Introduction

This study tackles about the theory and practices of HRM and its impact on employee performance management in organizations. Organizations find it suitable to balance the two variables and see how they affect each other in order to achieve their intended goals. It is through HRM that individuals are given directions within organizations to perform accordingly. Below is how HRM affects employee performance management.

The terms 'human resource management' (HRM) and 'human resources' (HR) have largely replaced the term 'personnel management' as a description of the processes involved in managing people in organizations. The concept of HRM underpins all the activities described in this report, and the aim of this study is to provide a framework for what follows by defining the concepts of HRM and an HR system, describing some models of HRM and looking at its aims and characteristics. This further continues with a review of reservations about HRM and the relationship between HRM and performance management and concludes with a discussion of the impact HRM and performance management.

Definitions

Human resource management is defined as a strategic and coherent approach to the management of an organization's most valued assets – the people working there who individually and collectively contribute to the achievement of its objectives. Storey (1989) believes that HRM can be regarded as a 'set of interrelated policies with an ideological and philosophical underpinning'. He suggests four aspects that constitute the *meaningful* version of HRM:

1. A particular constellation of beliefs and assumptions
2. A strategic thrust informing decisions about people management
3. The central involvement of line managers and
4. Reliance upon a set of 'levers' to shape the employment relationship

Employee performance management is the systematic process by which an agency involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of agency mission and goals. Or it is an integrated system, including organizational design, work planning, assessments and feedback designed to maximize performance at the individual, team, unit and organizational levels to motivate and to develop staff.

Performance management thus is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements. It describes how the process exists for establishing shared understanding about what is to be achieved, and for managing and developing people in a way that increases the probability that it *will* be achieved in the short and longer term. It thus focuses people on doing the right things by clarifying their goals. It is owned and driven by line management.

Personality - as defined by Toplis *et al* (1991), personality is all-embracing in terms of the individual's behaviour and the way it is organized and coordinated when he or she interacts with the environment.

Placement – It is a system of assessment and selection by which vacancies are filled by staff serving in an organization. Commonly refers to internal filling of vacancies as distinguished from external recruitment.

Recruitment – a system of attracting, assessing and selecting candidate's external to the organization in order to fill vacancies. This process is distinct from the one whereby serving staff are selected to fill vacancies. (*see definition for* **Placement**).

Compensation package - structures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of reward.

Competencies - Combination of skills, attributes and behaviours that are directly related to successful performance on the job.

Contractual arrangement -Types of contracts which are used to hire individuals for periods ranging from short-term to long-term, or to engage their services for the

provision of a specific end product. The contracts may be time-based (fixed-term or without time limit) or linked to the completion of a specific event/task.

Guiding Principles of Performance Management

Egan (1995) proposes the following guiding principles for performance management:

It is well known that majority of employees want direction, freedom to get their work done, and encouragement not control. The performance management system should be a control system only by exception. The solution is to make it a collaborative development system, in two ways. First, the entire performance management process – coaching, counselling, feedback, tracking, recognition, and so forth – should encourage development. Ideally, team members grow and develop through these interactions. Second, when managers and team members ask what they need to be able to do to do bigger and better things, they move to strategic development.

Performance management is essentially about the management of expectations. It creates a shared understanding of what is required to improve performance and how this will be achieved by clarifying and agreeing what people are expected to do and how they are expected to behave. It uses these agreements as the basis for measurement and review, and the preparation of plans for performance improvement and development.

Function of HRM in organizations

HRM functions are concerned with the management and development of people in organizations. They are involved in the development and implementation of HR strategies and policies and some or all of the following people management activities: organization development, human resource planning, talent management, knowledge management, recruitment and selection, learning and development, reward management, employee relations, health and safety, welfare, HR administration,

fulfillment of statutory requirements, equal opportunity and diversity issues, and any other matters related to the employment relationship.

The role of the HR function is to enable the organization to achieve its objectives by taking initiatives and providing guidance and support on all matters relating to its employees. The basic aim is to ensure that the organization develops HR strategies, policies and practices that cater effectively for everything concerning the employment and development of people and the relationships that exist between management and the workforce. The HR function can play a major part in the creation of an environment that enables people to make the best use of their capacities and to realize their potential to the benefit of both the organization and themselves.

