

Name: Sarah Debra Tillman

CIPD Membership Number: 55478686

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Signed: S D Tillman

Date: 09 August 2020

Understanding the link
between Individual and
Organisational Performance

What is High Performance Working (HPW?)



(Creating a High Performance and Low Risk Work Culture, 2020)

HPW is an approach used to bring out the best in people in order to utilise their skills and achieve maximum performance. Employees are valuable assets and key to an organisation's success, so it is crucial they are managed effectively in order to achieve the organisations strategic objectives.

HPW is supported by Belt and Giles 2009 who describe it as ‘a general approach to managing organisations that aim to stimulate more effective employee involvement and commitment to achieve high levels of performance’ (Henderson, 2017).

Components of a HPW System

- **Employment security and internal labour markets:** it is unrealistic to ask employees to work hard and with commitment without some expectation of job security.
- **Selective hiring and sophisticated selection:** recruit and retain people is seen as an effective way to achieve sustained competitive advantage.
- **Extensive training, learning and development:** employers need to ensure that 'outstanding talent' remains at the forefront.
- **Employee involvement, information sharing and worker voice:** open communications about financial matters, strategy and operational problems ensure employees are properly informed of any organisation issues.
- **Self-managed teams / teamworking:** this leads to better decision-making and the achievement of solutions to any issues identified.
- **High compensation contingent upon performance:** this could be based on an individual team, departmental or wide-based.
- **Reduction of status differentials / harmonisation:** encourage employees to offer ideas within an 'open' management culture. (Farnham, 2015)

A set of principles, known as 'High Performance Work Systems' (HPWS), have been proven to be the most influential as they are *"a specific combination of HR practices, work structures, and processes that maximizes employee knowledge, skill, commitment, and flexibility"* (Bohlander and Snell, 2007).

There are no "set rules" about what comprises of a HPWS; Jeffrey Pfeffer suggests that these seven components are deemed as best practice as they promote competitive advantage through people. The components have been linked with high levels of organisational performance as they have been seen to increase employee involvement in decision making, improve motivation and commitment. This results in improved business performance and employee outcomes.

Benefits of HPW

- Increase productivity.
- Engagement; by developing an employee's interpersonal skills and abilities.
- Motivation; by providing opportunities to make use of their knowledge, skills and experience.
- Flexible; can be adapted to suit the needs of the organisation.
- Unified Teams; goals of individuals are clear and defined.

HPW seeks to find talented and qualified people who can meet the specific requirements of a designated role within an organisation.

HPW and Business Performance

- Jeffrey Pfeffer (1994,1998) conducted a study amongst larger private sectors in the USA and claimed that a set of HR practices can increase company profits, and this was more noticeable when complemented with HR practices.
- Pfeffer's work has since been complemented by other studies, such as Mark Huselid (1995) who carried out a similar study to Pfeffer but on a larger scale.
- Huselid issued a detailed questionnaire concerning all types of HR policy and practice to a range of 968 firms.
- The results established that the more use of HR practices there was within a firm, the lower its labour turnover, the higher its market value and the higher its profits.

Extensive research has been carried over the years to determine if 'HPW' practices lead to greater business performance.

Huselid identified that a 1 standard deviation increase in HR practices yielded:

- 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 profit per employee. (Taylor and Woodhams, 2016)

The evidence provided showed a benefit for organisations to implement 'best practice' HPWS; it can increase organisation performance, sustain competitive advantage for longer and increase the well-being and satisfaction of employees; 'high performance work practices are on average associated with a 4.6% increase in return on assets and a 4.4% reduction in staff turnover' (Taylor and Woodhams, 2016).

The Black Box Studies

- John Purcell et al carried out 'the black box studies' whereby the team identified twelve UK based organisations from a mix of industrial sectors and had sophisticated HR policies and practices in place.
- The team undertook extensive research via interviews with both employees and managers in specific areas of these businesses
- They found good, robust evidence across several organisations that demonstrated strong support for a causal link between HRM activity and business performance.

'The black box studies' identified: -

- Employees were seen to be more motivated or had job satisfaction which leads them to work harder and strive to improve their performance.
- Strong sense of shared purpose between managers and employees.
- Line Managers had to be seen by their members of staff to promote their HR policies and bring them to life.

