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CHAPTER 1

Setting the Scene: HRM and Performance

SUE HUTCHINSON

LEARNING OUTCOMES

By the end of this chapter you should be able to:

- explain and critique the research on HRM and performance
- understand and explain key theories that seek to explain the link between HR policies and individual and organisational performance
- appreciate the importance of the role of the line manager
- evaluate the role of employee attitudes and behaviours necessary for effective HRM and performance management
- begin evaluating issues for effective performance management.

INTRODUCTION

Performance management has many different meanings, but in essence it is about improving performance, and usually refers to a range of management initiatives which seek to make performance more 'manageable'. It can be viewed from a diverse range of perspectives including strategy, organisational behaviour, operations management, economics and accounting, and HRM. This book adopts the latter perspective, and is focused on how to improve performance through the management of people. In this context performance management is generally portrayed as an integrated process in which managers engage with employees to set expectations, measure and review results, agree improvement plans, and sometimes reward performance (Den Hartog *et al*, 2004). As such, it involves aligning a range of interrelated HR activities, such as induction, training and development, performance appraisal, and performance-related pay, with the aim of affecting individual and organisational performance. The same emphasis can be found in the strategic human resource management (SHRM) literature which emphasises the importance of a system of HR work practices that leads to better performance (eg Appelbaum *et al*, 2000). Performance management can therefore be seen as a microcosm of SHRM (Boselie, 2010).

Before embarking on the theories, activities and debates surrounding performance management it is important to consider the basic premise that HR or people management activities can and do lead to improved organisational performance. The relationship between HRM and organisational performance has proved a fertile ground for academic research, and although significant progress has been made, there still remain many

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unanswered questions about the nature of this link, such as how HR policies work, and why there is a relationship. This has come to be known as 'the black box' problem (Purcell *et al*, 2003; Wright and Gardner, 2004).

The purpose of this chapter is to review recent research in this area and provide some insight into the causal relationships between HRM and performance. This is necessary if we are to understand how performance management works. The chapter begins with an overview and critique of the research on HRM and performance, and then moves on to explore theory and research on the 'how' and the 'why' of this relationship. A model of the HR causal chain is presented which proposes a linked sequence of events to explain the connection between HR practices, employee outcomes and performance in which emphasis is given to the effectiveness of HR policies and their implementation. The role of line managers, the psychological contract, and key employee attitudes and behaviour are considered. The chapter concludes with a framework for managing performance.

HRM AND PERFORMANCE: KEY THEORIES

Searching for a causal link between HRM and organisational performance has dominated academic research in the field of HRM over the last few decades (Purcell and Kinnie, 2007). Although stimulated by research by US academics (eg Huselid, 1995; Pfeffer, 1998a), studies have tested this relationship in different countries, different sectors, different-sized organisations, with different units of analysis and using different performance outcomes (distal and proximal). Overall, the conclusion from this vast body of work is that HRM is positively related to performance, albeit modestly (Boselie *et al*, 2005; Combs *et al*, 2006). This led the CIPD to confidently claim in 2001 that that there is 'no room to doubt that a clear link between people management and performance exists' (CIPD, 2001: 4). Others, however, remain more cautious. Guest, for example, maintains that although a large majority of the published studies show an association between HRM and performance, the analysis provides evidence of an association rather than of causation (Guest, 2011).

This research into the link between HRM and performance has been primarily dominated by two schools of thought: 'best practice', and 'best fit'. More recently, a third approach has entered the debate based on the resource-based view of the firm. These debates are very well covered elsewhere in the HRM literature (see list below), and so are only briefly considered here.

Review articles/chapters of the research on HRM and performance

Boselie, P., Dietz, G. and Boon, C. (2005) 'Commonalties and contradictions in research on human resource management and performance', *Human Resource Management Journal*, Vol.15, No.3: 67–94

Boxall, P. and Macky, K. (2009) 'Research and theory in high-performance work systems: progressing the high-involvement stream', *Human Resource Management Journal*, Vol.19: 1 pages 3–23

Guest, D. (2011) 'Human resource management and performance: still searching for some answers', *Human Resource Management Journal*, Vol.21, No.1: 3–13

Marchington, M. and Grugulis, I. (2000) '"Best practice" human resource management: perfect opportunity or dangerous illusion?', *International Journal of Human Resource Management*, Vol.11, 6 December: 1104–24

Marchington, M. and Wilkinson, A. (2012) *Human Resource Management at Work*, 5th edition. CIPD (Chapters 3, 4,15)

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Purcell, J. (1999) 'The search for best practice and best fit in human resource management: chimera or cul de sac?', *Human Resource Management Journal*, Vol.9, No.3: 26–41

Wall, T. and Wood, S. (2005) 'The romance of HRM and business performance, and the case for big science', *Human Relations*, Vol.58, No.4: 429–62

Wood, S. (1999) 'Human resource management and performance', *International Journal of Management Review,* Vol.1, No.4: 367–413

BEST PRACTICE

Best practice advocates that there is a distinctive set of HR practices which can be adopted by any organisation, irrespective of setting, which will result in improved performance. Various other terms are used to describe this approach including 'high-commitment management' (eg Wood and de Menezes, 1998), 'high-involvement management' (eg Lawler, 1986), and 'high-performance work systems' (eg Appelbaum *et al*, 2000). A common theme in all of these studies is that combining HR practices into a coherent and integrated 'bundle' has stronger effects on performance than individual practices (Combs *et al*, 2006, Boxall and Macky, 2009). This is based on the assumption that firstly, practices have an additive effect (MacDuffie, 1995), and secondly, that synergies occur when one practice reinforces another. For example, training enhances participation programmes because employees are better equipped to make decisions that participation programmers empower them to make (in Combs *et al*, 2006). It is also possible for HR practices to reduce organisational performance by producing 'deadly combinations', wherein practices work against each other (Becker *et al*, 1997). The classic example is teamworking and performance-related pay which rewards highly individual behaviour.

There are many different lists of what the HR practices should be. One of the best known is presented by Pfeffer (1998a), who identifies seven practices, distilled from a previous list of 16. This includes employment security, selective hiring, extensive training, self-managed teams, high compensation contingent on organisational performance, reduction in status differentials and information-sharing. Arthur's (1994) study of small steel mills contains six type of practices (training, empowerment, high wages, performance-based reward, collective participation and skill development). Wood and de Menezes (1998) add recruitment, appraisal and job security to Arthur's list. There are many more – for instance, Guest and Hoque (1994) list 23 practices, MacDuffie (1995) has 11 practices, and Lawler (1986) four types of practices. Appelbaum *et al*'s study (2000) uses a range of practices based on three components of high-performance work systems: opportunity to participate, skill enhancement, and incentives to increase motivation (see the box below). Whatever the list, the common assumption is that these practices are universally applicable and successful.

Appelbaum *et al*'s research on high-performance work systems (HPWSs)

Appelbaum and colleagues (2000) researched the links between high-performance working practices and organisational performance in 44 US manufacturing sites in steel, clothing and medical electronics equipment in the mid-1990s. Unlike many other studies, their research involved surveys of worker responses to HR initiatives rather than managerial responses. HR practices included autonomy in decision-making, development of self-directed teams, offline team membership, communication, formal and informal training, and extrinsic and intrinsic rewards (such as pay, employment security, promotion opportunities, work–life balance). Employee outcomes included workers' trust, intrinsic satisfaction, commitment, job satisfaction and stress. Overall, the research found that the introduction of HPWSs leads to a win/win

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outcome for manufacturing plants and workers (2000: 115). Plant performance was higher, and there was consistent evidence of positive links between greater use of various HR practices and positive employee outcomes. The researchers discerned little support for the view that these systems have a 'dark side', with no evidence of 'speed up' or work intensification and higher levels of stress. The research also highlighted the importance of positive discretionary effort as the critical behaviour that can give an organisation its competitive advantage, as discussed later in this chapter.

