

Sustaining the HR and performance link in difficult times.

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There is little doubt any more that there is a clear connection between the way people are managed and organisational performance. The more interesting questions concern the nature of the connection: what is it in HR that seems to trigger better performance, and whether such a connection can be sustained especially when times are difficult, as they have been for many organisations in the last year? The Work and Employment Research Centre at the University of Bath has, with funding from the CIPD, been studying these 'black box'² questions for nearly three years in 12 organisations. Most are big, well-known, companies but some are smaller niche players in particular markets or sectors. What is interesting to us as researchers is that all of these organisations have experienced major change in the last 18 months. This is the sort of change that happens periodically rather than continuously. It is the sort of change that challenges people's assumptions about work and career and the best way to do things. More importantly, perhaps, it takes up a lot of senior management time even when the change is planned. Meanwhile everyday work has to go on; the firm still needs to produce and perform, satisfying customers while being ever vigilant about costs. The changes taking place in our sample of companies include planned events such as a major expansion on a new site, a difficult merger and subsequent organisational integration and the launch of a major new model in challenging market circumstances. Unplanned and unwelcome challenges have occurred in other firms in our group. In two cases there has been a collapse of the market or a loss of market share. In two further cases stock market pressure became intense and triggered much greater emphasis on cost reduction. In two other organisations growing stress levels, in one case exacerbated by bad publicity, led to a rising problem of labour turnover especially among skilled and experienced people, the very staff they wanted to keep most.

There is nothing particularly unusual in these experiences of threats and opportunities. Organisations do not stand still. This means that HR systems or the HR architecture of the organisation has to be both robust and flexible or adaptive. Indeed HR policies and practices can play a crucial role both in facilitating change and, simultaneously, helping to maintain commitment, loyalty and trust in the organisation thereby reducing the fear of uncertainty. The need is to find ways of sustaining performance over different conditions of growth, decline, renewal.

It has been a difficult period for many organisations and the general slow down in the economy on both sides of the Atlantic coupled with stock market problems mean that hard times will continue for many. In these circumstances how do companies keep good performance going, and keep good staff in place? This is the issue of sustaining performance not just in the medium term but when the going gets tough. We will present the most recent results of our research in the morning seminar on Thursday of the CIPD Annual conference. Two of 'our' organisations, The Nationwide Building Society and the Royal United Hospital Bath will tell their story of how to maintain performance and people when times become challenging. In each case the presentations will be made by a senior HR manager and a line manager. We will put these into context and share some of our survey data: the results are instructive. In this background briefing note I want to explore some of the ideas emerging about our understanding of the black box and the sort of practices that seem to work to sustain performance.

The Psychological Contract and Discretionary Behaviour.

The growing interest in the psychological contract is relevant here. We know that often when employees believe or feel that their boss, or their firm, has broken or breached their expectations about work and career opportunities, they feel less committed to the organisation and job satisfaction sometimes falls too.³ When this occurs performance dips. More people start to look for alternative jobs, or dream of doing so if they cannot move, and what is called 'organisation citizenship behaviour' (OCB) - a willingness to go the extra mile - declines. This, however, is not always the case. Work by American social scientists has shown that in some circumstances a breach of the psychological contract does not lead to a collapse of organisation commitment and reduced performance. It is very important to understand why and when this happens.

According to Robinson⁴ the negative consequences that accompany a breach of the psychological contract are much less likely to occur when:

- there is a pre-existing high level of trust between employees and their managers and the firm,
- and, there is good communication, which is believable, on why the problem occurred which triggered the action. This is associated with the formation of realistic expectations.

The importance of this is that most organisations will do something which challenges, and probably breaks, the pre-formed psychological contract at some time or other. This may be in terms of redundancies, reductions in career opportunities, or training and development provision, or a lack of involvement in critical decisions such as job transfers etc. What matters

then is not so much the breach of the contract than the creation of a climate of employment relations where such a breach, if it happens is understood or 'forgiven'. Most employees are, after all, realists. Thus, as ever, in the search for productive human resource management it is not so much what you do but the way that you do it!

The Importance of Discretionary Behaviour.

We need a clear understanding of why a breach of the psychological contract can lead not just to a reduction in commitment to the organisation but to a decline in work performance. Understanding this link is critical to the whole black box problem of how HR practices affect work performance. We know from our own research, and from that done in the main by researchers at Cornell University, USA⁵ that the crucial factor linking HR practices to performance is the way these trigger discretionary behaviour. This, at first glance, is similar to OCB and going the extra mile, but it is not quite the same, and the difference is important.