It further provides the advice and services that enable organizations to get things done through people. It is in the delivery business. Ulrich (1998) points out that: 'The activities of HR appear to be and often are disconnected from the real work of the organization.' He believes that HR 'should not be defined by what it does but by what it delivers'.

Unit 3:HRM and Employee Performance Management

How HR impacts on Organizational Performance

The HR is the life blood of every organization and the practice of HRM is that people are the organization's key resource and organizational performance largely depends on them. It is necessary therefore that a range of HR policies and processes should be developed and implemented in order for HR to make an impact on the firm's performance.

The Holy Grail sought by many commentators on human resource management is to establish that a clear positive link between HRM practices and organizational performance exists. There has been much research as experienced practitioners have identified several characteristics that are prerequisites for effective performance management systems, there are also many decisions that need to be made to design a system ideally suited for a given organization's needs. One such decision is what purpose(s) the system will serve. I.e., performance management systems can support pay decisions, promotion decisions, employee development and reductions in force. A performance management system that attempts to achieve too many objectives is likely to die of its own lack of focus and weight. There is no one type of system or set of objectives that is best suited for all organizations. The purposes for a given performance management system should be determined by considering business needs, organizational culture and the system's integration with other human resource management systems.

The messages from research especially that carried out by Purcell et al (2003) are that HR can make an impact by leading or contributing to

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- The development and successful implementation of high performance work practices, particularly those concerned with job and work design, flexible working, resourcing (recruitment and selection and talent management), employee development (increasing skills and extending the skills base), reward, and giving employees a voice;
- The formulation and embedding of a clear vision and set of values (the big idea);
- The development of a positive psychological contract and means of increasing the motivation and commitment of employees;
- The formulation *and* implementation of policies which, in the words of Purcell *et al* (2003) meet the needs of individuals and 'create a great place to work';
- The provision of support and advice to line managers on their role in implementing HR policies and practices;

Relationship between HRM and Employee Performance Management

Wilkinson et al. (1992) claims that the hard and soft aspects in TQM programs are interdependent elements. Human resource management can be examined as a total quality tool in two ways that is the hard and soft relationship.

Hard quality tool

Total quality management (TQM) is defined as "management approach of an organization centered on quality, based on participation of all its members and aiming at long term success through customer satisfaction and other benefits to all members of the organization and society.

TQM is an overall organizational strategy that is formulated at the top management level and then is diffused thought the entire organization right from the CEO to the lowest paid workers in the society.

The process of TQM can best be explained by the following chain

- Supplier as partner.
- Employees as Assets.
- Customer as guides.

The principles and core concepts of total quality management vis-à-vis HR.
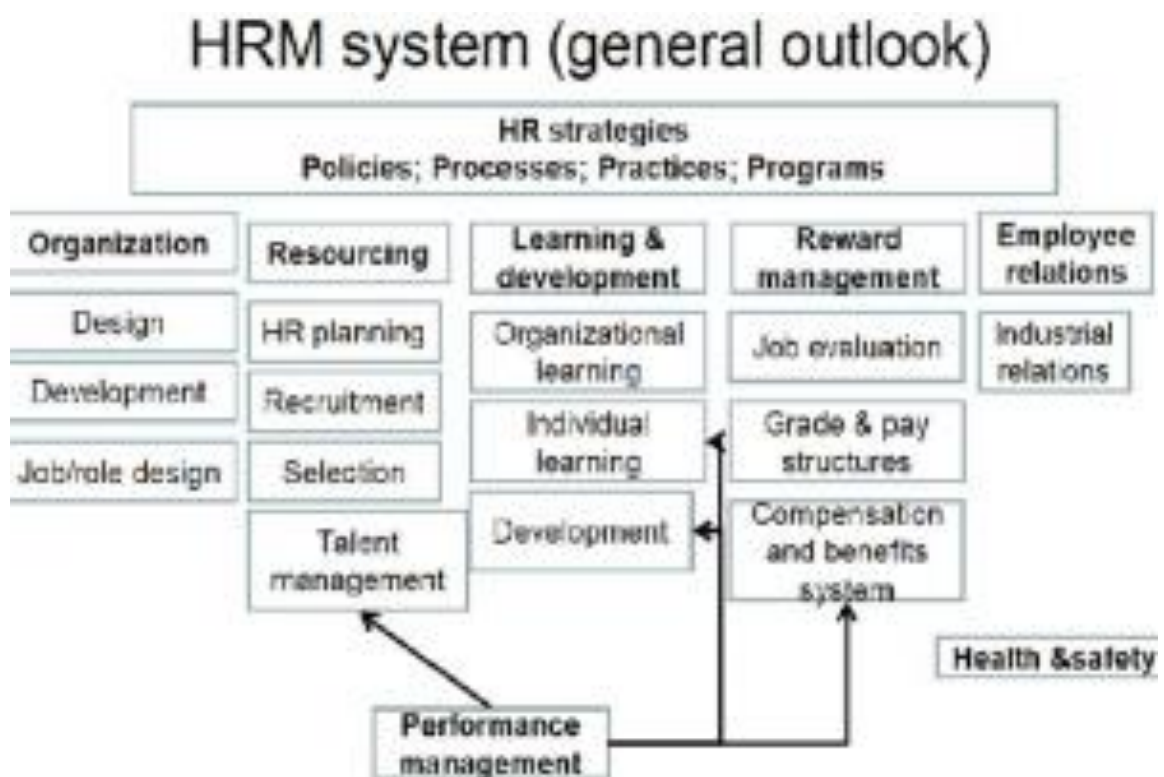
Principles	Core Concepts
Delight the customers	Customer satisfaction
Management by fact	Internal customers are real
	All work is process
People-based management	Measurement
	Team work
Continuous improvement	People make quality
	Continuous improvement cycle
	Prevention