The Gallup Organization

- The Gallup Organization (Harter et al 2002) conducted a similar study to John Purcell et al, whereby data was collected over several years, simply by response to a 12-question instrument.
- The results mirror 'the black box studies'; HR policies and practices help to generate business performance.
- This study also supports Jeffrey Pfeffer and Huselid's link to HRM.

The Gallup Organization found: -

- Greater variation in terms of the level of employee engagement between different departments within the same organisation than there is between organisations.
- Business units with the highest rates of employee engagement are doubly successful than those with the lowest measured against indicators such as productivity, customer responses and profitability.
- Strong relationship between the levels of employee involvement and rates of staff turnover. (Taylor and Woodhams, 2016).

Criticisms of the Research

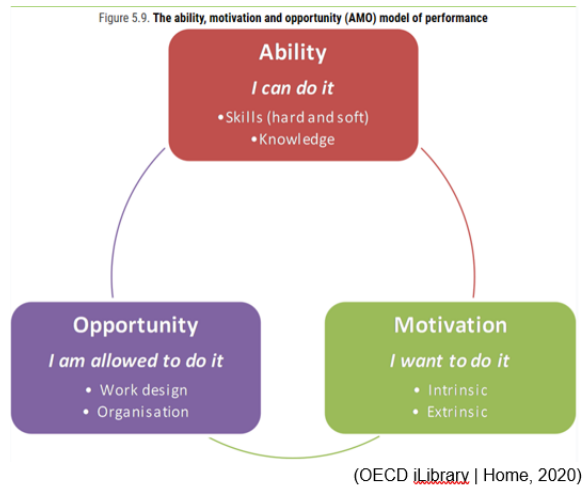
- HPWS being viewed as 'best practice' has come under criticism from various researchers.
- Correlation does not necessarily prove causation.
- HPWS may also mask the reality of work as experienced by the employee; longer working hours, tight wage settlements or additional stresses staff face.
- Steve Fleetwood and Anthony Hesketh (2010) state that you cannot predict what impact new HR interventions will have on a business performance in financial terms as both studies predominantly focus on 'HR architecture' and not enough on people.

An organisation may use its surplus profit to invest in the HR function to introduce high-tech policies and procedures. For example, Google or Apple have used their success to create an outstanding employee value scheme, making them rewarding places to work.

Netflix have scrapped the formal reviews as they were "too ritualistic and too infrequent" and have opted for the more informal 360-degree reviews. Netflix state if you 'talk simply and honestly about performance on a regular basis, you can get good results' (How Netflix Reinvented HR, 2014). This has proven evident as the company is successful without having the traditional HPW systems in place.

Paauwe et al (2013) have called for more longitudinal research to be conducted to address the concerns raised by critics. This would involve measuring business performance before and after the introduction of HPWS and would evident the claim that HPWS causes an increased level of business performance.

The AMO Model



The AMO Model provides an illustration of how employees can be motivated by their line managers simply by using the HR policies and practices in place. It argues that performance depends on an individual's Ability, Motivation and Opportunity to perform (Blumberg and Pringle 1982; Guest 1997) (MacKay, Arevuo, Mackay and Meadows, 2020).

- 'A' stands for a person's ability to perform in an organisation, for example, through training and development.
- 'M' relates to the motivation in employees that encourage them to work harder within the organisation, for example via employee engagement.
- 'O' represents a worker's opportunity to do well in the workplace, for example through job design.

This model suggests that employees perform well when they have the necessary skills and ability to do so, the motivation to perform, and are given the opportunity to perform by their line managers; therefore giving rise to higher levels of performance (Bailey et al., 2018).

The Well-Being Scale

The Well Being Scale

Areas	Elements	Initiatives/Activities
Health	Physical	Health check-ups, Work-out facilities
	Mental	Stress management programmes
	Work Environment	Chill out areas, well designed work areas
	Safety	Training, equipments
	Accommodation	Work from home, flexi timing
Emotional	Positive	Team building, building relationships
	Emotional Intelligence	Developing EQ, Anger management.
	Social Responsibility	Cleanliness drive, Serving for a cause
Self Growth	Autonomy	Independent assignments, Decision making
	Career	Sabbatical, Mentoring
	Life	Technical advancements, Access to learning
	Creativity	Innovation, Out of the box thinking workshops
Ethics & Values	Ethical	Corporate governance, organizational values
	Psychological	Employee Loyalty and Job Commitment
Work	Change management	Change readiness training, Involvement
	Work demand	Person/job fit, risk assessment
	Job security	Policy, Types of work schedules
	Autonomy	Risk taking opportunity, Control on the job

(Sanghi, 2017)

Well-being can take on various forms and it is imperative organisations are proactive and promote their well-being initiatives as this will facilitate employees to achieve their full potential.