Discretionary behaviour means making the sort of choices that often make up a job such as the way the job is done, the speed, care, innovation and style of job delivery. Discretionary behaviour is at the heart of the employment relationship since it is hard for the employer to define and then monitor and control the amount of effort, innovation and productive behaviour required. The relationship is 'indeterminate'⁶ The most obvious example here is the in front line service work dealing with customers either directly or over the 'phone. It concerns the sort of everyday behaviour that the employer wants, but has to rely on the employee to deliver. It may be emotional labour (smiling down the 'phone), or using knowledge to solve a problem or suggest an alternative to the customer, or it may be internal to the work of the organisation such as co-operating with team members, helping probationers learn shortcuts or sharing new ideas on work processes. One way or the other the employee chooses how conscientiously to undertake the job. Most jobs are built up of many tasks so the level of complexity can be surprisingly high even for seemingly routine jobs. This choice of how, and how well to do things is not necessarily made deliberately. It can be unconscious and just part of the way people behave in this organisation. But it can certainly be withdrawn, often in the sense of not caring. This may be a reciprocal response to a belief that the firm no longer cares about me or my future, or my opinions. Ultimately, whatever the incentives or sanctions the firm tries to use, it is up to the employee to 'give' discretionary behaviour, and to withdraw it. Although this is described in terms of the action of an individual (we all have bad days), it is the collective withdrawal of discretionary behaviour which is so damaging.

Our own experience tells us there are times when morale is low, or the 'buzz' has gone, or everyone just wants to go home as soon as possible.

Of course, some jobs are designed to limit (but can never eradicate) the space left for choice or discretion. If you do the same thing every 20 seconds (known as the job cycle time) and it is a simple task, the individual rapidly becomes robotic – and spending money on sophisticated HR systems will be ineffective. The consequences of designing jobs in this way in terms of alienation and ensuing conflict are well understood. Thus the first rule in the search for the HR and performance link is that job design - to give more elbow room in a job - is important. That is why multi-skilling and work transformations in the best examples of lean methods of working⁷ are so important. Where there is room for discretion in a job, and most jobs these days rely on discretionary behaviour in the sense of people 'doing a good job', this can be encouraged or withdrawn. The growth of the service economy, knowledge work and work transformations in manufacturing all point to the centrality of discretionary behaviour and thus to the need to manage it.

The Drivers of Discretionary Behaviour.

Central to the Bath Model of People and Performance (Figure One), is the proposition that what encourages employees to exercise discretionary behaviour is the experience job satisfaction and having commitment to the organisation which employs them⁸. Job satisfaction is usually found when people feel that their job is challenging and when they feel they have a lot control over how the job is done (job autonomy). Commitment to the organisation is shown when individuals say they are proud to work for the firm and wish to continue to work for it (what is known as affective commitment). It is hard to test whether someone exhibits discretionary behaviour in their job (but bosses and co-workers soon know when people don't!) but it is possible to test for job satisfaction and organisational commitment. More importantly, perhaps, it is possible to find out what causes or influences commitment and job satisfaction. This allows us to ask what sort of HR policies and practices are likely to lead to positive outcomes, and how these can be sustained.

PUT FIGURE ONE HERE:
BATH MODEL OF PEOPLE AND PERFORMANCE

Ability, Motivation and Opportunity.

A number of important conclusions came out of our research and from the model we constructed once we had finished our interviews with some

700 employees and their managers in the first year⁹. First, a central feature, highlighted in the box in the centre of Figure One, refers to Ability, Motivation and Opportunity (AMO). This is the prime building block of HR architecture. For employees, individually and collectively, to engage in the sort of discretionary behaviour that is beneficial to the firm the three conditions of AMO must apply.

- There must be enough employees with the necessary ability (skills, experience, knowledge) to do current, and perhaps future, jobs.
- There must be adequate motivation for them to apply their abilities. These motivation factors may be financial but will almost certainly include social rewards (and sanctions) and recognition of contribution as applied by co-workers and immediate bosses.
- There must be an opportunity to engage in discretionary behaviour (thus the importance of job cycle time). Opportunity is the invitation to participate and take part, or get involved. This occurs both within the job itself in terms of how the job can best be done (known as 'on-line participation') and outside the job as a member of a team or work area, and a 'citizen' of the organisation (off line-participation). This is where opportunities may exist, and certainly can be created, which provide space for wider participation and involvement so employees contribute knowledge and ideas on how things should be done and how to respond to the change.

AMO is at the heart of strategic human resource management¹⁰ in the sense that all firms wishing to maximise the human contribution have to have workable policies in these three broad areas and these are designed to contribute to the achievement of business strategies. This is where policy detail becomes important.

HR policies and practices.

