PERFORMANCE IS NOT SYNONYMOUS WITH ADDED VALUE –
THE IMPLICATIONS FOR HRM PRACTICES

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Abstract

Many organisations have been trying to establish how effective their HRM practices are. Yet few HR functions have provided any unequivocal answers as to the direct impact their efforts have had on individual and organisational performance. Paul Kearns has been working and researching in this area as a consultant since 1990. The results of his research suggest that there is little evidence that modern, ‘progressive’ HRM practices, which explicitly aim to improve performance, deliver what the theories promise. Some fundamental obstacles, which most HRM functions fail to surmount, is a lack of focus on real added value at the design stage of performance management initiatives, and a failure both to use meaningful performance measures and link HRM activity to bottom line results.

Conventional HRM practices are increasingly outmoded

It is increasingly acknowledged that management by objectives and the simplistic use of financial and other operational measures as improvement targets, which are intended to drive performance, are rather blunt, outmoded instruments, more suited to an era when command-and-control management styles were the order of the day. Thinking in performance measurement and performance management has had to reach a higher level of sophistication where management cannot continue to improve performance without addressing other fundamental organisational issues first.

Many of these organisational issues are concerned with culture, structure or process but have been categorised under the generic headings of change management or just ‘people issues’ and it is probably for this reason that such changes are seen as part of the remit of the HR function. But it is only over the last 10 years or so that HR practitioners have become so closely associated with organisational efforts to measure and improve performance and therefore there has been a rapid development of the portfolio of tools and techniques necessary for this role.

However, the move towards HR becoming a performance-focused function is a significant departure from the traditional role of many Personnel and HRM departments. Moreover, it is very important to fully appreciate the extent of this shift when considering the impact that HRM practices have on performance. The traditional role of applying personnel administration systems, with the main aims of consistency and fairness, for example, is increasingly seen as being out of touch with the needs of organisations which are under relentless pressure to reduce costs, increase quality and cope with competition in a global
marketplace. This view was succinctly expressed by the Vice President, HR, Texas Instruments, in a Personnel Journal survey of HR directors in August 1994 –

“My job early on was to make people happy. But when we viewed our role in HR as keeping people happy, we found ourselves on a separate track from operating managers who were concerned with such things as yield, billing, scrap and other hard business issues.”

This view of HR’s role has a much harder edge and indicates that the conventional wisdom in Personnel matters, for example, that fair and equitable pay systems should be built on a foundation of systematic job evaluation, does not sit easily with the shift, in many organisations towards, what can be called, the ‘results only paradigm’. Results in this sense meaning either bottom line profit or shareholder value. This is becoming as true now for public sector organisations in the UK as it is for commercial concerns, with league tables of performance being introduced into schools, hospitals, government departments and local authorities.

Moreover, when the pressures on an organisation to outperform competitors have been felt for some considerable time, all opportunities to achieve a competitive advantage are exhausted until the only potential source of competitive advantage left is to optimise the performance of the human resource. The next question then is how can this be achieved? If developing HR initiatives, to enhance organisational performance, is a way in which leverage can be gained, it places the effective management of the human resource in the spotlight and attaches a critical importance to any HR strategies, systems and tools which can help this process.

But if this is indeed the new agenda for HRM then how is the current portfolio of HRM practices faring? It was this question that led to the establishment of the PHIRM (Profitable Human Investment and Resource Management) network in 1991 in order to seek ways of assessing, in bottom line terms, how effective HRM practices were.

A distinction must be made here, though, between those organisations that have positively embraced change, and sought to stay at the forefront of change, in their markets and those which have adopted a more negative approach, that is, only reacting to change when it is forced on them externally. This is particularly important in looking at HRM practices because what appear, on the surface, to be the same practices can be used to entirely different effect in different organisations. One only has to view the different effect customer service training has had in different sectors, and different companies, for example, Marriott hotels or First Direct telephone banking. In the latter instance, a stark contrast can be made with Barclaycall where an initial decision, to transfer existing staff in from elsewhere in the Barclays group. This was soon acknowledged as unworkable because the attitudes of staff from the traditional banking arm would never fit with the new culture of 24-hour telephone banking and offering exceptional customer service.