Although this approach has a strong intuitive appeal, it has been criticised on a number of grounds, not least for its approach that there is 'one best way' of managing people, and for its failure to acknowledge the importance of contexts at the national, sectoral and organisational level (Boxall and Purcell, 2011). Why, for example, would it be appropriate for a large global restaurant chain operating in a highly competitive market on the basis of cost to adopt the same HR practices as a small UK-based knowledge-intensive firm? Differences in national culture, institutional frameworks, sector, the cost of labour, the organisation's competitive position and its size are all ignored. Performance-related pay may work in a Westernised setting but not sit well in other more collectivist cultures (Trompenaars and Hampden-Turner, 1997). Research also shows that different groups can be managed in significantly different ways (Lepak and Snell, 1999; Kinnie *et al*, 2005).

There is also a lack of consensus over what the HR practices actually are, and the importance of certain practices. Pfeffer's work, for example, attaches high importance to job security, which is not included on the list of many others. The role of employee voice and performance-related pay is also hotly contested. There are also debates about whether you need all the practices or just a core, and whether they should be applied to all employees or just to those with key skills, as proposed in Lepak and Snell's (1999) HR architecture model. The idea that HPWSs can benefit employees has also been challenged, involving claims that it can lead to work intensification, stress and more insidious forms of control (eg White *et al*, 2003; Ramsey *et al*, 2000; Marchington and Grugulis, 2000). Some forms of teamwork, for example, undermine, rather than enhance, autonomy.

The research also has a number of methodological shortcomings. It has been dominated by organisation-based surveys looking at the impact of HR policies on organisational outcomes (such as turnover, productivity, and financial measures), and gathering data from single respondents (normally the HR manager) who are expected to represent the whole of the firm. Crucially, this ignores the impact on employees (those at the receiving end of the HR practices) and only captures the practices as intended rather than those experienced by employees (Purcell, 1999; Guest, 1999). The research also fails to adequately address the issue of causality (do high-commitment HR practices lead to improved organisational performance, or is it that high-performing organisations can afford to invest in high-commitment HRM?), which can only be analysed in longitudinal research (Purcell, 1999).

CRITICAL REFLECTION 1.1

Marchington and Grugulis's critique of best practice asserts that the practices are far less 'best' than might be hoped. Focusing on the seven practices in Pfeffer's (1998a) model they argue that certain HR practices – such as self-managed teams and teamworking, which 'conveys images of working together, equality and management by peers, utilising expertise to the full and being able to make more contributions' (2000: 1109) – may not actually offer such universal benefits but increase management control and stress, and not

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increase involvement. Boxall and Macky (2009: 17) raise concerns about the interaction between involvement and work intensification, stating that 'it would be extremely unwise for anyone to argue that any particular practice, such as teamwork, automatically enhances employee autonomy and leads on to positive levels of trust, satisfaction and commitment'.

Are there any other 'best' HR practices which might also be criticised for having a negative impact on employees?

BEST FIT

Derived from the contingent view, the 'best fit' approach argues that the effectiveness of HR practices depends on how closely they are aligned to the internal and external environment of the organisation (Boxall and Purcell, 2011). In contrast to the best practice approach, it does not accept that there is one best way of managing people but avers that account must be taken of factors such as the organisation's strategy, location, sector, size and the nature of work. As with best practice, however, there are variations in the theory. For example, some believe that HR practices must fit the life-cycle of the organisation (eg Baird and Meshoulam, 1988; Kochan and Barocci, 1985), others the competitive strategy (eg Miles and Snow, 1984).

Figure 1.1 Linking HR practices to competitive strategy

Source: adapted from Schuler and Jackson (1987, as cited in Boxall and Purcell, 2011)

Schuler and Jackson (1987) have developed the approach to show how different kinds of role behaviours are needed for different competitive strategies (see Figure 1.1). Based on the three strategic options outlined by Porter (1985) of cost leadership, quality enhancement, and innovation, they identify the types of HR practices which are necessary to achieve the desired behaviours linked to the firm's strategy. For instance, a strategy of innovation will require behaviours focused on risk-taking, creativity and co-operation. Appropriate HR techniques would include selecting highly skilled staff, appraisals based on individual and team performance, a high level of discretion and broad career paths. On

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the other hand, a strategy based on cost reduction will require predictable behaviours, a short-term focus and concern for quantity rather than quality. HR policies and practices focused on a concern for results, flexible working (eg the high use of contingent labour), low investment in training, and tightly defined jobs would be more appropriate.

Critics of this approach point to the fact that organisations may pursue a mix of competitive strategies (leading to confusion over which is the most appropriate combination of HR practices), that not all firms have a clearly identifiable strategy (Purcell, 1999), and that the approach is not sufficiently flexible for the increasingly volatile environment that organisations have to operate in. Despite the logic of the contingent approach, there is little empirical evidence to support the idea that matching HR practices to strategy leads to positive outcomes (in Truss *et al*, 2012), and all the empirical evidence favours a universality model (Combs *et al*, 2006). The research is also subject to many of the methodological shortcomings identified with the best practice research.

THE RESOURCE-BASED VIEW

A rather different approach to conceptualising the theory about how HR practices impact on organisational performance is based on Barney's (1991) resource-based view (RBV) of the firm, which has been developed and applied to HRM by such authors as Wright *et al* (1994), Lepak and Snell (1999) and others. The RBV takes an 'inside-out' approach, focusing on the internal organisation resource, in contrast to the 'outside-in' approach of best fit (Paauwe and Boselie, 2003). The basic argument, as explained by Truss *et al* (2012: 107), is that 'HRM impacts on performance because a firm's HR meet the RBV criteria for a "resource", and therefore the role of SHRM is to deploy those resources effectively in such a way that sustained competitive advantage accrues to the firm.' HR can contribute to sustained competitive advantage by meeting the following RBV criteria for resources:

- **value** – the resource must be capable of adding value to the firm. For instance, employees with high levels of skills are shown to be those that bring the most value to the firm (Wright *et al*, 1994).
- **rarity** – the resources and capabilities of the firm should be different from those of its competitors. Highly skilled people are rare.
- **imitability** – the resources must be very difficult to copy. Even if people have the same skills across organisations, there will be differences in the way people deploy their skills and are managed.
- **substitutability** – the resources must not be easily substitutable by other factors.

The practical application of the RBV rests on defining and developing core competences. This is discussed further in Chapter 7. It also emphasises the importance of culture and values, which is explored in Chapter 2. However, there are a number of serious shortcomings with the RBV, including its status as a theory (it does not really explain how organisations work or predict which will do better than others over time), its failure to take account of the external environment, and its applicability to all kinds of organisations (Paauwe and Boselie, 2003). Critics have also noted the absence of empirical studies that test out the theory and its lack of detail for practitioners. More recently, other approaches have been 'grafted' on to the RBV (Truss *et al*, 2012: 116), including the institutional perspective (Paauwe, 2004), which takes account of the fact that organisations are part of a wider social and institutional environment.