The type of policies and practices that link into AMO, or help create requisite levels of ability, motivation and opportunity, are shown around the outside ring in Figure One, ranging from Job Security to Communication.¹¹ We identified ten key policy areas and tested the extent to which employees thought they were important to them. Looking across our questionnaire data in the 12 companies each of these ten policy areas were significantly associated with high levels of job satisfaction and organisational commitment although there were important differences between companies. That is, those of our respondents – the employees we interviewed in each firm – who said that they were proud to work for the firm and were loyal to it, or who got high levels of satisfaction from doing their job, also had high levels of satisfaction with, or agreement about all or some of the policy areas listed. We cannot prove that satisfaction causes organisation commitment and/or job satisfaction but we do see a strong, credible

connection. Thus each of these policies is worth having, but the precise effects will vary in each company according to the type of employee and the history and culture of the firm. We found in some companies, especially those with professional employees like an accounting consultancy, that satisfaction with careers, training and job challenge were particularly important. In clerical or manual work, satisfaction with involvement and team working was the vital ingredient. We will explore this in subsequent publications.

Applying HR policies and practices: the crucial role of front line managers.

The third aspect of our model, and the one which we think is particularly important for sustaining the HR and performance link, is the way management in general, but especially immediate line managers and team leaders apply these policies and practices. This is shown in the middle box in Figure One. The critical role of immediate front line managers in delivering HR has been neglected up to now in HR and performance research since the implementation of desirable HR policies is taken for granted. In our research, where we talked to line managers and corporate staff before we interviewed employees, this assumption is not supported by the evidence. We increasingly come to see these employees as one of the critical resources in the delivery of performance but oddly are often relatively neglected or taken for granted¹². Why are such staff so important? There are three important issues here.

- First, most policies and practices related to people management are applied by line managers. This has become much more pronounced in recent years with the shift toward individualism in the employment relationship (seen in performance management for example) and the trend to devolve the application of HR management to the line. Increasingly it is these managers who are relied upon to 'bring policies to life', as one of our senior management interviewees put it.
- Second, we need to be clear about the distinction between policies and practices. A policy on, say, performance management is likely to be clear cut and written down but the practice of appraisal, the crucial 'doing bit', as a part of that policy, is much more behavioural. How much attention will the manager give to it and how often will there be a fruitful dialogue between the manager and the employee? In this latter area of policies in practice we need to look at wider issues like organisation culture and the respect shown to people. If we ask employees for their views on a policy, such as performance appraisal, what influences them is not the existence of an elegant policy but the way it was applied to them by their boss. This is the crucial difference between espoused and enacted strategies: what ought to happen, and what was designed to happen is often at odds with reality.¹³

- Third, this type of behaviour – the way immediate line managers and team leaders manage their staff (and the way they themselves are managed), is itself discretionary. Managers vary, of course, but how much attention is given to the way managers deal with people management issues is itself a reflection of what they allowed and encouraged to do. Often managers will complain of not having enough time or having to give priority to other issues, or they believe good people management skills are not rewarded or recognised in their firm. This may be because senior managers do not give a lead or they reward other behaviours especially those which are easy to count like budget compliance or waste rates. This discretionary behaviour on the part of managers in the way they do their job is closely associated with leadership. This applies to senior management but is particularly important in influencing and mediating the direct relationship between employees and the organisation. Top leadership is vital in setting the direction and creating a culture of success but without local leadership the fulfilment of strategies will be difficult to achieve.

This leads us to ask how much priority is given to people management issues compared with other areas, such as cost control. Even with a well functioning Balanced Scorecard approach this can vary over time and different generations of senior managers may give more or less emphasis to people issues. Thus, as shown in Figure One, while AMO has a direct connection in the creation of organisation commitment and job satisfaction, it is also mediated by the way management in the front line, and higher up too, apply policies and develop good practices in dealing with employees.

Some illustrations of the sort of line management behaviours that are valued by employees and seem to influence job satisfaction and organisation commitment are shown in Box 1:

<p><i>Staff views on what is important from their line manager</i></p> <ul style="list-style-type: none">• The opportunity to discuss training and development needs• The extent to which line managers provide coaching and guidance to help improve performance• Whether they are asked for their views, and provided with an opportunity to comment on proposed changes.• The extent to which they are treated with respect by their line manager.
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The other area to come through very strongly was the role of teams in supporting performance. This can often be as a result of team leadership. Here the ability of team leaders, their motivation and their opportunity to interact with senior managers in problem solving is important. In one of our companies a new involvement scheme of short daily team briefings was in danger of collapse when senior managers did not respond to the issues raised by team leaders who felt let down. In our attitudinal research team leaders were particularly de-motivated when then they were dissatisfied with the amount of respect they got from senior managers. They needed strong support in their stressful jobs.