HPW research suggests that organisations perform better when staff are healthy, motivated and focused. When implemented efficiently employees tend to display improved beneficial work-related attitudes, not only improving employee well-being and job satisfaction, but also benefiting organisational performance.

HPW and Employee Well-Being

- Ogbonnaya et al. (2013) explored both the independent and synergistic of HPW practices for employee attitudes and employee well-being.
- Their findings indicated that employees in organisations who scored highly in their use of HPW and management practices were more likely to display better work-related attitudes in comparison to firms with low adoption of these practices.
- It was also evidenced that organisations who used more innovative approaches reported a more satisfied, committed workforce and lower work-related strain. (Bevan, Brinkley, Bajorek and Cooper, 2018)

Research into well-being of employees has recently been made more evident by the coronavirus pandemic. The 2020 Covid-19 pulse report, which surveyed 996 employers identified that:-

- 1 in 5 are holding focus groups with employees.
- 48% are offering shift flexibility to support those with children.
- 1 in 5 are moving salary review dates.
- 87% advised their employees to have been provided with the right resources to work productively for an extended period (Pratt, 2020).

What is Performance Management (PM)?

Continuous Supervision Training
Priorities Communication Grow
PERFORMANCE
MANAGEMENT
Measurable Feedback Development HR
Improvement Employees
Objectives Goals by Corrective
Direction Job Descriptions Review
Coaching Promote Monitor Reward

(What is an Effective Performance Management System? 2020 Guide, 2020)

PM can be defined as a “continuous process of identifying, measuring, and developing performance in organisations by linking individual’s performance and objectives to the organisation’s overall mission and goals” (Varma and Budhwar, n.d.).

Shields (2007) pointed out that ‘it provides performance direction and recognition without which employees will be at a loss as to the nature and level of work effort required’ (Armstrong and Taylor, 2020).

CIPD elaborate further and advise that PM tends to describe activities that:

- Establish objectives through which individuals and teams can see their part in the organisation’s mission and strategy,
- Improve performance among employees, teams and, ultimately, organisations; and
- Hold people to account for their performance by linking it to reward, career progression and termination of contracts. (Performance Management, Factsheets, CIPD, 2019).

Performance Management Success

Strebler et al (2001) suggest that for PM to work it should:

- Have clear aims and measurable success criteria.
- Play a major part in the achievement of management goals.
- Allow employees a clear 'line of sight' between their performance goals and those of the organisation.
- Focus on role clarity and performance improvement.
- Be regularly and openly reviewed against its success criteria. (Armstrong and Taylor, 2020)

Performance Management Cycle

The Performance Management Cycle

38.1 The performance management cycle

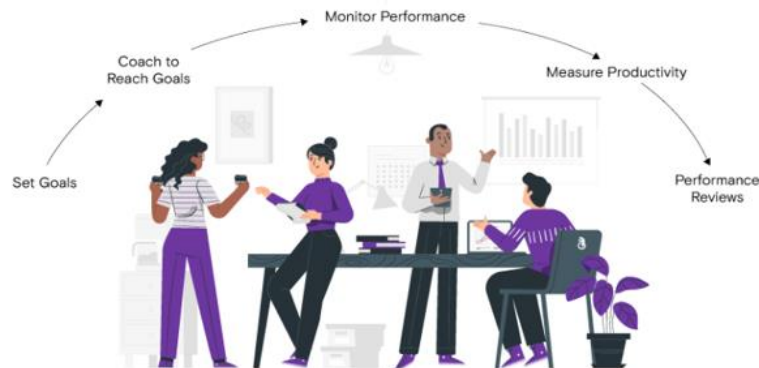


(Armstrong and Taylor, 2020)

PM is not a 'one off event'. It is a continuous cycle which involves: -

- **Planning:** setting employee goals and communicating these with them.
- **Monitoring:** monitor the employees' performance and modify any course of action required to ensure the goal remains on target.
- **Reviewing:** formal review and assessment of performance.
- **Rewarding employee performance:** A simple thank you, social recognition or a reward program that recognises and rewards the performance of an individual.