A MODEL OF THE HR CAUSAL CHAIN

One of the critical limitations of all this research is that it fails to explain the relationship between HR practices and individual and organisational performance. As Purcell and Kinnie note (2007: 539), this is the problem of theory – we do not know how and why a

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mix of HR policies and practices influences performance. How and why, for instance, do job design, enhanced selection, training, participation and performance appraisal linked to compensation positively relate to labour productivity, corporate financial performance, and lower employee turnover? As Huselid claims (1995: 667):

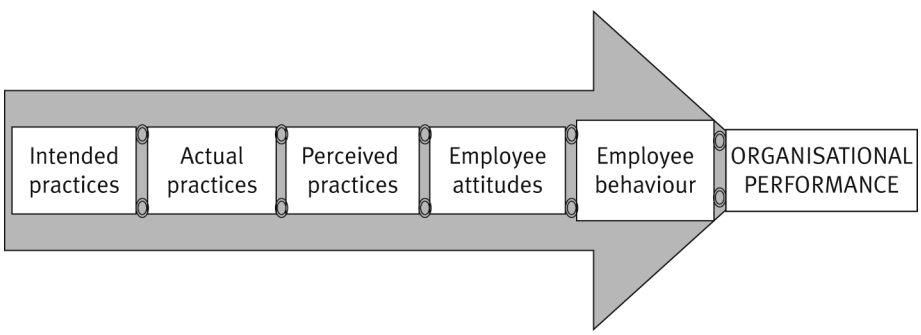
> The magnitude of the returns on high performance work practices is substantial. A 1 per cent standard deviation increase in such practices is associated with a 7.05 per cent decrease in labour turnover and, on a per employee basis, US $27,044 more in sales and $18, 641 and $3,814 more in market value and profits respectively.

For obvious reasons this has been referred to as 'the black box' problem (Purcell *et al*, 2003; Wright and Gardner, 2004).

Looking inside the black box requires specifying the HR causal chain (Purcell and Kinnie, 2007), and in recent years a number of theories have been put forward to explain the process by which HRM impacts on performance (eg Becker *et al*, 1997; Guest, 1997; Appelbaum *et al*, 2000; Bowen and Ostroff, 2004; Wright and Nishii, 2004; Boxall and Macky, 2009, Nishii *et al*, 2008; Paauwe and Richardson, 1997). These look beyond the mere presence of HRM, and focus on the effectiveness of HR practices by considering the impact on employee attitudes and behaviours.

One of the principal models which explain these links is that developed by Wright and Nishii (2004). Their HR causal chain has five critical steps, moving from (1) intended HR practices, leading to (2) actual practices, leading to (3) perceived practices, leading to (4) employee reactions, and finally to (5) performance outcomes. Wright and Nishii's model has been developed further by Purcell and colleagues (Purcell and Kinnie, 2007; Purcell and Hutchinson, 2007) to subdivide employee reactions into employee attitudes and behaviour (see Figure 1.2).

Figure 1.2 The people management–performance causal chain



Source: Purcell and Hutchinson (2007)

The key features of the model are:

- **Intended HR practices** – These are the HR policies and practices designed by the organisation and contained in strategy and policy documents, and concern employees' ability, motivation and opportunity to participate (discussed later in the chapter). They are influenced by the nature of the business, the organisation's strategy and values, and its work structures. Den Hartog *et al* (2004) refer to HRM practices as 'signals' of the organisation's intentions towards its employees, which are interpreted as such by employees.
- **Actual HR practices** – These are the practices which are actually applied or implemented in the workplace, more often than not by line managers (discussed in

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more detail below). Research suggests that there is frequently a gap between intended and implemented HR practices, and that when intended and implemented practices are congruent, employee satisfaction and organisational performance is higher (Khilji and Wang, 2006). This gap can be minimised by addressing the role and effectiveness of line managers in delivering HRM (Truss, 2001; Hutchinson and Purcell, 2003; Khilji and Wang, 2006).

- **Perceived HR practice**s – How employees perceive HR practices will be judged through the lens of fairness, organisational justice and the psychological contract. Individual perceptions of HR practices will vary according to the organisational climate, individuals' expectations and evaluations of their employer, their beliefs, and previous and current job experiences (eg effort, autonomy, stress) (Bowen and Ostroff, 2004; Den Hartog *et al*, 2004). Positive perceptions of HR practices are thought to directly influence attitudes and employee behavioural outcomes, and is suggested by social exchange theory (Blau, 1967). This posits that there is a 'norm of reciprocity' – in other words, if people are treated well by a person or entity, they will feel a sense of obligation to reciprocate. In the HRM context, this means that perceived investments in HR practices can give employees a feeling that the organisation values their contributions and cares for their wellbeing, which will elicit positive employee attitudes and behaviour. So if people have very positive perceptions about their training or career opportunities, it can be expected to affect their job satisfaction and commitment to the organisation. In Khilji and Wang's analysis HR satisfaction emerges as a powerful indicator of organisational performance, leading them to assert (2006: 1185) that 'it is employee satisfaction with HRM, not the mimicry of HR practices, which translates into improved organisational performance.' More recently, Nishii *et al* (2008) have used attribution theory to explore the way in which workers interpret HR practices and show how these interpretations can shape employee responses (see *Attribution theory* box below).
- **Attitudinal outcomes** – These include job satisfaction, involvement, morale, and commitment. In theory, we would expect highly committed and satisfied employees to be more productive and flexible than those with low commitment and dissatisfaction. Boxall and Macky (2009) suggest including other attitudes such as motivation and trust (in management and in peers), and argue that different HR practices may influence different attitudes. Atkinson and Hall (2011) make the case for including 'happiness' as an important attitude, returning to the rather neglected 'happy/productive worker' thesis (Wright, 2006) which makes the case for linking happiness with wellbeing and job performance (discussed later in this chapter).
- **Behavioural outcomes** – Performance-related behaviours are assumed to flow from attitudes. This includes discretionary behaviour, organisational citizenship behaviours, and 'engagement', which has recently been used by some as an indicator of positive behaviour. Dysfunctional work behaviours could also be included here, such as counterproductive work behaviour (ie behaviour which harms employees, such as bullying or discrimination, or the organisation, such as sabotage) and withdrawal work behaviour, such as absence, lateness and turnover (Fuchs, 2010). These types of behaviours are discussed further in Chapters 5 and 9.
- **Performance outcomes** – These are seen in a raft of measures such as profit, market value, market share, sales, service quality, financial performance and customer satisfaction, sometimes referred to as distal outcomes (Paauwe and Richardson, 1997; Guest, 1997). Also relevant here are critical HR goals such as productivity, legitimacy and flexibility (Boxall and Purcell, 2011). Guest (1997) and others make a case for using proximal outcomes of performance in studying HRM, which includes HR goals, since these are directly or almost directly affected by HR practices. Distal outcomes will be influenced by other factors outside HRM. This debate is returned to later in the chapter.

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ACTIVITY 1.1

Critical HR Goals

Boxall and Purcell (2008, 2011) identify a number of critical HR goals, covering economic and socio-political goals. They include:

- cost effective labour
- organisational flexibility
- social legitimacy and employment citizenship.