Where employees reported favourably on the way management in general and their immediate manager in particular, handled these processes of communicating, mentoring, listening, responding, problem solving and directing, there was a strong link to high levels of commitment, motivation and job satisfaction. Thus the way line managers apply policies and lead their staff is a key ingredient in the People and Performance mix.

Bad News – Good News stories.

There are many examples that we can give from our companies especially in the second year of the study where our concern was to explore issues of sustainability, and where, in some, the role of immediate managers became more pronounced.

One case, reported at the seminar is the Royal United Hospital in Bath. The hospital was in real difficulties because of an extreme problem with meeting performance targets, changes in the top management team and with bad news reported daily in the local paper and sometimes in the national press. At the ward level, however, patient care went on, as it had to of course, with continuing efforts to provide quality care and to manage staff working very hard in stressful circumstances. (Quoting a nurse *'It's a shame there's been so much publicity – it has a bad affect on staff morale – and for the patients who complain more when there's a lot of bad publicity – people would not normally do that.....I wish the press would get off everyone's back*).

In the area where we did our research great effort had gone into improving line management and team structures in the last 12 months since our first round of interviews. These quotes from nurses in the one of the intensive care units give a flavour of the how well these changes have been received.

When I came here a year ago it was very unsettled – we'd lost a lot of long term staff and were working with agency staff. Now we have a strong team out there. If you have a strong team behind you encouraging you you want to do the job to the best of your ability.

It's about morale. In our job it can be very stressful and very hard, but we are all working together and helping it makes the job more manageable and fun so its less stressful.

The role of the relatively new ward manager was crucial.

Communication on the ward is excellent now. Our manager is very approachable. She is in the coffee room with us and so on.

At the ward we have a new manager who is approachable – a good listener and she gets to learn a lot....people go to her....she is very supportive.

They are beginning to listen to their staff – if they want to retain staff they had to change.

The success of the new ward manager was not just a lucky chance. Prime HR processes of selection, training and support were developed to support this (and other) immediate line managers.

There were problems still with pay levels, senior managers were felt to be too remote, and staff shortages remain a difficulty which puts pressure on team structures. However, despite these difficulties, which are fairly widespread in the NHS, the development of good local leadership and team structures had helped hugely. So too had two classic HR policy initiatives which had been give priority despite the organisational turmoil. One was the introduction of a form of 360 appraisal where individuals could influence who would be their appraisers ('*It is useful to know what my peers think of me...and my line manager has the right skills for feedback*'). The other was to give priority to training opportunities. These are crucial for nursing staff who are required to show continuous professional development, but sending people on a course is expensive and requires other nurses to cover ('*It is better now than 12 months ago but it's difficult to get an even balance of training across the staff – but I am happy that the intention is there.*').

The outcome in what has been a dreadful year in the hospital was a marked improvement in staff views about key aspects of HR policies and practices, especially those requiring action by immediate line managers. It

is hard to measure performance outcomes and attribute cause in a hospital setting but in terms of HR measures such as unfilled vacancies there has been a marked improvement and there is high satisfaction with the quality of clinical care.

Concluding Remarks.

Our aim has been to look at the connection between the way people are managed and organisational performance over a longer period than is usual. This has allowed us to begin to explore the issue of sustainability. The organisations we have been researching are relatively sophisticated and already had most of the sort of HR policies and practices that are recommended¹⁴. These typically cover careful recruitment and selection, training and development, appraisal schemes some with variable pay, teamworking, various types of involvement activities and extensive communication. The way these were designed and applied varied considerably between the organisations. Part of the reason for this is that there are different traditions and requirements in different sectors of the economy, and people's needs vary by occupation and skill level. We will explore these policies and the sectoral and occupational variations in subsequent publications. The base requirement, however, as developed in our model, is for these policies and practices to contribute to the basic HR needs of the firm: there is a requirement for people to have the requisite ability both as recruits and later developed in the firm; there is need for some form of motivation, and people need the opportunity to apply their ability and skill and contribute more broadly to the life of the organisation. We call this the AMO model.

It is the link between AMO and discretionary behaviour which is crucial. We know that people with high levels of organisational commitment and/or job satisfaction are more motivated and likely to exhibit this type of fruitful discretionary behaviour. We know that good policies within AMO feed into organisational commitment and job satisfaction (and using a different, but relevant, lens, contribute to a positive psychological contract). Our research both confirms and adds to this picture. We have explored the role of line managers, especially the immediate line managers and team leaders in delivering HR policies and practices and tested the extent to which employees rate these behaviours positively or negatively and showed how this in turn is associated with positive outcomes. In particular we have noted the link between what we can call the HR behaviour or competence of these managers (bringing policies to life) and sustainability even when the external environment is difficult.