People based management: If people understand what to do, how to do it and obtain feedback on their performance, they can be encouraged to take responsibility for the quality of their work. The more people feel involved, the greater will be their commitment to customer satisfaction. The role of people is extremely important in the performance and continuous improvement of quality within an organization.

Team work: Is a process of working collaboratively with a group of people in order to achieve a common goal. Team work is often a crucial part of a business, as it is often necessary or colleagues work well together, trying their best in any circumstance. Team work means that people will try to cooperate, using their individual skills and providing constructive feedback, despite any personal conflict between individuals.

Since team work facilitates job satisfaction and job involvement and HR encourages job satisfaction and job involvement the development of people and then involvement activities both individual and through team work is a key feature in a company's approach to performance management. Teams and team working is highly valued in today's organization that will increase the productivity of the production as well as the job involvement of employees. An organization can gather following benefits from quality team working:

- Continuous learning
- Flexibility in working
- Better employee attitudes
- Co-ordination and supportiveness
- Building good partnership between employees and manager
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- **The matching model of human HRM**
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HRM system (general outlook)

HR strategies
Policies; Processes; Practices; Programs

Organization	Resourcing	Learning & development	Reward management	Employee relations
Design	HR planning	Organizational learning	Job evaluation	Industrial relations
Development	Recruitment	Individual learning	Grade & pay structures	
Job/role design	Selection	Development	Compensation and benefits system	
	Talent management			Health &safety

Performance management

The contribution of HR to human resource planning

Human resource planning, in the broader meaning of the term, is one of the fundamental strategic roles of the HR function. HR can make a major contribution to developing the resource capability of the firm and therefore its strategic capability by systematically reviewing the firm's strategic objectives and by ensuring that plans are made that will ensure that the human resources are available to meet those objectives.

The 7 Steps of Human Resource Planning

Thus HR is focusing on the acquisition and development of the human capital required by the organization. To make this contribution, heads of HR and their colleagues in the HR function

need to:

- Ensure that they are aware of the strategic plans of the business, and can provide advice on the human resource implications of those plans;
- Point out to management the strengths and weaknesses of the human resources of the organization, and the opportunities and threats they present, so that these can be considered when developing business plans;
- Be capable of scenario planning in the sense that they can identify future issues concerning the acquisition, retention and employment of people, and advice on methods of addressing those issues;

- Understand the extent to which quantitative assessments of the future demand for and supply of people may be feasible and useful, and know the methods that can be used to prepare such forecasts;
- Be aware of the scope to deal with future requirements by introducing various forms of flexibility;
- Be capable of preparing relevant and practical resourcing plans and strategies for retaining people, based upon an understanding of the internal and external environment of the organization, and the implications of analyses of labour turnover.

