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Module Name: Performance - Understanding the Link
between Individual and Organisational Performance

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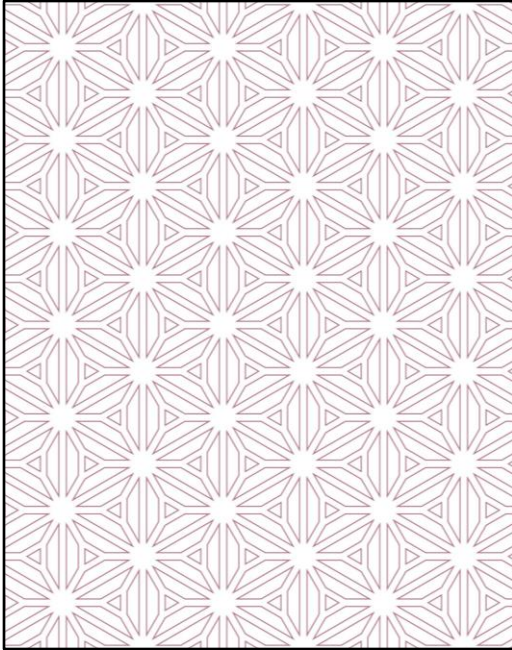
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Performance - Understanding the Link between Individual and Organisational Performance

Contents:

- + Understand the concept of high-performance working (HPW) and how it can benefit individuals and the organisation.**
- + Understand the contribution of the performance management process to high levels of performance.**
- + Understand the role of line managers in performance management processes.**

What is High Performance Working?

- + High Performance Work Systems (HPWS) involve introducing at the same time a bundle of certain HRM policies and practices which mutually reinforce each other.

They should involve ways to promote an employee's commitment and involvement (Taylor, 2016, p. 199).

The elements that make up HPW commonly include:

- + Recruitment and selection practices that are both rigorous and sophisticated
- + Investing in training and development
- + Pay based on performance
- + Internal promotions based on merit
- + Team-based approaches to work
- + Grievance procedures to reduce injustice
- + Letting employees be involved with decision-making as way to increase engagement
- + Sharing information where managers are transparent with employees
- + Performance appraisal systems to determine individual goals that align with the objectives of the organisation
- + Flexible working
- + Job security
- + Good work-life balance to increase employee wellbeing
- + Terms and conditions being harmonised where they are standard for everyone, regardless of rank e.g. holiday entitlement, hours of work, etc.

‘Best Practices’

- + High levels of organisation performance
- + Attract and retain talent
- + Engage employees
- + Promotes creativity
- + Embrace change

Organisations get a good reputation in the labour market which leads to people wanting to work there. They have an ‘employer of choice’ status. Engaged employees are more committed to the organisation and more willing to go the extra mile (Taylor, 2016, p. 200).

Evaluating the Link

- + Pfeffer (1994) - Organisations that use 'best practices' are more successful.
- + Huselid (1995) - HPWS lowers staff turnover, increase sales, increase market value and increases profit.
- + Combs (2006) - Increased validity of previous studies.

Pfeffer (1994) conducted a study that compared how HR practices were used between successful organisations and their less successful competitors. A mix of 'best practices' were used by most of the successful organisations and that all organisations can benefit from these.

Huselid (1995) concluded that using HPWS in an organisation reduced staff turnover 7.05% increased sales per employee by \$27,044, market value per employee by \$18,641 and profit per employee by \$3,814. This study shows that HPWS benefits organisations financially.

Combs et al (2006) took many replicas of Huselid's study and put the results together which increased its validity. It concluded that HPWS lead to 4.6% increase in return on assets and 4.4% decreased in staff turnover.
(Taylor, 2016, pp. 200-201).

Explaining the Link - 'The Black Box Studies'

Employees reported to be more

- + Motivated,
- + Committed to the organisation
- + Greater job satisfaction.

This leads to 'discretionary effort' results.

- + Organisations are more successful if they have a 'big idea' the link to policies and procedures to bind them together.
- + Line managers play a crucial role in the success of an organisation. They bring to life HR policies and procedures as they interact with employees on a daily basis.