Formal Performance Management System



(Different types of performance appraisal system, [Synergita Blog](#), 2020)

Running alongside the informal cycle of PM, most organisations will operate an effective formal performance management system. This is often referred to as 'performance appraisal', 'performance evaluation' or 'personal development review'. Each system will differ in how they operate; however, they all have the following common features:

- The employee will meet with their line manager regularly to discuss their performance.
- The outcomes of each meeting will be recorded and placed on the employees file.
- Action points will arise from each meeting which employees are expected to work towards prior to their next review.

Research into Formal Performance Management Systems

- Bloom et al (2013) found strong evidence to support the benefit of having formal performance management practices in place.
- Organisations were found to be 23% more productive when the practices were in place and met the criteria:
- Targets: Employees are set objectives to achieve by benchmark dates.
- Incentives: Employees were given incentives, such as recognition or payments, to make it worth their while to achieve their targets.
- Monitoring: An organisation would collect and analyse performance data to enable them to identify where improvements can be made. (Taylor and Woodhams, 2016).

Performance Appraisal System (PAS)



(Appraisal, 2020)

The primary purpose of a PAS is: -

- to evaluate how employees are performing within their roles against a set of standards.
- to be able to measure performance for the purpose of rewarding employees in terms of benefits, incentives or promotions.
- To assist with decision making for promotion or demotion.
- to identify performance gaps and training needs in order to design suitable training and development strategies.
- to provide insight to an employees' progression in order to aid future succession planning decisions which is critical within an organisation.

Measurement of Performance

- Variations on how performance of an employee should be measured has been up for debate for several years.
- One view believes that measurement of performance should be based on an employee's actions, behaviour and performance and the other view evaluates the performance on a set of job behaviours.
- Therefore, we can categorise two types of measurement for PM; the 'narrative' approach and 'behavioural' methods.

Narrative Method

Methods include:

- Critical incident technique: the manager will keep a written record of both favourable and unfavourable actions in an employee's performance and will provide examples of both good and poor performance.
- Essay: the manager will write a short essay describing the employee's performance under categorised headings. This has been proven to provide greater flexibility.
- Field review: An outsider reviewer becomes an active partner in the rating process. The reviewer's rating is examined by the supervisor for needed changes. (Azmi., 2019)

The manager will provide a written appraisal report describing the employee's actions, behaviour and performance as opposed to ranking them.

Behavioural Methods

Approaches include:

- Behaviourally anchored rating scale (BARS): designed to bring the benefits of both qualitative and quantitative data to the employee appraisal process. BARS compare an individual's performance against specific examples of behaviour that are anchored to numerical ratings.
-
- Behavioural observation scales (BOS): The person responsible for carrying out the evaluation will use one or more scales to gauge the frequency with which the employee has demonstrated effective behaviours in the job.
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- Behavioural expectation scales (BES): Conveys the order of behaviours on a continuum to define outstanding, average, and unacceptable performance. (Azmi., 2019)

Job incumbents are evaluated according to an employees' performance and based on a set of job behaviours.

Rating Errors

- Failure can arise from the fact that every PMS involves human judgement.
- Each performance measurement involves rater interpretation, therefore, the measurement process itself is prone to various types of inaccuracy and error.
- A rater may unconsciously favour individuals who they perceive to being most like themselves, and unfavourably rating those seen as being least like themselves.
- A leniency error may occur whereby the rater is deliberately being over-generous with their score simply because they want to be seen as being a capable supervisor.

Bernardin et al found that the most lenient rater are those with a high level of agreeableness; they will tend to explain what they see.

Nobel laureate Daniel Kahneman noted, *“in our haste to arrive at a conclusion or a solution, we are prone to pre-judge situations and then to seek out, quite selectively, evidence that supports or confirms our initial position”* (Nankervis, Baird, Coffey and Shields, 2020).

Google use peer reviewers, who will list one thing the employee should do more of and one thing that they could do differently to have a greater impact on Google. A group of managers will meet to review their staff ratings, and this is designed to reduce managers bias during the performance review, as managers will explain their decisions to one another (How Google does performance management, 2015).