The latter concerns the legitimacy of the organisation to the outside environment (eg society, consumers, trade unions, government) but also to its employees. Nike's use of child labour some years ago directly affected its social legitimacy, impacting negatively on its corporate image, with potentially damaging consequences for consumer behaviour.

1. What other HR activities might impact on each of these three goals?
2. Discuss the potential tension between these three goals in organisations. How can they be reconciled?
3. Can you think of any other critical HR goals that might be included?

Attribution theory

Nishii *et al* (2008) use attribution theory to explore the 'why' of HR practices, arguing that the attribution employees make has an impact on their attitudes and behaviours. 'Attributions' in this context are defined as the 'causal explanations that employees make regarding management's motivation for using particular HR practices' (p507). There are five possible attributions: compliance with the union, employee wellbeing, exploiting employees, a focus on quality of service, and a focus on cost reduction.

Based on a survey of departmental managers and employees in a large supermarket chain, the researchers found that the attribution that HR practices are motivated by the organisation's concern for enhancing service quality and employee wellbeing was positively associated with employee attitudes. However, the attributions that centred on reducing costs and exploiting employees were negatively associated with attitudes, and the attribution associated with union compliance was not significantly associated with attitudes either way. Also of significance was the finding that the same set of HR practices may not exhibit the same response within the same organisation.

On a practical level the study suggests that organisations should assess HR attributions if they want to know why their HR policies have or have not achieved the organisational goals intended.

(Source: Nishii, Lepak and Schneider, 2008)

In sum, this model makes significant contributions to our understanding of the link between HRM and performance. It suggests that the effect of HR policies and practices on performance is not automatic and is not always as intended. Instead, the effect depends on the effectiveness of HR practices and their implementation. The model also emphasises the important role of employee attitudes and behaviours.

Researchers are now starting to pay attention to these issues. In a recent study of senior and HR managers, Guest and Conway (2011) found that when the presence of HR practices was compared with their effectiveness, it was the effectiveness which had the stronger impact on most outcomes (eg labour productivity, financial performance, quality of products/services) – ie effectiveness is more important than the presence of practices in determining outcomes. Research for the CIPD by Purcell and colleagues (Purcell *et al*,

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2003), which sought to 'unlock the black box', broke new ground by focusing attention on the employee in explaining the HR–performance link. One of their findings was that differences between the intended HR policies and the practices that are delivered by management can have potentially damaging consequences for employee attitudes and behaviour, and ultimately for organisational performance.

The rest of this chapter considers some elements of this chain of events, beginning with the AMO framework which provides a useful starting point from which to explain how HR practices might impact on performance. The role of line managers, the psychological contract and then some potentially influential attitudes and behaviours are discussed.

THE AMO THEORY OF PERFORMANCE

The ability, motivation and opportunity (AMO) model, initially proposed by Bailey (1993) and developed by Appelbaum *et al* (2000), has become a commonly accepted framework to explain how HR policies might work and impact on performance, and is helpful in deciding which HR policies should be developed and implemented. According to Macky and Boxall (2007), most of the studies on high-performance working practices use the AMO framework either explicitly or implicitly (for example, Huselid, 1995; Appelbaum *et al*, 2000; MacDuffie, 1995; Purcell *et al*, 2003). The model proposes that HR practices contribute to improved employee performance by developing employees' abilities (A) and skills to do their job, improving an employee's motivation (M) for discretionary effort, and providing employees with the opportunity (O) to make full use of their skills and be motivated.

Examples of how HR practices can achieve this are:

- **A (ability)** can be influenced by recruitment and selection to ensure that capable employees are recruited in the first instance, and by training, learning and development. Competency frameworks are a useful tool to express and assess abilities and skills (discussed further in Chapter 7).
- **M (motivation)** is influenced by extrinsic (eg financial) and intrinsic rewards (eg interesting work) performance reviews, feedback, career development, employment security, and work– life balance. Motivation is explored in Chapter 3.
- **O (opportunity)** is influenced by involvement initiatives, teamworking, autonomy, communication, job design and job rotation. Many researchers claim that this is the distinctive feature that marks high-performance working practices out from other HR practices (Appelbaum *et al*, 2000; Wood and Wall, 2007; Boxall and Macky, 2009).

ACTIVITY 1.2

Thinking about your own work experiences, what HR policies do you think would influence AMO?

In Appelbaum *et al*'s model of performance, HR practices contribute to improved employee performance by encouraging employees to exhibit positive discretionary behaviours (Figure 1.3). Purcell *et al*'s work took a similar approach, developing it further in their study for the CIPD (Purcell *et al*, 2003). 'Discretionary behaviours' refers to the degree of choice people have over how they perform their job, and recognises that employees can contribute more to the organisation than simply enough to get the job done (see *What is discretionary behaviour?* box below). It is closely related to organisational citizenship behaviours discussed in more detail later in this chapter.

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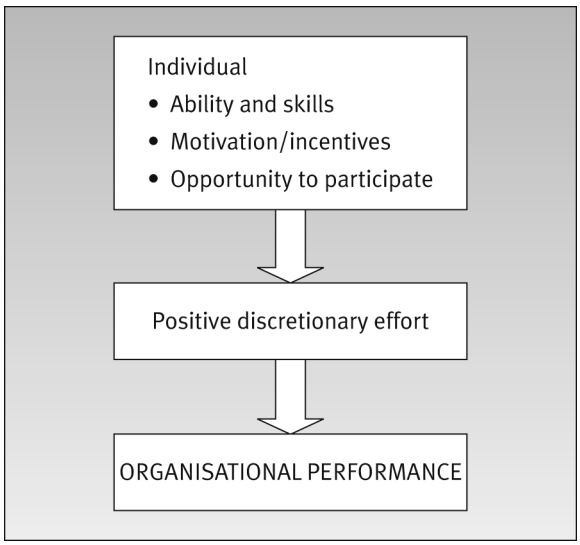
Figure 1.3 The AMO model of performance



Source: adapted from Appelbaum *et al* (2000)

What is discretionary behaviour?

Discretionary behaviour refers to the degree of choice people have over how they perform their tasks and responsibilities (Purcell *et al*, 2003). Significantly, it is something that is undertaken voluntarily and cannot be forced. Interest in discretionary behaviour is not new and can be traced back to the work of Fox (1974) who argued that 'every job contains both prescribed and discretionary elements'. Positive discretionary behaviours are associated with working beyond the basic requirements of the job and 'going the extra mile' for the organisation. Examples include taking on additional tasks, covering for an absent colleague, helping new employees learn the job, mentoring, being polite to a customer. These behaviours are particularly important in service industries such as banking, retail, and the hotel industry where relationships between the customer and employees make a vital difference to service quality. It is this which can give an organisation a distinct competitive advantage. This view contrasts with traditional Taylorist systems of management (see Chapter 3) which give emphasis to limiting discretion through tightly prescribed jobs and tasks, and close supervision.

(Source: adapted from Purcell *et al*, 2003.)

Implicit in the AMO model is an assumption that managing employees at the individual level brings together a range of HRM policies and practices which are inter-related, are mutually supportive, and can be bundled, similar to the best practice model. If any of the key components (A, M, and O) are missing, discretionary effort is unlikely to be forthcoming. For example, an employee may have the ability, skills, and the motivation to perform well, but if not empowered to make decisions, if restricted by the job description, or if not given the right information, performance is likely to be inhibited.

