Strategic Performance and Commitment Management

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Key Learning Outcomes

At the end of this chapter, you should be able to:

- *Analyse the key elements impacting individual level performance*
- *Analyse the key elements impacting systems level performance*
- *Evaluate the effectiveness of performance management systems*
- *Explain the causes of poor performance at individual and systems level*

Introduction

A quick way to ascertain how well the performance management system of an organisation is working from a strategic perspective, is to ask multiple employees their understanding of the organisation's strategy, its goals, key performance indicators and how employees think they are contributing to the same (Boselie 2010). Next, verify this understanding with the senior management team. One would most likely find gaps in understanding of expected and actual performance. There are many reasons for this. Performance is a multifaceted and multi-level concept and thus needs attention, at least, at two very distinct levels: a micro (individual level) and a meso-level (organisational systems level) and how high performance is achieved at each level. Of course, many have attempted to unlock the performance 'black box' from multiple disciplinary perspectives including from HR perspective. With an increasing interest and sophistication in research designs, which focus on multi-level and multi-respondent explanations of performance, there is some

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comfort in agreeing that a combination of certain HR and management practices can contribute to sustained levels of organizational level performance.

Individual Level Performance Management

Typically, performance management is a cyclical process, which involves determining first of all, the performance expectations of a role. This is followed by setting and planning an individual's goals, providing the individual with learning and development support where necessary, monitoring their progress and providing ongoing feedback through formal and informal means regarding their actual performance against the expected performance. Performance management in 'HR speak' comprises of numerous factors that can contribute to improving the performance of a system. In the preceding chapters, the performance rubric, $P = f(AMO)$ was introduced, wherein 'A' stands for ability, 'M' for motivation and 'O' for opportunity. It is worth remembering that individual level performance requires the presence of all three factors for achieving high performance. Hiring people who have the relevant knowledge, skills and ability is a key foundation for expecting people to perform well in a given role. HR managers should also focus on a combination of intrinsic and extrinsic motivational approaches to offer satisfying and motivating jobs for employees and hope to improve their performance. Line managers and supervisors play an important part in providing the environment or 'opportunity' for their staff to remain motivated and to apply their abilities to the fullest. From a strategic perspective, the basic tenets of the goal-setting theory are highly relevant here (Locke and Latham 1990). This theory suggests directing employee's attention to goals, regulating the effort, increasing their persistence and encouraging the development of plans to achieve the goals. The goals should be set at the right (stretch) level to motivate employees to aspire to achieve higher and that such goals should be quantifiable and clear. HR practitioners and line managers have a responsibility to deliver on these counts if they are expecting the best out of their employees. The focus here is not to get into different performance management systems such as the MBO, rating scales, Six Sigma, or 360-degree multi-rater feedback, it is more around understanding guiding principles that have worked well in managing performance. An equally relevant consideration here is of *distributive justice*. Managers and HR leaders must ensure that employee perceptions about rewards and its appropriation are fair. The role of line managers and supervisors is extremely critical in clearly communicating the expectations. Where necessary, this has to be supplemented with support by way of training and development and/or a nurturing environment to improve the performance of individual contributors. Equally important is adopting an integrated approach to HRM practices and ensure there is a horizontal fit between HRM practices. For example, recruitment and selection practices should be supported by employee development and motivational support from managers.

The notion of internal fit was also covered in chapter "Strategic HRM & ER: Best-Practice Versus Best Fit" of the book.