HRM Policies with Performance Management

HR policies are continuing guidelines on the approach the organization intends to adopt in managing its people. They define the philosophies and values of the organization on how people should be treated, and from these are derived the principles upon which managers are expected to act when dealing with HR matters. HR policies therefore serve as reference points when employment practices are being developed, and when decisions are being made about people. They help to define 'the way things are done around here'.

HR policies should be distinguished from procedures. A policy provides generalized guidance on the approach adopted by the organization, and therefore its employees, concerning various aspects of employment. A procedure spells out precisely what action should be taken in line with the policy.

Why have HR Policies

HR or employment policies help to ensure that when dealing with matters concerning people, an approach in line with corporate values is adopted throughout the organization. They serve as the basis for enacting values – converting espoused values into values in use. They provide frameworks within which consistent decisions are made, and promote equity in the way in which people are treated. Because they provide guidance on what managers should do in particular circumstances they facilitate empowerment, devolution and delegation. While they should fit the corporate culture, they can also help to shape it.

HR Policy areas

HR policies can be expressed as overall statements of the values of the organization. The main points that can be included in an overall policy statement and specific policy areas are set out below.

Overall policy

This defines how the organization fulfils its social responsibilities for its employees and sets out its attitudes towards them. It is an expression of its values or beliefs about

how people should be treated. Peters and Waterman (1982) wrote that if they were asked for one all-purpose bit of advice for management, one truth that they could distil from all their research on what makes an organization excellent, it would be, 'Figure out your value system. Decide what the organization stands for.' Selznick (1957) emphasized the key role of values in organizations, when he wrote 'The formation of an institution is marked by the making of value commitments, that is, choices which fix the assumptions of policy makers as to the nature of the enterprise, The values expressed in an overall statement of HR policies may explicitly or implicitly refer to the following concepts:

- *Equity:* treating employees fairly and justly by adopting an 'even handed' approach. This includes protecting individuals from any unfair decisions made by their managers, providing equal opportunities for employment and promotion, and operating an equitable payment system.
- *Consideration:* taking account of individual circumstances when making decisions that affect the prospects, security or self-respect of employees.
- *Organizational learning:* a belief in the need to promote the learning and development of all the members of the organization by providing the processes and support required.
- *Performance through people:* the importance attached to developing a performance culture and to continuous improvement; the significance of performance management as a means of defining and agreeing mutual expectations; the provision of fair feedback to people on how well they are performing.
- *Work-life balance:* striving to provide employment practices that enable people to balance their work and personal obligations.
- *Quality of working life:* consciously and continually aiming to improve the quality of working life. This involves increasing the sense of satisfaction people obtain from their work by, so far as possible, reducing monotony, increasing variety, autonomy and responsibility, and avoiding placing people under too much stress.
- *Working conditions:* providing healthy, safe and so far as practicable pleasant working conditions.

It may be difficult to express these policies in anything but generalized terms, but employers are increasingly having to recognize that they are subject to external as well as internal pressures, which act as constraints on the extent to which they can disregard the higher standards of behaviour towards their employees that are expected of them.

Specific policies

The specific policies should cover the following areas as described below: equal opportunity, managing diversity, age and employment, promotion, work-life balance, employee development, reward, involvement and participation, employee relations, new technology, health and safety, discipline, grievances, redundancy, sexual harassment, bullying, substance abuse, smoking, AIDS, and e-mails.

Determinants of Performance Management

People perform their roles within complex systems called organizations. The study of organizational behaviour is concerned with how people within organizations act, individually or in groups, and how organizations function, in terms of their structure and processes. All managers and HR specialists are in the business of influencing behaviour in directions that will meet business needs. An understanding of organizational processes and skills in the analysis and diagnosis of patterns of organizational behaviour are therefore important. As Nadler and Tushman (1980) have said.

The manager needs to be able to understand the patterns of behaviour that are observed to predict in what direction behaviour will move (particularly in the light of managerial action), and to use this knowledge to control behaviour over the course of time. Effective managerial action requires that the manager be able to diagnose the system he or she is working in.

To manage people effectively, it is necessary to understand the factors that affect how people behave at work. This means taking into account the fundamental characteristics of people as explained below:

- Individual differences – as affected by people's abilities, intelligence, personality, background and culture, gender and race
- Attitudes – causes and manifestations
- Influences on behaviour – personality and attitudes
- Attribution theory – how we make judgments about people
- Orientation – the approaches people adopt to work
- Roles – the parts people play in carrying out their work.