Limitations of Performance Appraisal System

- **Poorly trained Managers:** In most organisations, managers are not adequately trained to conduct appraisals effectively.
- **Periodic assessment:** lack continuity as the traditional approach involves periodic assessment.
- **Not tied to performance improvement:** The primary purpose of a performance appraisal is to provide the organisation with an assessment of employee strengths and opportunities for improvement and further development. Unfortunately, very few companies do this.
- **Focus on weaknesses:** Most performance appraisal systems focus on weak performers. There is significantly less focus on top performers. Therefore, there is no system in place to capture their best practices to share with others.

These limitations make traditional performance appraisals merely an exercise in paperwork and documentation and do not seem to add value.

360 Degree Feedback



(Jahan, 2020)

Performance appraisal method whereby feedback on an individual is obtained from a variety of sources. This provides a better understanding of an employee's strengths and weaknesses in comparison to the more traditional approach, which is based solely on a line manager's assessments.

Data is usually obtained from a questionnaire and measures the performance from different perspectives against a list of competencies.

360-Degree Feedback – Advantages & Disadvantages

Advantages:

Individuals get a broader perspective of how they are perceived by others than previously possible.

It gives people a more rounded view of their performance.

Increased awareness of and relevance of competencies.

Increased awareness by senior management that they too have development needs.

Feedback is perceived as more valid and objective, leading to acceptance of results and actions required.

Disadvantages:

People do not always give frank or honest feedback.

People may be put under stress in receiving or giving feedback.

Lack of action following feedback.

Over-reliance on technology.

Too much bureaucracy.

Can be time consuming and resource intensive.

(Armstrong and Armstrong, 2009)

HR and Formal Performance Management

- HR provide the support to Line Managers who own the process.
- HR will design the appraisal documentation and arrange training for managers to ensure they are carried out effectively.
- They are designed to encourage an employee to communicate their own perception of their role and what they believe to be their strengths and weaknesses.
- Secondly, they provide insight as to how the appraisee would like to progress within an organisation.

Appraiser Training



An appraiser should be provided with training to conduct an appraisal. It will ensure the appraiser is aware of how to conduct a performance review and set performance goals whilst adhering to legal guidelines. A badly conducted appraisal can lead to poor performance, impact morale and productivity within an organisation; a badly done appraisal is worse than no appraisal at all.

Five Conversations Framework

Timeframe		Conversation	Content
Month 1		Climate review conversation	• Job satisfaction, morale & communication
Month 2		Strengths & talents conversation	• The effective use of strengths & talents now & in the future
Month 3		Opportunities for growth conversation	• Improvement of performance on-the-job
Month 4		Learning & development conversation	• Growth opportunities & support
Month 5		Innovation & continuous improvement conversation	• Improving workplace efficiencies & effectiveness

(2020)

The Five Conversations Framework is an alternative approach to appraisals. Dr Tim Baker developed this framework after finding the traditional performance review approach had significant drawbacks.

This Framework is based on five themed conversations, one theme per month, for five months out of six. Each topic is covered twice in a year which will assist with an employee's development. The conversation should last around 15 minutes and focus on one of the following themes:

- Climate Review: Measure job satisfaction and morale
- Strengths and Talents: Identify and develop innate abilities
- Opportunities for Growth: Improve performance and standards.
- Learning and Development: Identify and support future learning opportunities.
- Innovation and Continuous Improvement: Improve an individuals and team's effectiveness in line with business needs. (The Five Conversations Framework: An Alternative Approach to Appraisals, 2020)

What does the future hold for PMS?

- PMS have come under scrutiny as to how fit for purpose they are.
- Michael Armstrong has called for the abolition of ratings and annual performance reviews and for the reinvention of PM as a development process.
- IT firms such as Adobe, Dell, Microsoft and IBM have already led the way and abandoned it altogether.
- A 'check in's' approach is operated which provides a focus on management setting clear expectations, collaborative feedback as opposed to solo judgement, and a focus on development and continuous improvement.

A report conducted by PwC Australia cautioned that removal of reviews may increase bias due to managers inventing their own rules about what constitutes good performance. The study also evidenced that up to 80% of firms felt they would be unable to manage both high and low performers should PM discontinue which would have an adverse effect on their business performance. The most interesting outcome of this study found that almost half of employees said they would feel no impact if the PMS was discontinued. (Nankervis, Baird, Coffey and Shields, 2020).

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