Exactly what these HR policies are will vary from sector to sector and organisation to organisation. Appelbaum *et al*'s research, for example found that the HR practices associated with AMO had different effects in different industries. In the clothing industry, for instance, they found that self-directed teams were highly influential (raising sewing

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time by 94% and leading to considerable cost savings); in medical equipment the opportunity to participate was closely associated with profits, value added and quality. Michael West's study (West *et al*, 2002) illustrates how AMO can work in practice in the health sector (see the case study *A matter of life and death* below).

It should be noted, however, that other factors in addition to HRM affect the AMO components (Boxall and Purcell, 2011), as discussed later in this chapter.

CASE STUDY 1.1

A MATTER OF LIFE AND DEATH

In a study of 61 hospitals in England, Michael West (West 2002) and colleagues found strong associations between HR practices and patient mortality. Chief executive and HR directors completed a questionnaire asking them about their hospital characteristics, HRM strategy, employee involvement strategy and practices, and other HR policies and practices covering the main occupational groups, such as doctors, nurses and midwives, professions allied to medicine, ancillary staff, professional and technical staff, administrative and clerical, and managers. Data was also collected on the number of deaths following emergency and non-emergency surgery, admission for hip fractures, admission for heart attacks, and re-admission rates. Care was taken not to bias the data and account was taken of the size and wealth of each hospital and of local health needs.

Their analysis found a strong link between HRM practices overall and patient mortality. Three practices in particular appeared to be significant:

- appraisal – this had the strongest relationship with patient mortality. In other words, if satisfaction with appraisal improves, patient mortality falls
- training policies that are well developed
- the extent of teamworking.

The relationship was even stronger where the HR director was a full voting member of the hospital board.

One of their conclusions was that 'If you have HR practices that focus effort and skill, that develop people's skills, and that encourage co-operation, collaboration, innovation and synergy for most if not all employees, the whole system functions and performs better.'

A similar model to AMO is the PIRK rubric (power, information, knowledge, reward) (Vandenberg *et al*, 1999) which can be mapped onto AMO – power being similar to opportunity, information and knowledge to ability, and reward to motivation (Cox *et al*, 2011). Like the AMO components, the four dimensions are mutually reinforcing. However, the causal chain is slightly different. Rather than explaining improved performance through increased discretionary effort, the model suggests a 'direct' route whereby HR processes directly improve performance by allowing employees to do their job better, and an 'indirect' path by which HR processes increase job satisfaction, commitment and lower quit rates (Boxall and Purcell, 2011).

It is, however, the AMO framework that is referred to regularly throughout this book because it is more commonly used in the HRM–performance literature.

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THE ROLE OF LINE MANAGERS

Over the last few decades line managers have been expected to take on greater responsibility for HRM, and in most organisations it is the line manager, not HR specialists, who implement HRM (Larsen and Brewster, 2003; Hutchinson and Wood, 1995; Hutchinson and Purcell, 2007; Perry and Kulik, 2008; IRS, 2008). Recent studies show how the behaviour of line managers mediates the effect of HR practices on attitudes and behaviour (Purcell *et al*, 2003; Purcell and Hutchinson, 2007; Truss, 2001). For example, Purcell and colleagues show that the way line managers implement and enact HRM, or 'bring policies to life' and show leadership, strongly influences employees' attitudes. In analysing the role of frontline managers (FLMs) – those at the lower levels of the management hierarchy – they find (Hutchinson and Purcell, 2003: 14) that:

> The higher employees rate FLMs in terms of the way they manage people, the more committed and satisfied those employees will be, and the higher their levels of (self-reported) job discretion.

In a subsequent paper they go further and argue (Purcell and Hutchinson, 2007: 4) that:

> Poorly designed or inadequate policies can be 'rescued' by good management behaviour in much the same way as 'good' HR practice can be negated by poor frontline management behaviour or weak leadership.

The gap between intended and actual practices can be largely explained by the problems line managers face in implementing HR practices, such as work overload, lack of competence and skill, lack of willingness, and inadequate support (Purcell *et al*, 2008/9; Perry and Kulik, 2008; Maxwell and Watson, 2006; Nehles *et al*, 2006). Table 1.1, adapted from the ACAS guide for FLMs, illustrates how the difference between theory and practice may manifest itself in the workplace.

Research on leader–member exchange, perceived supervisory and organisational support, the psychological contract and interactional and procedural justice also highlights the importance of manager–employee relationships and role of the line managers in implementing HRM (eg Uhl-Bien *et al*, 2000; Rhoades and Eisenberger, 2002; Guest and Conway, 2002). Chapter 4 specifically explores the critical role of line managers in performance management, the barriers they face, and the supportive conditions necessary for effective line management behaviours in performance management.

Table 1.1 ACAS: The theory and the practice

The theory	The practice
Your policy is that FLMs should meet quarterly	Do your FLMs: • meet only when there is a problem? • have an ongoing dialogue with their staff that negates the need for formal meetings? • meet their staff quarterly to discuss performance – but only for five minutes?

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The theory	The practice
Your attendance policy is that FLMs have 'return-to-work discussions' with all absent employees on the day they return	Do your FLMs: ● hold return-to-work meetings only if they don't know why an individual is absent? ● hold return-to-work meetings only if they feel the employee will be comfortable talking about personal issues? ● insist that the employee give a full account of their absence no matter what the reason?
Your policy on communication and consultation is that FLMs should talk to their staff about all changes to the way their teams are run	Do your FLMs: ● give staff a chance to express their views before a decision is made? ● present changes as a *fait accompli* but offer to be sympathetic about their concerns? ● discuss changes with one or two people in the team and hope they'll tell their colleagues?

Source: ACAS (2009a)

THE PSYCHOLOGICAL CONTRACT

The concept of the psychological contract is particularly helpful to our understanding of how employees perceive HR practices and of their reactions in terms of attitudinal and behavioural outcomes. The idea of the psychological contract (PC) was first discussed in the 1960s (Argyris, 1960), but reconceptualised in the 1990s when it re-emerged as a popular concept in HRM following the work of Rousseau (1995). This has resulted in two different interpretations of the concept. The first is based on the work of Argyris (1960) and Schein (1978: 48), who define it as

> 'a set of unwritten reciprocal expectations between an individual employee and the organisation'.

The second is based on the work of Rousseau who takes a different perspective and views it from the employee perspective, defining it (Rousseau, 1995: 6) as:

> 'individual beliefs, shaped by the organisation, regarding terms of an exchange between individuals and their organisation'.

Rousseau therefore positions it as subjective, individual, and 'in the eye of the beholder'. Rousseau further distinguished between transactional contracts and relational contracts. The former are based primarily on economic incentives such as pay, and focus on short-term exchanges, whereas relational contracts are less tangible and focus on broad, open-ended exchanges (eg loyalty in return for job security) and are longer-term. It is relational contracts that are often considered more important since they can signify increased commitment and strong identification with the organisation and its goals (Tietze and Nadin, 2011). Rousseau suggested that HR practices send out strong messages to individuals regarding what the organisation expects of them and what they can expect in return (for example, during the recruitment process or in performance appraisals), and it is this perspective which is particularly useful in explaining the HR causal chain.

An important point about the psychological contract is that it is based on expectations believed by the employee to be part of the relationship with the employer and can be

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inferred from action in the past as well as statements and promises made by employers (Conway and Briner, 2004). Promises can be explicit and implicit, written and unwritten. Some examples of mutual promises are given Table 1.2.