Illustrations and Skills Sandpit

Some large and successful firms have put in place forced distribution systems and Six Sigma or even Lean Six Sigma as a means to precisely measure and ensure high levels of performance. This is achieved by removing the root cause of variation in a performance system. Such approaches often rely on giving very clear, prompt and transparent feedback to performers and non-performers. General Electric (GE), Motorola and a number other US firms and more recently offshore contact centres and business process outsourcing firms of large multinationals in India are using these approaches. Aspects of performance metrics and problem-solving approach to managing individual performance is in line with the basic tenets of goal setting theory and does seems to deliver sustained levels of high performance. GE, for example, follows a forced distribution system wherein it distributes scores in a 10% (below average), 70% (Potentials), 20% (high perfomers) distribution. Looking after the 20% and pushing as many people in towards the upper end of the 70% range is a key focus. The remaining 10% are asked to either buckle up or look elsewhere. As with any HR performance management system, the challenge lies in its implementation. But sometimes, even the design of a performance management system is not free from flaws. For example, not having clear performance measures for goals and expectations and inadequate communication and training on what the various range of scores mean are often cases of core flaws in design. Shields (2007) notes that there are some key considerations in designing an effective performance management system. These include, for example, the following: ensuring that the system is valid, reliable, cost-effective and has perceived fairness by its users. Managers and leaders must therefore address each of the above elements for an effective performance management system. They need to know what it takes to apply the design consistently to avoid problems of perceived inequity and poor implementation. Excessive focus on unrealistic 'stretch' goals may lead to unintended consequences such as poor performance and adverse outcomes such as dysfunctional employee turnover, poor employee well-being, stress and fatigue. Most good performance management systems aim to increase their employees' job satisfaction and organisational commitment. As such, efforts must be made to offer a combination of intrinsic and extrinsic rewards to achieve job satisfaction and maintain affiliation with an organisation (Shields 2007). Additionally, employers must also avoid any breaches in psychological contract of their employees through issues of poor design and implementation. Shields (2007) further notes that the most common culprits here are: lack of consistency, perceived or felt unfairness of the system and poor distributive and procedural justice. All of these factors affect an employee's motivation, attitudes towards the job and the firm, which subsequently has an affect on behaviour of employees and their discretionary performance.

Organisational Level Performance–HRM Systems

For achieving high levels of organisational and systems performance through HRM practices, a number of interrelated factors must be considered. For example, these include: creating and managing a desired culture to support the performance expectations; providing the relevant structural elements such as a sound performance management design and other mutually reinforcing HR practices; and finally ensuring 'integration and fit' with the firm's competitive strategy. Key questions for the HR managers to think are: to what extent are there complementarities between HR and other management functions? Are HRM practices mutually fitting and reinforcing–in other words, achieving an internal or horizontal fit? Are they applied consistently across the organisation? Attending to these questions may result in a better fit as per the best-fit school, covered earlier in chapter "Strategic HRM & ER: Best-Practice Versus Best Fit".

While adopting a best-fit thinking yields better alignment, we nevertheless see a number of studies of high performance work practices or systems tend to adopt a universalist approach. Typically, studies in this group are akin to studies of best-practice models wherein a certain bundle of HRM and perhaps management practices, if implemented collectively are likely to have positive impacts on the performance of a system. Careful selection of a 'set' of HRM practices must be implemented collectively and if issues of fit and integration are also attended to then such an approach is most likely to lead to sustained levels of performance. Firms must identify a set of complementary capabilities that help create mutually reinforcing systems for achieving high levels of systems level performance. Therefore, the focus is on identifying the 'right' sets of mutually reinforcing practices to support coherence and fit at a system, practice and competency level. The difficulty, however, in such an approach is that there are several contingencies that need to be considered for each organisation in selecting the right bundle. Some studies highlight the degree of change in performance when firms use high performance work practices. For example, Huselid (1995: 667) noted that "a 1% standard deviation increase in such practices is associated with a 7.05% decrease in labour turnover and, on a per employee basis 27,044 US$ more in sales and 18, 641 US$ and 3,814 US$ more in market value and profits respectively." West et al.'s (2002) study of hospitals in the UK found a strong correlation between teamwork, learning and development and performance appraisals on patient mortality. While the literature is voluminous on the choices in relation to the bundles of HRM practices that are available, these choices depend on the purpose of each organization and its approach to achieve its goals.

More importantly, these choices depend on line manager's discretion and employees' attitudes and behaviour in the chain of links between management's espoused goals and high organisational performance. This argument is well-articulated in Wright and Nishii's model (2004, as cited in Boxall and Purcell 2011), wherein intended HR practices (from senior management) lead to actual HR

practices (i.e. as enacted by managers), which then leads to perception of HR practices by the employees and invokes employee responses (attitudes and behaviour), which may/may not then lead to organisational performance. There are opportunities for leakages in the above causal chain at one or more points and therefore, implementation of HPWS may not always result in optimal performance. This line of thinking highlights the gaps between the espoused intentions and actual actions, and performance outcomes will vary, often due to lack of real buy-in by employees due to their perception of managers' intent in implementing these practices.