The management of people would be much easier if everyone were the same, but they are, of course, different because of their ability, intelligence, personality, background and culture (the environment in which they were brought up), as discussed below. Gender, race and disability are additional factors to be taken into account. The needs

and wants of individuals will also differ, often fundamentally, and this affects their motivation. Personal characteristics have been classified by Mischel (1981) as follows:

- *Competencies* – abilities and skills;
- *Constructs* – the conceptual framework which governs how people perceive their environment;
- *Expectations* – what people have learned to expect about their own and others' behaviour;
- *Values* – what people believe to be important;
- *Self-regulatory plans* – the goals people set themselves and the plans they make to achieve them.

Ability

Ability is the quality that makes an action possible. Abilities have been analyzed by Burt (1954) and Vernon (1961). They classified them into two major groups:

- V:ed – standing for verbal, numerical, memory and reasoning abilities;
- K:m – standing for spatial and mechanical abilities, as well as perceptual (memory) and motor skills relating to physical operations such as eye/hand coordination and mental dexterity.

They also suggested that overriding these abilities there is a 'g' or general intelligence factor which accounts for most variations in performance.

Alternative classifications have been produced by

- Thurstone (1940) – spatial ability, perceptual speed, numerical ability, verbal meaning, memory, verbal fluency and inductive reasoning;
- Gagne (1977) – intellectual skills, cognitive (understanding and learning) skills, verbal and motor skills;
- Argyle (1989) – judgement, creativity and social skills.

Intelligence

Intelligence has been defined as:

- 'the capacity to solve problems, apply principles, make inferences and perceive relationships' (Argyle, 1989);
- 'the capacity for abstract thinking and reasoning with a range of different contents and media' (Toplis *et al* 1991);
- 'the capacity to process information' (Makin *et al*, 1996);
- 'what is measured by intelligence tests' (Wright and Taylor, 1970).

An alternative approach to the analysis of intelligence was put forward by Guilford (1967), who distinguished five types of mental operation: thinking, remembering, divergent production (problem-solving which leads to unexpected and original

solutions), convergent production (problem-solving which leads to the one, correct solution) and evaluating.

Personality

Personality can be described in terms of traits or types.

The trait concept of personality

Personality can be defined as the relatively stable and enduring aspects of individuals that distinguish them from other people. This is the 'trait'concept, traits being predispositions to behave in certain ways in a variety of different situations.

The influence of background

Individual differences may be a function of people's background, which will include the environment and culture in which they have been brought up and now exist. Levinson (1978) suggested that 'individual life structure'is shaped by three types of external event:

- The socio-cultural environment;
- The roles they play and the relationships they have;
- The opportunities and constraints that enable or inhibit them to express and develop their
- personality.

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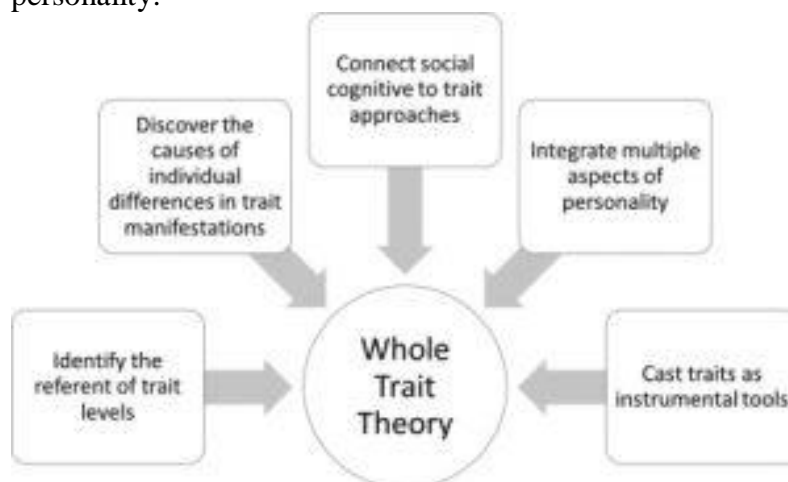
Attitudes

An attitude can broadly be defined as a settled mode of thinking. Attitudes are evaluative. As described by Makin *et al* (1996), 'Any attitude contains an assessment of whether the object to which it refers is liked or disliked.' Attitudes are developed through experience but they are less stable than traits and can change as new experiences are gained or influences absorbed. Within organizations they are affected by cultural factors (values and norms), the behaviour of management (management style), policies such as those concerned with pay, recognition, promotion and the quality of working life, and the influence of the 'reference group' (the group with whom people identify).