Table 1.2 Implicit and explicit promises

Employees might promise to:	Employers might promise to:
• work hard • show loyalty to the company • act as 'ambassadors' for the organisation and uphold its reputation • maintain good attendance and punctuality • put in extra effort when necessary • be flexible with regard to tasks, duties and hours when required • learn new skills and update existing ones • be courteous to customers and colleagues • be honest • make suggestions for improvement	• deliver pay commensurate with performance • offer an attractive benefits package • provide training and development opportunities • provide opportunities for promotion • give recognition • provide reasonable job security • provide interesting work • provide a safe place to work • give feedback on performance

Source: Conway and Briner (2004)

In their work for the CIPD, Guest and Conway (2002) propose a causal relationship between HR practices, the psychological contact, employee attitudes and behavioural outcomes. These outcomes are also influenced by contextual factors such as individual and organisational characteristics, and policies concerning organisational support, control, and change (Figure 1.4). They refer to the 'state' of the psychological contract which is viewed through the lens of fairness, trust and 'delivery of the deal'. When the contract is positive (ie expectations are met and promises fulfilled), increased employee commitment, satisfaction and motivation will result and have a positive impact on behaviour and business performance. However, if the psychological contract is breached or violated, employee commitment and motivation will be undermined, resulting in negative work behaviours such as reduced discretionary effort, absence or resignation. Conway and Briner's research found that broken and exceeded promises occurred regularly at work (69% of participants reported at least one broken promise over the period of analysis) and in relation to many aspects of work. Line managers were the main agents for this.

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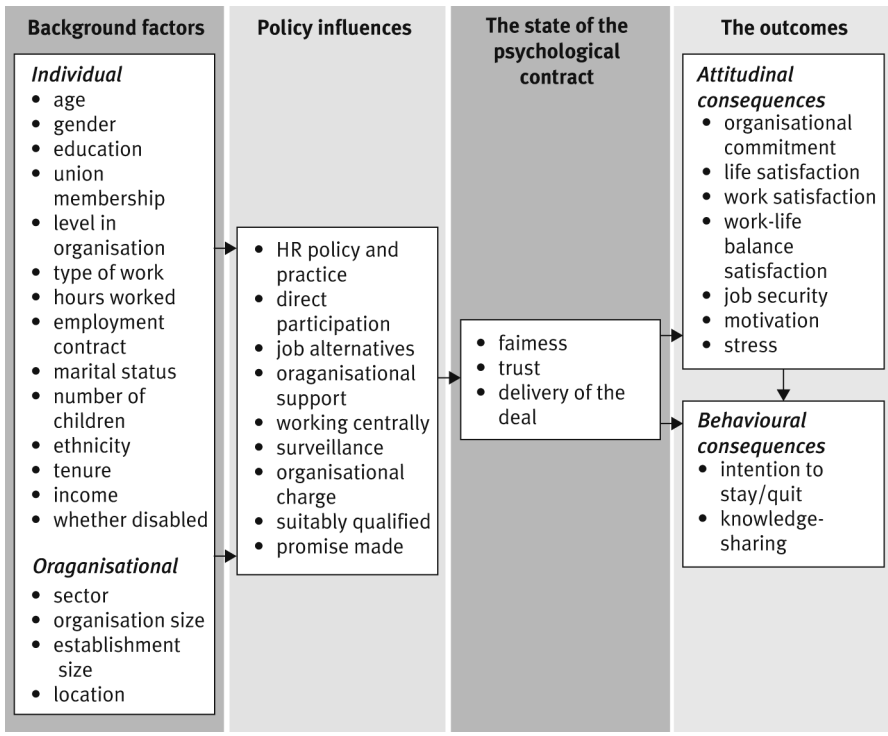
Figure 1.4 The psychological contract model



Source: adapted from Guest and Conway (2002)

The psychological contract is therefore a key link in the HR causal chain because it focuses on employees' perceptions of HR practices which impact on employee attitudes and behaviour (Guest, 2007). Performance management practices which communicate the terms of the psychological contract include induction, performance appraisals, training and development, and performance-related pay. These topics are addressed in detail in subsequent chapters.

CRITICAL REFLECTION 1.2

Why is it often difficult, in practice, for the organisation to set out explicitly what it perceives its own psychological contract to contain?

EMPLOYEE ATTITUDES

The assumption made in the model is that attitudes influence behaviours, and that attitudes can be changed. The popularity of attitude surveys suggests practitioners also hold this belief. However, the extent to which attitudes predict behaviour is not as obvious as the model assumes, and the relationship is far more complex than that. In this section two of the more traditional key attitudes are considered: job satisfaction, and

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organisational commitment. Motivation – which can be described as both an attitude and a behaviour – is explored in a separate chapter.

JOB SATISFACTION

Job satisfaction has been described as a 'pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences' (Locke, 1976: 1304). 'Satisfaction' can refer to a variety of aspects of the job – the extrinsic (eg pay, career opportunities, working conditions) and the intrinsic (eg the job itself, responsibility) – and is often used as one indicator of employee wellbeing. The 1998 UK Workplace Employee Relations Survey (WERS) used a combination of key intrinsic and extrinsic aspects of the job to record job satisfaction, including satisfaction with the amount of influence, the sense of achievement in the job, the level of pay and the respect received from management. In 'searching for the happy workplace', Riccardo Peccei (2004) combined these measures with perceptions of job stress to measure wellbeing or happiness (high job satisfaction, low levels of stress).

It is generally assumed that satisfied employees are productive employees ('a happy worker is a productive worker'), and that job satisfaction is a predictor of job performance – ie that people perform better when they are more satisfied with their job. However, there is no strong compelling evidence that this is the case, and it is possible to find dissatisfied employees who are very productive and satisfied employees who are not particularly productive. It could also be that people are more satisfied with their job because they work harder or are more successful at it. On balance, however, the research suggests a positive, but moderate, relationship between job satisfaction and job performance, and that this is stronger for professional jobs (Judge *et al*, 2001). There is also evidence that job satisfaction is negatively correlated with voluntary turnover (eg Harter *et al*, 2002), and that job dissatisfaction is an antecedent of an intention to quit (Griffeth *et al*, 2000). Nevertheless, the extent to which job satisfaction affects performance remains unclear, partly because a multitude of factors can influence a person's job, such as personality, education, ability, and organisational factors (leadership style, work relationships, organisational change, and HR policies and practices).

CRITICAL REFLECTION 1.3

Can an unhappy worker display positive discretionary behaviour ?

COMMITMENT

Organisational commitment is associated with the relative strength of an employee's identification with, and involvement in, an organisation (Mowday *et al*, 1979) and generally considered to be something that employers want from their employees, and at the heart of models of HRM (eg Guest, 1997; Storey, 2007). Commitment, however, is complex and multifaceted. Three forms of commitment have been identified (Meyer and Allen, 1991):

- **Affective commitment** relates to an individual's emotional attachment to the organisation such that people continue employment because they want to. It is this type of commitment to which people are normally referring when they talk of 'organisational commitment'.
- **Continuance commitment** is more calculating and is about a person's perception of the costs and risks associated with leaving the employer. Employees who remain in the

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organisation because they need to (eg because they cannot find a job elsewhere) display continuance commitment.

- **Normative commitment** reflects an individual's feeling of obligation to the organisation as his or her employer – that is, they remain in the organisation because they feel they ought to. This may be because of attachment to work colleagues, to the line manager, or to customers.

