Chartered Institute of Personnel and Development

Sustaining success in difficult times
Research summary

The link between people management and organisational performance is clear, but what is it in HR that seems to trigger better performance, and can such a connection be sustained, especially when times are difficult? The Work and Employment Research Centre at the University of Bath[1] has been studying, with funding from the CIPD, these 'black box'[2] questions for nearly three years. All of the organisations studied 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 careers and the best way to do things. It takes up a lot of senior management time, even when the change is planned. In the meantime, everyday work has to go on; the firm still needs to produce and perform, satisfying customers while being ever vigilant about costs.

And organisations do not stand still. This means that HR systems or the HR architecture of the organisation have to be both robust and flexible or adaptive. Indeed, HR policies and practices can play a crucial role not only in facilitating change but also, simultaneously, in helping to maintain commitment, loyalty and trust in the organisation, thereby reducing the fear of uncertainty. There is a need to find ways of sustaining performance over different conditions of growth, decline, and renewal.

This bulletin summarises the work so far. Principle areas of study include:

- the definition and importance of discretionary behaviour – including its drivers
- the environmental components Ability Motivation and Opportunity (AMO) which must exist for discretionary behaviour to take place
- the development of a People and Performance Model
- the roles of line managers and team leaders in applying HR policy and practice
- the four supporting conditions for effective line-management delivery of HR practice.

The psychological contract and discretionary behaviour

The growing interest in the psychological contract is relevant here. We know that when employees feel that their boss or firm have broken their expectations about work and career opportunities, they often feel less committed to the organisation. Job satisfaction sometimes falls, too.[3] When this occurs, performance dips. More people start to look for alternative jobs or, if they cannot move, dream of doing so. What is called 'organisation citizenship behaviour' (OCB) – a willingness to go the extra mile – declines. However, this 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 organisational commitment and to reduced performance. But when it does happen, it is very important to understand why.

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According to Robinson,[4] 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, their managers and the firm
- there is good, credible communication on why the problem occurred that triggered the action
- this is associated with the formation of realistic expectations.

The importance of this is that most organisations will, at some time or other, do something that challenges, and probably breaks, the pre-formed psychological contract. This may be in terms of redundancies, reductions in career opportunities or training and development provision, or a lack of employee involvement in such critical decisions as job transfers etc. What matters then is not so much the breach of contract as 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 resources 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, USA,[5] that the crucial factor linking HR practices to performance is the way in which these practices trigger 'discretionary behaviour' (see below). 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.

Everyday actions

Discretionary behaviour means making the sort of choices that often define 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, because 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 front-line service work dealing with customers either face to face 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 involve emotional labour (smiling down the phone), 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 ones. This choice of how, and how well, to do things is not necessarily made deliberately. It can be unconscious – just part of the way people behave in that organisation. But discretionary behaviour can certainly be withdrawn, often in the sense of adopting an uncaring attitude. This may be a reciprocal response to a belief that 'the firm no longer cares about me, my future or my opinions.' Ultimately, whatever the incentives or sanctions the firm tries to use, it lies with 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 that is so damaging. Our own experience tells us that there are times when morale is low, or the 'buzz' has gone, or everyone just wants to go home as soon as possible.

Job design

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, you rapidly become robotic – and spending money on sophisticated HR systems will be ineffective here. 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 jobs must be designed to allow more elbow room to those who carry them out. That is why multi-skilling and work transformations in the best examples of lean methods of working[7] 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'), then that discretion 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 People and Performance Model (Figure 1) is the proposition that what encourages employees to exercise discretionary behaviour is experiencing job satisfaction and having commitment to the organisation that employs them.[8] Job satisfaction is usually found when people feel that their job is challenging and when they feel they have a lot of 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 ('affective commitment'). It is hard to test whether someone exhibits discretionary behaviour in their job (though 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.

Ability, motivation and opportunity

In our first year of research, 700 employees and their managers were interviewed. From these interviews, a model was constructed (see Figure 1, page 5) and a number of important conclusions arose.[9] First, a central feature, highlighted in the box in the centre of the model, refers to 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 motivational factors may be financial but will almost certainly include social rewards (and sanctions) and recognition of employees' contributions by their co-workers and immediate bosses.
- There must be an **opportunity** to engage in discretionary behaviour (thus the importance of job-cycle time). 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).

AMO is at the heart of strategic human resources management[10] in the sense that all firms wishing to maximise the human contribution have to have workable policies in these three broad areas and that these are designed to contribute to the achievement of business strategies. This is where policy detail becomes important.