In practice, it appears that having a vision and a long-term philosophy of continuous improvement are necessary conditions for HR practices to work in improving performance. Whereas those organisations which introduce HR practices in an ad hoc, disjointed, flavour-of-the-month fashion are unlikely to achieve the same level of performance. Toyota are a good example of the former where lifetime employment, single union recognition and empowerment are just some of the key, integrated elements of their holistic HR philosophy and strategy. Ford, in comparison, could be accused of not having a coherent HR strategy
because their industrial relations environment does not sit comfortably with their attempts at promoting employee development through their EDAP (Employee Development Assistance Programme) programme. Similarly, constantly leaving plants under threat of closure is unlikely to engender worker involvement in continuous improvement efforts.

At a more micro level, what does the difference between these two approaches mean in practice? One very simple, but very telling indicator is the time it takes to change an operational process at Toyota, which can be as little as 3 hours. If we stop to imagine, for a moment, what needs to be in place in order to achieve such efficiencies it is not difficult to understand that shopfloor workers need to be trained to analyse improvement opportunities, the organisational culture needs to welcome new ideas and promote them to higher management and management itself has to be responsive. The list goes on but all of these elements of a flexible, learning organisation can take years to establish on a brownfield site.

Yet this sort of regular improvement in operations is bound to provide a competitive advantage, and a very durable one at that, as competitors cannot create the same situation in their own organisation overnight.

However, the need for continuous improvement is relentless and it is not surprising that it has spawned numerous, albeit oblique attempts, by HRM specialists, to leverage performance through specific initiatives. Current examples include employee attitude surveys, competence development frameworks, team building programmes, performance related pay, performance appraisal systems and, more recently, a more sophisticated approach to appraisal, 360° feedback. Others are explicitly trying to create a learning organisation or fundamentally re-construct the psychological contract the company has with its workforce.

The PHIRM network asked serious questions about the efficacy of such initiatives in relation to their direct impact on organisational results. The results of this research were very unsettling in that they raised many doubts about not only the impact of such initiatives but also their design and what, if any, clear objectives they were meant to achieve. The key findings included:

1. Unclear business objectives often provide a very poor foundation for HRM practices. While boards of directors, no doubt, understand the pressures that external forces bring to bear internally they have only inexact notions about how to resolve, what appear to be, the apparently intangible issues of change management that they face. Hence we often see ‘scattergun’ or broad-brush policies such as a minimum number of days training per employee (Motorola et al) in the hope that this will improve performance.

2. Organisations using ‘modern’ HRM approaches could not point to any clear connection between their initiatives and expected organisational performance improvement. Indeed, a fundamental problem has been a distinct inability by organisations to clearly link individual performance with organisational performance

3. Furthermore, there was a marked reluctance to accept that such initiatives could be linked, in a measurable way, to organisational performance and so measurement did not feature at all in the design of these initiatives. In fact, there is a persistent belief that this is an area which is inherently intangible and, therefore, not amenable to the usual principles of measurement and management controls.
4. The lack of attention to measurement was particularly apparent with the current trend towards competence frameworks, where the whole framework is viewed as self-validating. That is, if the ‘correct’ competencies have been identified at the outset then assessment of competencies is deemed to be an indicator of improved organisational performance. Regardless of how well competencies are identified, though, they are not, in themselves, a measure of organisational performance.

5. Pursuing a line of questioning, which sought to consider the added value of such initiatives, indicated that, at a strategic level, the organisational goals themselves were often unclear and therefore links between such initiatives and actual performance, if they exist at all, are extremely difficult to demonstrate.

6. In the specific area of training and development, not only was there no evidence found of a link between training spend and individual or organisational performance improvement but there was no systematic methodology used for evaluating the return on training investment and existing evaluation models were seriously, conceptually flawed.

However, although this research suggests that there is significant room for improvement the design and implementation of HRM practices, it has to be acknowledged that the problem does not rest entirely at the door of the HR department or function.

**Who owns performance measurement and management processes?**

At the heart of the drive for performance improvement is the fundamental question of who, or which function, in an organisation is to own and initiate continuous performance improvement through the organisation's people. The conventional wisdom still suggests that performance is driven, primarily, by the setting of clear strategic goals, which are then cascaded down through the organisation at functional, team and individual level. But if it were this easy then management by objectives (MBO) would no doubt still be operated in its original form and appraisal schemes would operate effectively.