Such distinctions are important because research suggests that a positive commitment–performance link is most likely to stem from affective commitment, as opposed to normative or continuance commitment. Affective commitment has been found to be associated with higher productivity, organisational citizenship behaviours (OCBs), an intention to stay, attendance and better health, but also stress (Meyer *et al*, 1989; Meyer *et al*, 2002). Employees who show this form of commitment are likely to engage in less counterproductive behaviour than those who are less committed (Wright *et al*, 2003). This is discussed further in Chapter 9.

The other two forms of commitment tend to be associated with negative outcomes. For example, continuance commitment has been negatively associated with organisational citizenship behaviour (Shore and Wayne, 1993) and job satisfaction (Hackett *et al*, 1994). This seems to make sense. High continuance commitment based on a perception of lack of employment opportunities elsewhere may simply be because people are not good at their job. Continuance commitment may also be a reflection of particularly high pay or good benefits, known as 'golden chains'. If an employee becomes dissatisfied with his or her work or simply wants to move on and do something else, the 'chains of gold' may become a source of frustration and demotivation as the individual is faced with having to choose between either moving on or staying just for the super benefit. Normative commitment arises out a sense of moral obligation to continue in a job, not because of any sense of motivation, and may also result in negative outcomes.

The notion of commitment is further complicated by the fact that employees can feel multiple commitments at work. A nurse, for instance, can feel commitment to the organisation, the profession, the team/department and the patient. Becker *et al* (1996) found that commitment to the supervisor is more highly correlated to job performance than is organisational commitment.

Despite the assumed importance of commitment in the HRM literature, the links between attitudes to HR practices and commitment is a surprisingly under-researched area (Conway and Monks, 2009; Edwards and Wright, 2001). Among those who have studied this are Purcell *et al* (2003), who found that employee satisfaction with certain HR practices – such as reward and recognition, communication and work–life balance – were consistently linked to organisational commitment. However they also found that other practices might be tailored to the particular needs of certain job categories (employees, managers and professions) (Kinnie *et al*, 2005). For instance, employee satisfaction with career opportunities was only important for commitment of managers, and satisfaction with performance appraisal was only linked to the commitment of professionals. This is relevant to the debate on the HR architecture model developed by Lepak and Snell (1999).

A few other studies have examined the impact of employee attitudes towards HR practices on the different types of commitment. Conway and Monks' (2009) study shows that attitudes towards particular HR practices positively influence affective commitment, but there was no clear evdience that this was the case for continuance and normative commitment. Pay has been positively associated with continuance commitment (Iverson and Buttigieg, 1999), attitudes towards career management have been related to affective and normative commitment (Iverson and Buttigieg, 1999; Taormina, 1999), and attitudes towards transferable skills and promotion prospects have been shown to be negatively associated with continuance commitment (Meyer *et al*, 1989; Allen and Meyer, 1990). There is also evidence that affective commitment is influenced by strategies aimed

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towards corporate social responsibility (or CSR), such as the ethical treatment of employees (Brammer *et al*, 2007).

CRITICAL REFLECTION 1.4

Can commitment be managed?

Commitment is affected by other factors in addition to HR policies – such as personality, job role experiences, work experiences, and structural factors (Legge, 2005). This has led writers such as Conway and Monks (2009) to ask if commitment can be managed. Some of the arguments cited by Conway and Monks are that employees may not be ideologically disposed to commitment; that there may be resistance from unions (for instance, in relation to participation); and that line managers may inhibit commitment because they 'may have their own misguided assumptions about what motivates employees as well as how to manage them' (Iverson and Buttigieg, 1999).

1. Do you agree with this view?
2. What are the implications for performance management?

EMPLOYEE BEHAVIOURS

ORGANISATIONAL CITIZENSHIP BEHAVIOURS

Organisation citizenship behaviours (OCBs) are closely linked to discretionary behaviour and associated with positive outcomes for organisational performance and efficiency. This concept has grown in popularity in the last few decades because it is considered a good indicator of a person's willingness to perform in the interests of the organisation and may therefore be particularly useful when organisations are under pressure. The presence of OCBs are thought to decrease the need for formal and costly mechanisms of control (in Becton *et al*, 2008). Organ, who has been instrumental in defining and researching OCBs, defines it thus (Organ, 1988: 4):

> behaviour that is discretionary, not directly or explicitly recognised by the formal reward system, and that in aggregate promotes the effective functioning of the organisation… . the behaviour is not an enforceable requirement of the role of the job description… . the behaviour is a matter of personal choice.

Examples would be helping and co-operating with others, showing consideration, courtesy and tact in relation to others, general support for the organisation, and putting in extra effort despite individual conditions. Commonly used measures of OCBs are (Coyle-Shapiro *et al*, 2004):

- making suggestions to improve work of the department
- always attending monthly team meetings
- keeping up with developments that are happening in the organisation
- participating in activities that help the image of the organisation.

OCBs can be viewed as a form of employee reciprocity whereby employees engage in OCBs to reciprocate perceived fair or good treatment from their employer (Coyle-Shapiro *et al*, 2004). The converse is also true: employees may withhold those behaviours in response to perceived poor treatment. This is relevant when we consider underperformance, discussed in Chapter 9. Accordingly, perceptions of justice are strong predictors of OCB. For example, Coyle-Shapiro *et al* (2004) show that procedural and interactional justice (discussed further in Chapter 3) are positively associated with mutual

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commitment that in turn is related directly to OCB. Furthermore, mutual commitment also influences OCB indirectly through expanding the boundaries of an individual's job. This is similar to Snape and Redman's (2010) research, which found a positive impact of HRM practices on OCB through an effect on perceived job influence/discretion. Job satisfaction is also linked to OCB (eg Bateman and Organ, 1983), although it has been suggested that this is more a consequence of perceived fairness. The implications for practice are that organisations have to effectively manage the treatment of employees procedurally, pay attention to how well managers interact with employees, and provide employees with some role autonomy. In the performance management context this means, for example, giving employees a chance to voice their views in the performance review, ensuring that judgements on performance are based on meaningful and accurate information, and looking at work design.

ENGAGEMENT

Employee engagement is a relatively new concept which has received increasing attention in recent years as a key determinant of performance (Gruman and Saks, 2011). Much of this seems to have been initiated by consultancy firms who have developed their own research instruments to measure engagement (such as Gallup's Q12) and who make strong claims for its positive outcomes. More recently, the UK government has taken an interest in the concept, commissioning an independent report on the issue. It concluded that a wider take-up of engagement approaches could impact positively on UK competitiveness and performance (MacLeod and Clarke, 2009).

The academic research in this area, however, is thin, although academics are just starting to take an interest in the subject (Truss *et al*, 2012). One of the difficulties is that there are many ways of conceptualising engagement, and little consensus on its definition and measurement. MacLeod and Clarke (2009: 8), for example, found over 50 different definitions of 'engagement', and views differ as to whether it is an attitude, a behaviour, an activity – or all three. In reviewing the definition of 'engagement', Truss *et al* (2012) conclude that it is generally believed that engagement is characterised by positive emotions, intellectual focus and energetic behaviour directed towards task performance. It has also been suggested that positive social connections are a feature of engagement. It is therefore a multidimensional construct which comprises feelings, cognitions and behaviours. In this respect it differs from other constructs such as job satisfaction and commitment.