HR policies and practices

The types of policy and practice that link into AMO, or help create requisite levels of ability, motivation and opportunity, are shown in the outer boxes in Figure 1, ranging from job security to communication.[11] We identified 10 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 10 policy areas were significantly associated with high levels of job satisfaction and organisational commitment, although there were important differences between companies.

The credible connection

Those of our respondents – the employees we interviewed in each firm – who said that they were proud to work for their 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** organisational 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, such as an accounting consultancy, that satisfaction with careers, training and job challenge was particularly important. In clerical or manual work, satisfaction with involvement and team working was the vital ingredient. These will be explored in subsequent publications.

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

The third aspect of the model, and the one that 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 central box in Figure 1. The critical role of immediate, front-line managers in delivering HR has been neglected up to now in HR and performance research. Increasingly these employees were seen as one of the critical resources in the delivery of performance but, oddly, they are often relatively neglected or taken for granted.[12] So why are such staff in fact so important?

The three factors to consider are these:

Line managers apply most policies and practices related to people management. This has become much more pronounced in recent years with the shift towards individualism in the employment relationship and the trend towards devolving the application of HR management to the line. Increasingly it is these managers who are relied upon to 'bring polices to life', as one of our senior management interviewees put it.

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. In this latter area of policies in practice we need to look at wider issues, like organisational 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]

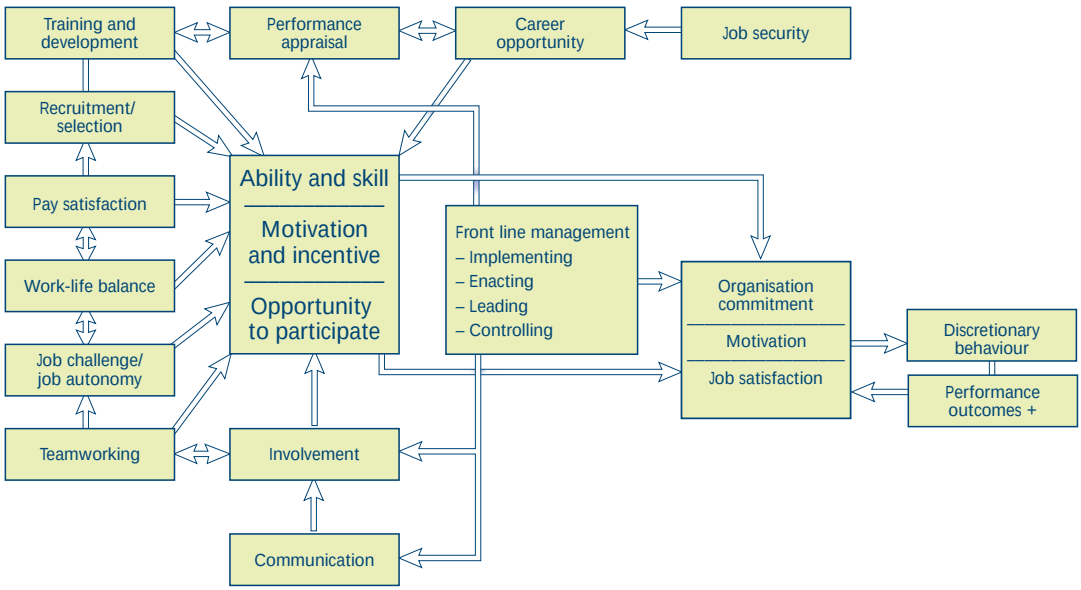
This type of behaviour – the way immediate line managers and team leaders manage their staff (and the way they themselves are managed) – is itself discretionary. Managers vary, of course, but how much attention is given to the way managers deal with people management issues is itself a reflection of what they are 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 even recognised in their firm. This may be because senior managers do not give a lead or because they reward other behaviours, especially those that are easy to quantify, like budget compliance or waste rates. Such discretionary behaviour on the part of managers in the way they do their job is closely associated with leadership. Top leadership is vital in setting the direction and creating a culture of success; without local leadership, however, 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, different generations of senior managers giving more or less emphasis to people issues. Thus, as shown in Figure 1, while AMO has a direct connection in the creation of organisational commitment and job satisfaction, it is also mediated by the way front-line (and higher-up) management applies policies and develops good practices in dealing with employees.

Here are some staff views on what it is important for them to have from their manager, to illustrate the sorts of line-management behaviour that are valued by employees and that seem to influence job satisfaction and organisational commitment:

- the opportunity to discuss training and development needs
- the extent to which line managers provide coaching and guidance to help improve performance
- whether employees are asked for their views and provided with an opportunity to comment on proposed changes
- the extent to which their line manager treats them with respect.

