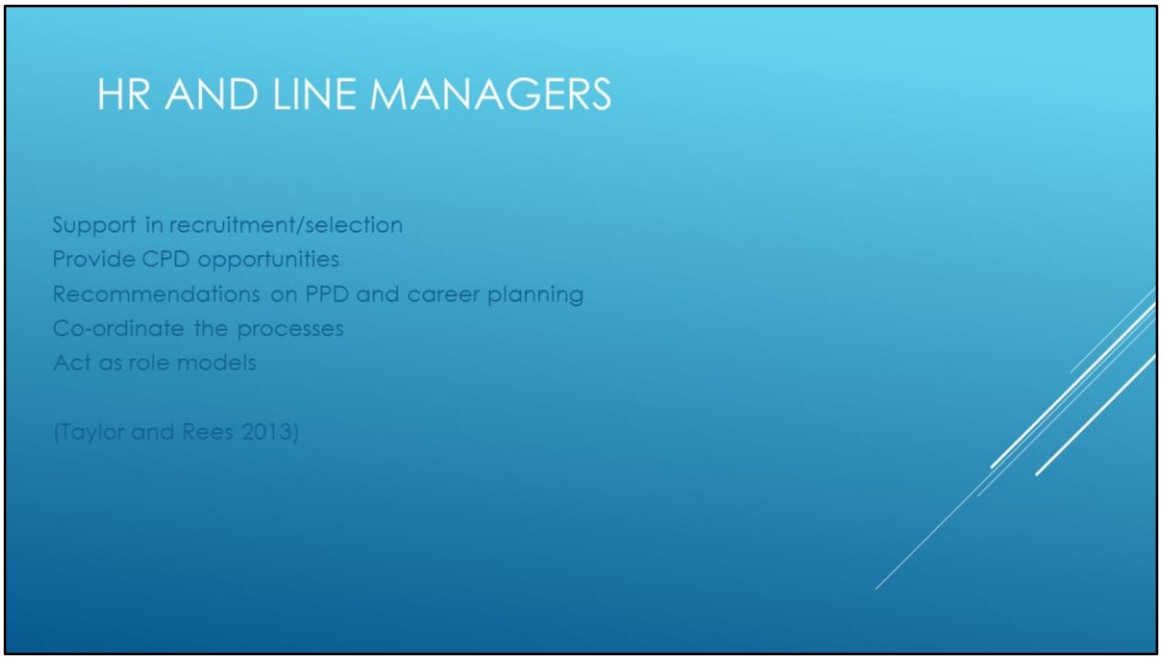
Similarly, 360-degree feedbacks must be treated sensitively, confidentially, constructively and purely for developmental to prevent staff from feeling anxious and vulnerable about the process and to avoid any rudeness and criticism of personalities (CIPD, 2018a).



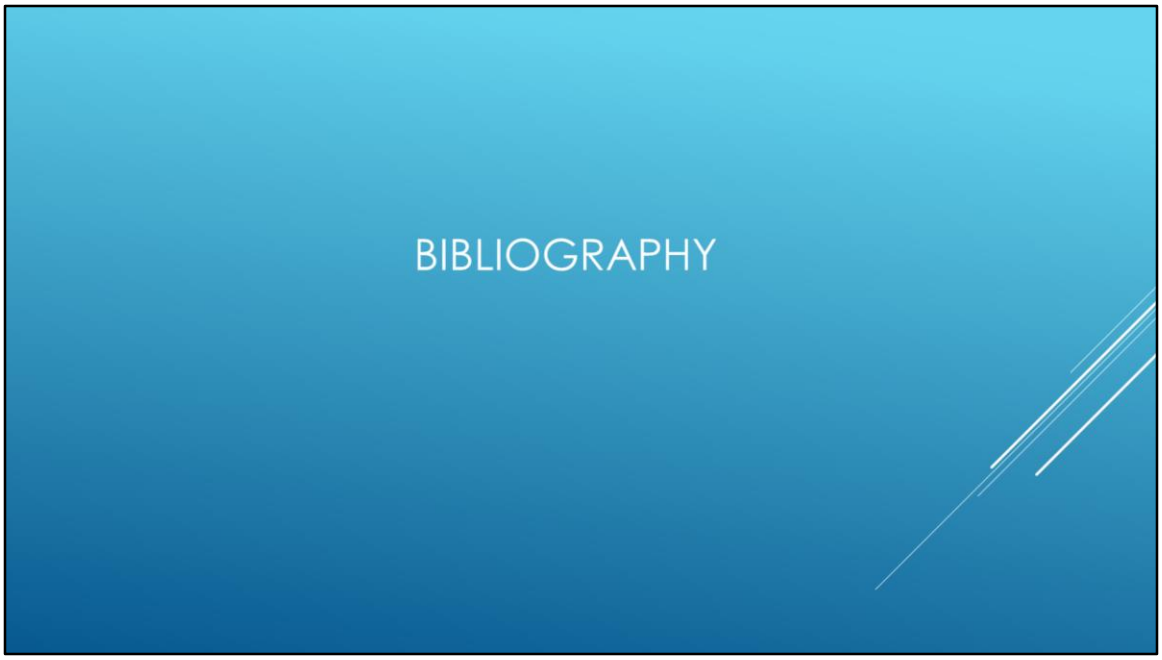
PM is line manager led. It's crucial that organisations understand their employees, learn what motivates staff and enhance good working relationships and communication (ACAS, 2019c). Line managers have an important role in PM as it's their responsibility to influence motivation and performance of employees. Lack of support or commitment from the line manager will negatively influence the performance of employees.

Line managers also influence their employee's development. During formal PM processes such as an appraisal, they can determine what training and development might be most beneficial to the individual and organisation (CIPD, 2018b).

To increase staff motivation, research has shown the importance of line managers providing clear performance focus, treating staff respectfully, involving employees in decision-making and have employees interest at the fore front when determining development and training needs (Robinson, 2010). Guaranteeing that line managers are appropriately managing their staffs performance, they must ensure that their own understanding of PM and training needs are continuously developed to allow them to be as effective and beneficial to the organisation as possible.



HR and line managers must work collectively to ensure effective and successful support of PM. PM begins at recruitment and selection, therefore whilst working together, they can provide a job description and advert that best represents the organisations mission, values and objectives. Information on the organisational objectives, values and behaviours can be reinforced during new employee inductions. HR and line managers can provide CPD, training and development opportunities to new and existing staff; working together to understand what benefits the individual and organisation the most and provide and make aware of policies for recognition and reward. HR can play a role as co-ordinator of PM processes to promote importance of commitment demonstrate ideal behaviours (Tymon and Rees, 2013).



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