INDIVIDUAL AND ORGANISATIONAL PERFORMANCE

The proposed HR causal chain model involves individual performance that affects organisational performance, but this impact is mostly assumed rather than tested, and the relationship is complex (Den Hartog *et al*, 2004; DeNisi, 2000). DeNisi makes the point that although performance at a higher level (ie the organisation) is in part due to performance at a lower level (eg an individual, a team), it is much more than that, and changing individual performance may be insufficient to guarantee improved organisational performance. The opposite is also true – in other words, changing variables at the organisation level may constrain individual performance.

The fact is that the HRM causal chain does not take place in a vacuum, and as Bowen and Ostroff (2004) state in setting out their case for strong HR systems, attention must be paid to the context within which HR practices are enacted. The organisation's culture and values, emphasised in the resource-based view of strategy, and the employee relations climate are critical in determining the choice of HR policies, management behaviour and how HR practices are perceived by employees. These issues are discussed further in Chapters 2 and 11. Technology, other work practices, and the external environment also

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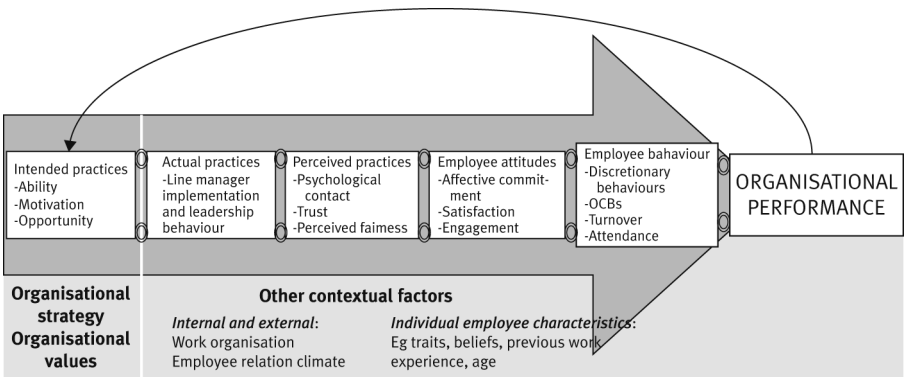
affect organisational performance. Individual performance is in addition affected by other factors such as personal characteristics (eg drive and ambition), experiences in previous job roles, organisational tenure, age, work and personal relationships. Thus to understand and change individual and organisational performance one has to understand other organisational contextual factors and individual employee characteristics outside the HR causal chain. This is also why, when studying the impact of HRM outcomes, it makes more sense to measure proximal outcomes which are closely related to HR practices.

Figure 1.5 develops the HR causal chain (see Figure 1.2) to take account of these and other issues discussed in this chapter, plus the potential for reverse causality – ie how high performance or poor performance affects HRM.

Figure 1.5 The people management–performance causal chain, as developed



Source: adapted from Purcell and Hutchinson (2007);Purcell and Kinnie (2007); Boselie (2010)

CASE STUDY 1.2

EMPLOYEE COMMITMENT AND THE IMPORTANCE OF VALUES AT NATIONWIDE BUILDING SOCIETY

Employee commitment is seen as key to success at the Nationwide Building Society, one of the UK's largest financial services organisations, and the world's largest building society. Committed employees are believed to display discretionary effort, are more likely to achieve sales targets, more likely to remain in the organisation, and more likely to want to work in the organisation and gain/retain customer commitment.

The Society has developed a human capital model 'genome', so called because it is likened to the human genome – in other words, our DNA. It seeks to find out what makes Nationwide employees 'tick' to enable the company to develop employee commitment, or the behaviours which might influence customer commitment and business performance. Employee commitment is measured using the annual employee survey 'Viewpoint', using the following statements:

- 'In my opinion, Nationwide is a good employer'
- 'Nationwide is where I want to work'
- 'I intend to still be working for Nationwide in 12 months'
- 'I am proud to say I work for Nationwide '
- 'I would apply for a job at Nationwide again'

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- 'Based upon my experience, I would recommend Nationwide as an employer to my friends.'

Nationwide has a strong set of values which seek to drive employee behaviours and shape the organisation's culture. These values distinguish Nationwide from its competitors, and underpin its commitment to its status as a mutual organisation.

The values are summarised by the 'PRIDE' initiative:

- Putting members first
- Rising to the challenge
- Inspiring confidence
- Delivering best values
- Exceeding expectations.

Using the genome model, Nationwide has identified a link between these core values and levels of employee commitment and engagement, which are translated into a positive customer experience. Individuals whose values set is aligned with the organisation's are more likely to display greater discretionary effort.

ANALYSING EMPLOYEE COMMITMENT

When analysing the results of the genome project, Nationwide divided its workforce into three levels of employee commitment – top, middle, and bottom. It found that, when compared with the bottom third, those who are in the 'top' ranking of employee commitment displayed the following characteristics:

- they are less likely to have applied for another job in the previous 12 months
- they put in higher levels of discretionary effort
- they are more likely to be happy with their line manager
- they are more likely to have a positive view of senior management/leadership
- they are more likely to be happy with their training
- they are more likely to be happy with their pay and reward
- they are more likely to be happy with the way their career is progressing.

DRIVERS OF COMMITMENT

The model identified five key drivers of employee commitment:

- pay – employees' perceptions about fair pay and the value of the reward package
- length of service – longer-serving staff are more productive and more committed
- coaching – equipping people with the skills to do their job
- resource management – the extent to which employees feel that the right person is in the right place doing the right job at the right time
- values – the belief in the society's values, as encapsulated in its PRIDE programme.

Subsequent research identified a further positive relationship between commitment and corporate social responsibility (Purcell *et al*, 2008/9).

Sources: IDS HR studies 846 and 871; Purcell *et al*, 2008/9

Question

1 Based on your understanding of the HR causal chain and the information given here, what advice would you give to Nationwide to improve organisational performance?

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CONCLUSION

This chapter provides the foundation for a book on performance management by exploring the relationship between HR or people management policies and practices and by providing a theoretical framework for managing performance. It began by considering the basic premise that HRM links to organisational performance by critically reviewing some of the research in this area. In doing so it briefly considered the three main models: best practice, best fit, and the resource-based view of the firm, concluding that there is a positive relationship although the direction of that relationship remains inconclusive, and it would be reasonable to suppose that the relationship is iterative (Wright *et al*, 2005). Together these models highlight the need to achieve horizontal and vertical fit or integration, and emphasise the importance of organisational culture and values, key themes which are developed in this book. The chapter then moved on to consider more recent research that seeks to 'unlock the black box' and explain how and why HR practices impact on performance. A model of the HR causal chain was presented which has made significant inroads into our thinking about the process by which HRM impacts on performance, and asserts the critical point that it is not just the design of HR policies that is important but the effectiveness of these policies and their implementation. Employees' perceptions of HR policies, and line management behaviour in enacting HRM, are key mediating variables through which HR policies and practices influence performance. At the heart of this model is the AMO theory of performance, which argues that positive discretionary behaviours are the key to driving higher performance, and that it is the role of HRM to influence and develop employees' abilities and skills to do their job, improve motivation for discretionary effort and provide employees with the opportunity to make full use of their skills and be motivated.

Persuasive as this theory might be, however, it has its limitations. For other factors impact on organisational performance which can limit the effect of changes in individual performance (and vice versa). This highlights the importance of context in managing performance – another theme running throughout this book.

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