The critical importance of culture, structure, process, and systems in organisational performance, is now acknowledged but the exact connection between these factors and performance is often not clearly understood. This may be why large scale change programmes often fail to bring about the real performance improvement they are seeking (Schaffer and Thomson, 1992). Even total quality management and business process re-engineering initiatives, which should be focused on measurable performance improvement, are not always successfully implemented. So, in short, there can be a large gap between the theory, the rhetoric and the reality.

One possible reason for the lack of success could be that organisational change is often seen as something requiring the impetus of an ‘initiative’ or big bang. It is then left to the HRM function specialists to produce change management and performance solutions. However, there are many barriers to HR fulfilling this new role satisfactorily. These include the fact that this function has a poor image historically, their initiatives often do not seem to have any measurable, added value payback (for the reasons outlined above) and there are often very mixed and conflicting, perceptions as to exactly what their role is. In short, they are trying to help improve performance but they do not have a true mandate to do so.
These issues are represented graphically in Figure 1 below. This indicates a vast gulf between the traditional role of Personnel Management in ensuring recruitment, pay and administration systems are in place and working efficiently (the minimum but critical role) and the potentially high added value role of HRM as a strategic business partner. The strategic partner role, though, requires methodologies to significantly impact on organisational value through effective organisation design and focused performance management.

![Figure 1. The scale of HRM effectiveness](image)

One apparent paradox illustrated by this diagram is that much of Personnel activity is critical but actually of low, or negligible, added value. This can best be explained using the example of industrial relations management.

Those actively involved in managing relations with unions may feel their role adds value. Indeed the organisations that employ them may see the role as a ‘necessary evil’ but will still perceive it to be an important job. But if their competitors do not have a union, or have a single, instead of multi-union, agreement, then it is difficult to see how such activity can be regarded as of any value whatsoever in relative terms. However, whilst the union continues to be recognised, mis-managing this relationship can have disastrous consequences through increased industrial action or reduced co-operation. So this role satisfies a basic, minimum need but adds no real value.

High added value comes from changing the way people work to enhance their individual and collective performance. This does not necessarily mean trying to increase their work effort (productivity) per se but to create an organisation where their potential talents and efforts can be fully harnessed.
Consequently, the highest, added value role for HRM practitioners, therefore, has to be as the ‘experts’ in organisation design. Only through the design of highly efficient and effective processes, melded creatively with flexible organisation structures, in a culture conducive to maximising performance, can organisations provide the sound basis for maximising the potential performance of individual employees, teams and the organisation itself. Alongside this is the need for a clear vision of how future employer/employee relationships are to be managed and a philosophy of creating a win/win situation for both parties to this new psychological contract.

Using the industrial relations example above again, HR needs to have a strategy either for removing the union or working on a single union basis, if it is to add value through its employee relations role. In one ex-public sector transport organisation this, at a conservative estimate, was calculated to be worth at least £5,000,000 per annum in efficiencies. Yet no one on the board would countenance such a radical move.

Of course, for such an objective to be achieved, many other elements would have to come into play in order to make this happen in practice, such as replacing the union’s voice with some sort of employee communication forum. This makes an interesting contrast to the current statutory use of works councils in Europe where apparently socialist ideals have obscured the obvious commercial benefits to be gained from genuinely open communications between management and workforce.

**Distinguishing between performance and added value**

If bottom line, added value is the objective of performance measurement then a crucial distinction has to be made between the concepts of individual performance (ie. productivity, efficiency and effectiveness) and organisational added value. Performance and added value are not synonymous. Performance is a meaningless concept if the company cannot sell its products. A more subtle point though is that good individual performance can be undermined by failures in structure, processes or systems. Hence the salesman sells the product but the cost of inefficient after sales service means it makes no profit.

Equally, poor strategy will always result in poor value regardless of the performance of people in the organisation. The Rover cars business is well known for the efforts it has made to introduce a much more progressive attitude to human resource management. It has moved a long way from old industrial relations scene of the 1960’s and 70’s; everyone is performing better but it still does not make a profit on its car production.