Since a link between HPWS and organisational benefits has been established, further research has been carried out to understand why they provide such a benefit.

Over a 6-year period, organisations that were either already practicing sophisticated HR practices and policies or were starting to do so, were identified. Employees and managers from 12 UK-based organisations from mixed industrial sectors were interviewed and visited repeatedly as different initiatives were introduced over time.

If employees and managers share the same purpose, they are more likely to respond with enthusiasm.

Managers must be respected and motivate employees.

Explaining the Link – AMO Model

- + Ability to perform.
- + Motivation to perform.
- + Opportunity to perform.

Although the ‘black box studies’ show there is a positive link between good HR policies and practices and the success of an organisation, there is no proof that there is an automatic link from this alone. Higher performance levels are met when other conditions are met such as the AMO model.

(Taylor, 2016, pp. 201-202).

Employees must have the ability to perform meaning that they need the necessary skills and knowledge. They must have the motivation to perform where they either feel like they must do it or feel they want to do it. Finally, they must have the opportunity to perform where the environment and work structure provide support and allow them to express themselves (Armstrong and Brown, 2019, p. 16)

Explaining the Link – Gallup Studies

- Employee engagement varies at a greater scale between different business units of the same organisation rather than between different organisations. Therefore, the type of industry and employee characteristics is not related to employee engagement. It is instead down to the quality of line management.
- High correlation between employee engagement and how successful the business unit is.
- The more employees were involved, the less staff turnover there was.

This study revealed credible results in terms of the correlation between employee engagement and other variables such as profit, productivity and employee turnover rate.

(Taylor, 2016, p. 203).

Link between HPW and employee well-being

- + Boxall's and Macky's (2014)
- + Peccie (2004)

It can be argued that the HPW policies can lead to employee engagement and therefore leads to wellbeing.

When employees experience greater autonomy and are involved in decision making, their wellbeing is greater. Employees feel higher job satisfaction and have a better-work life balance which has a positive affect on their wellbeing. However, if work is too intense, employees feel more fatigue and stress and have a worse work-life balance which has a negative affect on their wellbeing. These results show that a balance needs to be made between allowing employees to reach their full potential through being involved but not to increase their workload to the point of fatigue (Boxall and Macky, 2014).

Same results in their research on the relationship between organisational performance, employee wellbeing and HRM. HPWS can benefit employees as it can lead to employee empowerment and make their work more interesting, supportive and rewarding. In turn, employees work harder which leads to a successful organisation. On the other hand, HRM can be harmful to employees as high-performance work practices often leads to work intensifying and sometime workers can be exploited. Therefore, this has a negative affect on employee's wellbeing which

leads to the organisation being unsuccessful (Armstrong and Brown, 2019, p.29).

Criticisms

- + Correlation does not prove causation.
- + Rhetoric and the reality distinction.
- + Impossible to measure.

Just because it appears that the level of HRM activity leads to good business performance does not mean this is the case. If a business is doing well, it is more likely that they adopt 'best practice' HRM.

The correlation could have been caused by an independent variable such as, good management leading to superior business performance which generated surplus profits to be used to invest in HPWS.

It can also be argued that HPWS practices do not actually exist. HRM language is used to cover up the reality of the situation for employees where they are being forced to work intensely and are being exploited by their employers. By increasing the workload and exploiting employees, organisations can see an increase in success, rather than the success coming from HRM.

Fleetwood and Hesketh (2010) argue that it is impossible to measure how HR interventions affect business performance in finance terms. There is too much focus on 'HR architecture' in studies rather than focusing on the role of individuals and how they shape the performance of organisations. HR plays an enabling role rather than being the cause of success (Taylor, 2016, p. 204).

Performance Management

- + Performance management can be defined as 'as a systematic process for improving organizational performance by developing the performance of individuals and teams.' (Armstrong, 2006, p. 1).

By understanding and managing the performance of individuals, teams and the organisation, greater results can be achieved for the organisation. This can be done by planning goals and making sure standards and competence requirements are met (Armstrong, 2006, p. 1).