Critical Reflections

While there are several individual and systems level approaches to choose from, there are problems in achieving transparency, consistency, validity and reliability in the measures employed for both of the above levels. Additionally, the multidisciplinary orientation of different approaches and contextual conditions in which such studies were designed provides little basis for uniform comparison and its application to other contexts. The field of managing performance also suffers from the performance black box problem. What this implies is that there are a number of other factors that may explain the anticipated and unanticipated drivers of performance at an individual, organizational and system levels.

Part of the problem also occurs because of the interpretation and enactment of espoused meanings by managers and employees. There appears to be an increasing consensus that performance can be affected by how employees perceive the way their managers implement these HPWS, which then has an impact on the effectiveness of these practices on business performance.

Concept Integration with Cases and Learning Activities

The case study entitled *Appraisal at Systel Technologies* by Manimala, Desai and Agarwal highlights several problems associated in the design and implementation of performance appraisal systems in a large IT multinational undergoing change. The case study highlights various issues involved in design and implementation of performance management system.

The case also provides a detailed description of the rationale and process of designing and implementing a key performance area (KPA)-based rating system of performance appraisal and offers an opportunity to appreciate its merits and demerits in comparison with those of other systems. It is also evident from the case that employees expect some tangible outcomes from the appraisal in the form of increments, promotions, etc. When such links are established, the issues of objectivity and fairness are likely to re-emerge as major concerns.

Conclusion

Overall the performance–HRM link, though on a strong footing, with a plethora of studies pointing to its positive association with performance, requires further research from under researched geographical contexts, especially from emerging markets, which can further test the evidence base. Also, scholars are beginning to challenge whether it is possible to sustain the tested frameworks in today's neoliberal and managerial approaches. This burning question is logical as there are signs of weakness in the dominant capitalist logic with declining levels of employee well-being and health outcomes, especially when firms continue to implement high-performance work designs and do not effectively balance the demands such practices place on its human resources.

Glossary

High performance work practices is a 'set' or a 'bundle' of HRM practices, which, if implemented collectively can be the source of sustained competitive advantage to firms. Even though there is extensive research on this topic, consensus is far from being reached in terms of the 'set' or 'bundle' of HRM practices that are central to high performance.

Performance Appraisal is a process that involves planning, observing, measuring and evaluating an individual's performance against a set of performance expectations using a set criteria.

Performance Management is a holistic process that focuses on linking an individual's goals to an organisation's overall strategic direction and scope. The process involves goal-setting, development, reward, appraisal and ongoing mentoring and coaching using formal and informal mechanisms including the use of single and multiple feedback systems such as 360-degree feedback systems.

Key Questions and Learning Activities

Question. 1 From your study of organisational behaviour, critically evaluate the contribution of any two theories that are relevant to the study and practice of performance management.

Question. 2 Critically evaluate the contribution of HRM-performance link in the wider literature on SHRM & ER.

Question. 3 Compare performance appraisal system from multisource performance feedback approaches.

Learning Activity: Daily Performance Monitoring at XYZ Call Centre

At XYZ Call Centre in Somewhereland country, a number of call centre agents are considering quitting en-masse due to the incessant pressure that call barging and micro-managing brings for them on a daily basis. For example, call centre agents' length of the call, tone of the call and the quality of the product information disseminated forms part of such daily monitoring. The performance of the process is evaluated on a number of rating scale parameters. Managers at XYZ highlight that the requirement of daily and excessive monitoring is part of the clients' contractual requirements. They have to identify errors and provide a Six Sigma process report on weekly basis to the clients with details of corrective action taken. The organisation currently has an annual employee turnover of 80% and its hiring managers are always fulfilling new hire demands. If you were the HR manager at XYZ Call Centre, what solution(s) would like to propose to rectify this situation?

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