Significance of Human Capital Theory

Human capital management (HCM) is concerned with obtaining, analysing and reporting on data that informs the direction of value-adding people management, strategic investment and operational decisions at corporate level and at the level of front line management. The Accounting for People Task Force Report (2003) stated that HCM involves the systematic analysis, measurement and evaluation of how people policies and practices create value. The report defined HCM as 'an approach to people management that treats it as a high level strategic issue rather than an operational matter "to be left to the HR people" Nalbantian *et al* (2004) emphasize the measurement aspect of HCM. They define human capital as, 'The stock of accumulated knowledge, skills, experience, creativity and other relevant workforce attributes' and suggest that human capital management involves 'putting into place the metrics to measure the value of these attributes and using that knowledge to effectively manage the organization'.

HCM is defined by Kearns (2005b) as 'The total development of human potential expressed as organizational value.' He believes that 'HCM is about creating value through people' and that it is 'a people development philosophy, but the only development that means anything is that which is translated into value'. In the opinion of Mayo (2001) the essential difference between HCM and HRM is that the former treats people as assets while the latter treats them as costs. Kearns (2005b) believes that in HCM 'people are value adders, not overheads' while in HRM 'people are (treated as) a significant cost and should be managed accordingly'. According to Kearns, in HRM 'the HR team is seen as a support service to the line' – HR is based around the function and the HR team performs 'a distinct and separate role from other functions'. Fombrun *et al* (1984), in the other seminal text, quite explicitly presented workers as a key resource that managers use to achieve competitive advantage for their companies. Grant (1991) lists the main characteristics of human resources in his general classification of a firm's potential resources as follows:

- The training and expertise of employees determines the skills available to the firm.

- The adaptability of employees determines the strategic flexibility of the firm.
- The commitment and loyalty of employees determine the firm's ability to maintain competitive advantage.

Cappelli and Singh (1992) propose that competitive advantage arises from firm specific, valuable resources that are difficult to imitate, and stress 'the role of human resource policies in the creation of valuable, firm-specific skills'.

The concept of human capital

Individuals generate, retain and use knowledge and skill (human capital) and create intellectual capital. Their knowledge is enhanced by the interactions between them (social capital) and generates the institutionalized knowledge possessed by an organization (organizational capital). These concepts of human, intellectual, social and organizational capital are explained below.
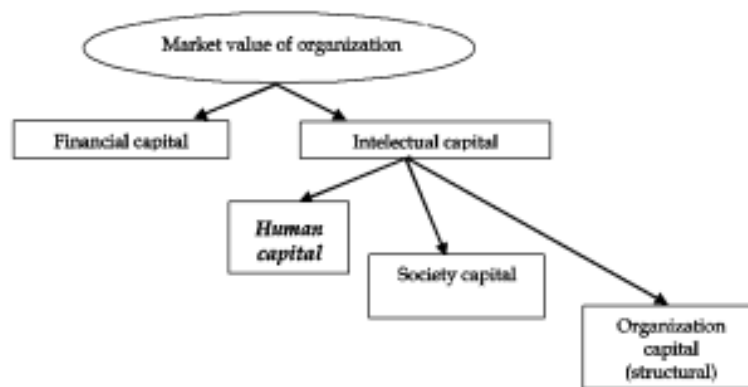
Human capital

The term 'human capital' was originated by Schultz (1961) who elaborated his concept in 1981 as follows: 'Consider all human abilities to be either innate or acquired. Attributes… which are valuable and can be augmented by appropriate investment will be human capital.' A more detailed definition was put forward by Bontis *et al* (1999) as follows:

Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization. Scarborough and Elias (2002) believe that: 'The concept of human capital is most usefully viewed as a bridging concept – that is, it defines the link between HR practices and business performance in terms of assets rather than business processes.' Davenport (1999) comments that:

People possess innate abilities, behaviours and personal energy and these elements make up the human capital they bring to their work. And it is they, not their employers, who own this capital and decide when, how and where they will contribute it. In other words, they can make choices. Work is a two-way exchange of value, not a one-way exploitation of an asset by its owner.