CIPD (2020) states performance management is made up of activities that establish objectives so that both individuals and teams can see how they play their part in the organisation's mission. Performance management improves the performance of organisations by improving the performance of individuals and teams. Rewards, career progression and termination of contracts are used in performance management to hold people to account of their performance. CIPD, 2020, *Performance management: an introduction*.

Performance Management Cycle



A Basic Performance Management Cycle

Performance management is not an isolated event but rather a continuous cycle. It starts by looking at the strategic goals of the organisation which leads to the goals of the department. An agreement for individual goals and their development can then be agreed. Plans are then made by the manager and individual to monitor their performance constantly. Reviewing progress and delivering feedback should be regular (CIPD, 2020).

The planning stage is about establishing the employee's strengths and weaknesses. The strengths can be used to benefit the organisation and a development plan can be made to help the employee grow. Job roles are established so the employee knows exactly what is expected of them and how they play their part in the organisation. Performance goals and objectives are made which align with the business plan of the organisation.

The development stage is about putting those plans into action. The employee acts out the role that is expected of them and works on their development plan. Education and training is offered at this stage so the employee has all the opportunities to reach their potential which in turn benefits the organisation.

The performance stage is about monitoring the progress of the employee. This is done through regular meetings and ongoing feedback is given. Coaching is useful at this stage. Accomplishments should be recognised and problems should be addressed. Any unforeseen obstacles can be dealt with through regular communication, listening and feedback.

In the final review stage an overall evaluation of the employee should be given. This happens periodically where accomplishments are celebrated and areas where training and development are needed are recognised. These reviews should be fair and unbiased and also be constructive with a clear message. Communication is key as there should be a two-way dialogue and the employee should be involved with the decision-making (Ormerod, 2018).

Formal Performance Management

Bloom et al (2012) found that organisations are 23% more productive when they have the following in place:

- + Targets – touch but achievable targets to be set for the employee to achieve by a certain date.
- + Incentives – Praise, recognition, pay and promotions are examples of ways to reward employees for reaching their targets.
- + Monitoring – By analysing collected data the organisation can identify where improvements need to be made.

Most organisations have some kind of formal performance management system which is where HR can play a role. Names given to performance management systems can be titled appraisals, evaluation and personal development. Common features of these procedures include the employee meeting with their line manager/supervisor regularly to discuss their performance. These meetings are recorded and kept on file. Action points are the results of these meetings which employees must then follow ready to be reviewed in their next meeting.

The aims of performance management are to raise morale, clarify employee's roles and duties, improve communication between managers and employees, to reinforce management control, to identify development opportunities and to help the workforce understand the organisations goals. They can also be used for cases of promotions, redundancies and pay-incentives (Taylor, 2016, pp. 205-206).

Goal Theory

Latham and Locke (1990) explain how goal theory is the best way to set and achieve goals.

- + Goals need to be challenging but achievable and clear.
- + These kinds of goals are more achievable than 'do your best' goals.
- + Five goal setting principles include clarity, challenge, commitment, feedback and task complexity.

(Mind Tools, 2021).

Impact of Performance Management

- + Evaluation vs developmental objectives.
- + Behavioural assessments vs output-based assessments.

It cannot be proven that there is an actual relationship between performance appraisal system and organisational success. They are supposed to boost morale and help the performance of the organisation but can often do the opposite.

If the appraisal is focusing on both objectives, it might not lead to a true reflection. One way is looking at an employee's personal performance over time and the other way is looking at future development needs. This can lead to employees focusing more on their positive aspects and leave out any issues they are facing in case the results of the appraisal will inform decisions about their pay and career progression. Therefore, no training needs can be established to help the individual and organisation reach its goals. It is best for an appraisal to either focus on evaluation or development objectives rather than both simultaneously (Taylor, 2016, pp. 206-207).

Behavioural assessments focus on the evaluation of the general conduct of an employee during the assessment period. This can come from observations or formal output measures. There is generally a form to complete to help score their performance. This can lead to this process being inflexible and not tailored to the individual's job role.

Output-based assessments is based on appraising individuals based on quantifiable data, such as, targets. At each meeting the individual is reviewed based on the previous meetings set targets (Taylor, 2016, pp. 207-208).