Figure 1: People and Performance Model



The role of teams

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 are 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 consequently felt let down. In our attitudinal research, team leaders were particularly demotivated 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.

Case studies investigated

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. A case in point is the Royal United Hospital in Bath.

Royal United Hospital

The hospital was in real difficulties because of an extreme problem with meeting performance targets, changes in the top management team and bad news reported daily in the local paper and sometimes in the national press. At ward level, however, patient care went on, as it had to, with continuing efforts to provide quality care and to manage staff working very hard in stressful circumstances. To quote one nurse: *'It's a shame there's been so much publicity – it has a bad effect 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 of research, great effort had gone into improving line management and team structures in the 12 months following the first round of interviews. These quotations from nurses in one of the intensive care units give a flavour of how well these changes had 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 it's 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 immediate line manager and others too.

There were still problems with pay levels, senior managers were felt to be too remote, and staff shortages remain a difficulty that puts pressure on team structures. However, in spite of these difficulties, which are fairly widespread in the NHS, the development of good local leadership and team structures has helped hugely. So too have two classic HR policy initiatives which were given priority despite the organisational turmoil. One was the introduction of a form of 360-degree appraisal, where individuals could influence who their appraisers would be: *'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 continuing 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 of what had 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 such HR measures as unfilled vacancies, there has been a marked improvement, and there is high satisfaction with the quality of clinical care.

To reflect

The 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 exploration of the issue of sustainability. The organisations researched are relatively sophisticated and already had most of the sort of HR policies and practices that are recommended.[14] These typically cover careful recruitment and selection, training and development, appraisal schemes (some with variable pay), team working, various types of involvement activity and extensive communication. But the way these are designed and applied varies 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. These differences will be explored in subsequent publications. The fundamental requirement, however, as developed in the 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 ability both as recruits and as more experienced members of the firm; and there is a need for some form of motivation – for people to have the opportunity to apply their ability and skill and contribute more broadly to the life of the organisation. This is the need for the AMO model.

But it is the link between AMO and discretionary behaviour that 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 from a different, but relevant, point of view, contribute to a positive psychological contract). Our research both confirms and adds to this picture. We have explored the role of line managers, especially that of 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 we have shown 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.

The four supporting conditions for successful line management

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 scorecard 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 separating what is productive and useful behaviour from what is not. We call this the 'Big Idea', because it seemed to us that in many of our organisations there was a simple, easily articulated, central idea about what was important. The 'Big Idea' is a type of value statement that does not need to be written down, because it is so clearly understood in everyday organisational life. It could concern quality, customer service, 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.

Notes

1 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 (eg labour and capital) are converted into useful output (eg profit and productivity).

3 **Rousseau, D.** *Psychological contracts in organizations*. London, Sage, 1995. **Guest, D. and Conway, N.** *Employee motivation and the psychological contract*. London, CIPD, 1997. **Coyle-Shapiro, N. and Kessler, I.** 'Consequences of the psychological contract for the employment relationship'. *Journal of Management Studies* 37, 2000, p7.

4 **Robinson, S**. 'Trust and the breach of the psychological contract'. *Administrative Science Quarterly* 41, 1996, p4. **Robinson, S. and Rousseau, D**. 'Violating the psychological contract: not the exception by the norm'. *Journal of Organizational Behaviour* 15, 1994.

5 **Appelbaum, E., Bailey, T., Berg, P. and Kalleberg, A.** *Manufacturing Advantage: why high-performance systems pay off.* Ithaca, NY, ILR Press, 2002. **Gardner, T.** 'The role of discretionary behaviour in mediating the HR-firm performance relationship'. Paper presented at the Academy of Management Conference, Denver, 2002.

6 **Fox, A.** *Beyond Contract: Work, power and trust relations*. London, Faber and Faber, 1974.

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

8 Job satisfaction and organisational commitment do not always go together, but often they 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 from theory but came out of, or are deduced from, our fieldwork experience.

10 See **Boxall P. and Purcell J.** *Strategy and Human Resource Management*. Basingstoke, Palgrave, 2002.

11 There is a major debate about how many polices and practices are important in HR and the number of policies that 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 Guest D. Voices from the Boardroom, London, 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 that asks a senior HR manager to complete a questionnaire about HR in his or her firm and then relies on these responses for analysis.

14 The best-known list is that provided by **Pfeffer J.** *The Human Equation: building profits by putting people first.* Boston, MA, Harvard Business School Press, 1998.

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