Intellectual capital

The concept of human capital is associated with the overarching concept of intellectual capital, which is defined as the stocks and flows of knowledge available to an organization. These can be regarded as the intangible resources associated with people who, together with tangible resources (money and physical assets), comprise the market or total value of a business. Bontis (1996, 1998) defines intangible resources as the factors other than financial and physical assets that contribute to the value-generating processes of a firm and are under its control.

Social capital

Social capital is another element of intellectual capital. It consists of the knowledge derived from networks of relationships within and outside the organization. The concept of social capital has been defined by Putnam (1996) as 'the features of social life – networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives'. The World Bank (2000) offers the following definition: Social capital refers to the institutions, relationships and norms that shape the quality and quantity of a society's social interactions... Social capital is not just the sum of the institutions that underpin a society – it is the glue that holds them together.

Organizational capital

Organizational capital is the institutionalized knowledge possessed by an organization, which is stored in databases, manuals, etc (Youndt, 2000). It is often called *structural capital* (Edvinson and Malone, 1997), but the term 'organizational capital' is preferred by Youndt because, he argues, it conveys more clearly that this is the knowledge that the organization actually *owns*.

The significance of human capital theory

The added value that people can contribute to an organization is emphasized by human capital theory. It regards people as assets and stresses that investment by organizations in people will generate worthwhile returns. The theory therefore explains the philosophies of human resource management and human capital management. Human capital theory is associated with the resource-based view of the firm as developed by Barney (1991). This proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals. Boxall (1996) refers to this situation as one that confers 'human capital advantage'. But he also notes (1996 and 1999), that a distinction should be made between 'human capital advantage' and 'human process advantage'. The former results from employing people with competitively valuable knowledge and skills much of it tacit. The latter, however, follows from the establishment of:

difficult to imitate, highly evolved processes within the firm, such as cross-departmental co-operation and executive development. Accordingly, 'human resource advantage', the superiority of one firm's labour management over another's, can be thought of as the product of its human capital and human process advantages.

For the employer, investments in training and developing people is a means of attracting and retaining human capital as well as getting better returns from those investments. These returns are expected to be improvements in performance, productivity, flexibility and the capacity to innovate that should result from enlarging the skill base and increasing levels of knowledge and competence. Schuller (2000) suggests that: 'the general message is persuasive: skills, knowledge and competences are key factors in determining whether organizations and nations will prosper.'

But Davenport (1999) has some cautionary words about the asset-based content of human capital theory. He argues that workers should not be treated as passive assets to be bought, sold and replaced at the whim of their owners – increasingly, they actively control their own working lives. Workers, especially knowledge workers, may regard themselves as free agents who can choose how and where they invest their talents, time and energy. He suggests that the notion that companies own human assets as they own machines is practice; it short-changes people by placing them in the same category as plant and equipment.

Conclusion

Performance management processes have become prominent in recent years as means of providing a more integrated and continuous approach to the management of performance than was provided by previous isolated and often inadequate merit rating or performance appraisal schemes as a result of HR specialists in the modern management world. Performance management is based on the principle of management by agreement or contract rather than management by command. It emphasizes development and the initiation of self-managed learning plans as well as the integration of individual and corporate objectives. It plays a major role in providing for an integrated and coherent range of human resource management processes which are mutually supportive and contribute as a whole to improving organizational effectiveness.

The overall aim of performance management is to establish a high performance culture in which individuals and teams take responsibility for the continuous improvement of business processes and for their own skills and contributions within a framework provided by effective leadership.

Finally, HRM and Performance Management are all about upholding the values of the organization – 'living the values'. This is an aspect of behaviour but it focuses on what people do to realize core values such as concern for quality, concern for people, concern for equal opportunity and operating within ethical standards. It means converting espoused values into values in use: ensuring that the rhetoric becomes reality.

Lastly, many factors will impact the effectiveness of an organization's performance management system, but three are most important. First, the system needs to be

aligned with and support the organization's direction and critical success factors. Second, well-developed, efficiently administered tools and processes are needed to make the system user- friendly and well received by organizational members. Third, and most important, is that both managers and employees must use the system in a manner that brings visible, value-added benefits in the areas of performance planning, performance development, feedback and achieving results.