Of course, such managers themselves need a lot of support, and it is odd how often they are relatively neglected. In particular, looking across our

sample of 12 companies we note four supporting conditions required for successful line management delivery of good HR practice:

1. As employees themselves working in what are nearly always stressful and demanding jobs, immediate line managers and team leaders have particular needs for training and development, career expectations, and support from senior management.
2. There is a requirement for well-designed, consistent and appropriate HR policies for these managers to apply. If their job is to bring policies to life there must be the policies in place.
3. The organisation must have found a way of coping with the inevitable tensions between short run and long run performance, and between financial, technical and social requirements. The use of a balanced score card was helpful in some of our companies, but the balance between the segments needs to be monitored carefully. Use of a balanced set of measures of performance against targets can be helpful to line managers.
4. An overall sense of purpose in the organisation plays an important role in binding people into the firm and setting understandable goals which help set the boundaries around what is productive and useful behaviour from what is not. We call this 'the big idea' since it seemed to us that in many of our organisations there was a simple, easily articulated, central idea about what was important. This is explored in the Nationwide presentation since it is seen as crucial. The 'Big Idea' is a type of value statement that did not need to be written down as it was so clearly understood in every day organisational life. This could be quality, or customer service, or patient care, or innovation or even 'make money and have fun'. It was rarely expressed solely in financial terms like 'maximise shareholder value'. Translating company goals into individual action and behaviour is one of the roles that immediate line managers take on. It is hard to do this if there is a lack of clarity or a set of confusing and contradictory messages coming down the line.

ⁱ The researchers are Sue Hutchinson, Nick Kinnie, Bruce Rayton and Juani Swart. John Purcell is the director of the research project.

² The 'black box' refers to the, often unclear, processes that occur when inputs (e.g. labour and capital) are converted into a useful output (e.g. profit or productivity)

³ Rousseau, D. (1995) *Psychological Contracts in Organizations*, Sage. Guest, D. and Conway, N. (1997) *Employee Motivation and the Psychological Contract* CIPD. Coyle-Shapiro, J. and Kessler, I (2000) 'Consequences of the Psychological Contract for the employment relationship' *Journal of Management Studies* 37:7

⁴ Robinson, S. (1996) 'Trust and the breach of the psychological contract' *Administrative Science Quarterly* 41:4. Robinson, S. and Rousseau, D. (1994) 'Violating the psychological contract: not the exception but the norm' *Journal of Organizational Behaviour* 15.

⁵ Appelbaum, E., Bailey, T., Berg, P. and Kalleberg, A. (2000) *Manufacturing Advantage: Why High-Performance Systems Pay Off*. Ithaca, NY: ILR Press. Gardner, T. (2002) 'The

role of discretionary behaviour in mediating the HR-Firm Performance Relationship' Paper presented at the Academy of Management Conference, Denver.

⁶ *Beyond Contract: Work, Power and Trust Relations* (1974) Alan Fox, London: Faber and Faber

⁷ *Getting Fit: Staying Fit* (1998) Hutchinson, S., Kinnie, N., Collinson, M., Terry, M., Scarbrough, H. London-CIPD

⁸ Job satisfaction and organisation commitment do not always go together, but often do. In some cases, especially among professionals who have a strong occupational identity beyond the immediate and current employer, organisational commitment can be relatively low but there is a high need for job satisfaction with commitment given to the profession and the customer, client or patient.

⁹ This means that our ideas have not been pre-formed or deduced in theory but came out of, or are inducted from, our field work experience.

¹⁰ See Peter Boxall and John Purcell *Strategy and Human Resource Management* Palgrave 2002.

¹¹ There is a major debate about how many policies and practices are important in HR and the number of policies firms have, and by implication need to have. This is often a question of detail such as types of training and development or appraisal. Other policies, while vitally important for ethical and social legitimacy reasons, such as discrimination policies, are not directly related to AMO. For a different count of the number of policies used in research see David Guest *Voices from the Boardroom* CIPD 2002

¹² There is, depressingly, nothing particularly new in the neglect of supervisors. Keith Thurley drew attention to it in the 1970s.

¹³ This is the weakness of research which asks a senior HR manager to complete a questionnaire about HR in his or her firm and relies on the responses for analysis.

¹⁴ The most well known list is that provided by Pfeffer 1998. *The Human Equation: Building Profits by Putting People First*. Boston, MA: Harvard Business School Press