SMART Objectives



SMART is used to set objectives. However, recently organisations have become more turbulent so it can be argued that this approach is no longer valid. The priorities of an organisation are continuously shifting the the SMART objectives set at the start of the year may no longer be relevant by the end of the year can if the individual is still meeting their objectives this can actually hinder the organisation rather than help it.

Rose (2000) - DUMB

- + **D**efective
- + **U**nrealistic
- + **M**isdirected
- + **B**ureaucratic

Flexibility is essential and some objectives do not change such as good customer service and being adaptable to change (Taylor, 2016, p. 208).

Issues with Appraisals

- + Tendency to give positive/negative overall review if one aspect has been accomplished well/unwell.
- + Avoiding low ratings to avoid upset.
- + Avoid end-points of rating scales.
- + Focus on recent occurrences to judge performance.
- + Tendency to give positive review if individual has performed well historically, regardless of their recent performance.
- + Refraining on principle to give high ratings.
- + Tendency to score subordinates lower than what the appraiser achieved when they were in the same position.

(Taylor, 2016, pp. 208-209).

360-Degree Feedback

- + Individuals are appraised by their managers, peers subordinates, customer ratings and self-appraisal to give an overall evaluation. The data is then compared to each other and given back to the manager.

Problems include objectivity where it cannot be sure that peers are rating the individual for their own interests. Personal relationships can lead to biased ratings. Vindictiveness can get in the way. Competition can also get in the way of an honest review where a peer can mark an individual poorly if they are competing for a promotion. Managers who want high ratings can take action this is popular rather than what the organisation needs. It is also difficult to give feedback to individuals as sensitivity and skill is needed for this.

For this to be successful it can focus on developmental purposes only so no one has to fear that it will affect their career progression or pay. Ensuring confidentiality is kept is also essential so individuals know that their rating or remarks they give will not affect their job.

(Taylor, 2016, pp. 210-211).

Updating Performance Management

Baker (2013) - Five Conversations Framework

- + Five separate conversations over 6 months focusing on one aspect of performance each time.
- + More flexible, focused, frequent and informal approach.

Buckingham and Goodall (2015)

- + Review performance quarterly and more when completed big projects.
- + Four criteria framework using a Likert scale.

Updating Performance Management

TRADITIONAL PERFORMANCE MANAGEMENT	RE-ENGINEERED PERFORMANCE MANAGEMENT
Annual goals set by manager	Agile, collaborative goals that morph as conditions change
Infrequent, irregular feedback and recognition related to performance	Ongoing conversations, timely recognition, and informal dialogue on a weekly basis
Annual performance review	Quarterly progress reviews with accountability and incentive adjustments
GALLUP	

Because of how uncertain times are during the pandemic, performance appraisals need to become more flexible. They need to be collaborative, adaptive and individualised (Wigert, 2020).

Social interaction is more limited since working from home which can have a poor effect on performance (CIPD, 2020b) so a feedback culture is critical to make sure organisation goals are understood by all since working remotely. There needs to be a commitment to transparency so managers and employees can trust each other which encourages high performance (Schrage, 2020).

Role of the Line Manager

- + The line manager is often the one carrying out the performance management processes, both formally and informally. It is the managers role to reinforce the link between individual objectives and the goals of the organisation. They provide feedback and monitor individuals (CIPD, 2020a).

The skills the line managers need for this include:

- + Asking appropriate questions – know when to ask open/closed questions
- + Active listening – pay attention to what is said and read body language.
- + Providing constructive feedback – focus on strengths, know when to be directive and base examples on evidence CIPD (2019).

It is vital for line managers to have a positive relationship with their workforce in order to carry out performance management effectively (Marchington, 2016, p. 67).

HR and Line Managers Working Together

- + Help managers model required behaviours
- + Designing and then train managers on the PM process
- + Facilitate communication between managers and employees (Rees and Tymon, 2016, p. 275).
- + Advise managers on performance issues (Robinson, 2013, p. 14).

Conclusion

- + Organisations are more likely to achieve success through combining HPWS and performance management processes.
- + Performance management activities help employees to reach their full potential which leads to organisational success.
- + Line managers play a crucial role in the success of an organisation as they are in contact with their team the most.

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