Performance is a much narrower concept than added value when it relates to the activities and efforts of the individual, the team or the department. Value, or added value, is the result of effective effort of all those involved in the value generating process chains, in an organisation with an effective strategy. Doctors who undertake the rather menial task of taking blood samples will, hopefully, perform the function competently and efficiently. But it is a waste of resources and inefficient when it can be carried out quite satisfactorily by a nurse, or even a well-trained assistant, at a much lower cost, and leave the doctor to allocate his scarce resource to greater priorities. This simple point is currently being used in NHS trusts to reduce costs significantly, without any reduction in patient care, while simultaneously enhancing job satisfaction at lower levels.
Perhaps one of the best examples of the deleterious effect of narrow performance definitions can be seen when companies target sales and technical functions on different metrics. In one particular service provider to the health sector the sales team were targeted on sales volume while the deliverers of the service, the technical services department, were targeted on delivering within cost.

These measures encouraged behaviour in each department which focused on their own performance measures to the extent that the sales department sold whatever they could, regardless of the cost implications, whilst the technical services personnel were always under pressure to work within cost constraints which were unachievable. Therefore the company sold well but could not make a profit.

Trying to resolve this situation, however, by focusing on performance, per se, would not help. First, the company had to take some difficult decisions in terms of its organisation structure in allowing managers at a lower level to take full responsibility for profit (added value) rather than the narrower measures of sales or costs. Ultimately, added value can only come from the organisation working effectively across the total operation. Consequently managing individual, team or departmental performance will always only be a limited part of the holistic picture.

Perhaps focusing on performance, therefore, is inappropriate in modern, complex organisations, where a fuller understanding of the relationship between structure, process, effort and added value needs to be better understood. Also, to resolve these performance issues requires someone who only has the best interests of the organisation, as a whole, at heart. This is very difficult to achieve unless those who drive performance have a genuinely cross-functional role devoid of any political or personal vested interest.

In these circumstances it is likely that the function and specialists potentially best equipped to own this process are the HRM function. But there then still remains the issue of what techniques and tools they can use to fulfil this role. The one critical ingredient that still appears to be missing is a methodology which can link HRM activity to individual and organisational performance.

**Linking HRM directly to organisational performance**

One simple answer to many of the complicated issues here is to try and connect the organisation’s drive to add value to the way in which employees need to perform to achieve added value. Put very simply, if what is deemed to be required is culture change then what business metrics will start to indicate that the right sort of culture change is taking place?

This is where HRM practices have failed to make a convincing or discernible link. If HR specialists, or indeed anyone else running the organisation, perceive that cultural or other organisational issues are inherently unmeasurable then any activities in this area are bound to be based on intuition, gut-feel or a blind act of faith. Unfortunately, while this may have been an adequate basis for performance management in the past it is not up to the job of achieving continuous performance improvement, systematically, where the organisation is already performing relatively efficiently.

It appears from the research that the biggest problem arises right at the outset of performance improvement initiatives. Change programmes often start with some very vague objectives and a very limited understanding of the complexities of the change process. Whether
intentionally or not, rarely does anyone articulate what the nature of the problems are that the change programme is meant to solve or, indeed, how it will generate added value and how much value such a programme will generate. Is this so because it is genuinely impossible to make the links or is it that usually no one stops to ask the right questions?

The problem of measuring performance-focused change programmes is definitely one that is more apparent than real. Most, if not all, pressures for change in organisations can, and should, be articulated in potential added value terms and meaningful business metrics used as performance measures.

A very large pharmaceutical company recently spent £750,000 on a computerised, simulation training programme for its research and development staff; ostensibly to improve the efficiency and productivity of its drug development process. The bespoke training package was an initiative driven and owned by the HR function. At the end of the first year of rolling out this programme they tried to evaluate the effect it was having. At this stage questions were asked about the original objectives of the programme which initially elicited what can only be described as a mixed bag of business and organisational objectives. These included very hard measures such as the time it takes to develop a drug and literally the number of new drugs that actually reach the marketplace. On the softer end of the objective scale were issues to do with inter-functional communications, systems thinking and matrix management. What was missing in the programme, though, were any built-in evaluation metrics, which would provide a systematic way of measuring the effectiveness of the programme; despite the fact that adequate performance data was already available.

**Performance management as a continuous, holistic, integrated process**

A strategically integrated approach to performance measurement and management is vital. This holistic approach must indicate a true understanding of the inter-relationship between the many initiatives that have developed over the last 20 years including TQM, customer focus, business process re-engineering, supply chain management and organisation design. The natural, logical, evolutionary sequence of these developments and management ideas must also be understood if they are to be introduced into the organisation in a coherent way.

Performance measurement and management is entering a new era and, for those who believe that there is not much more room for further development, it is a very sobering thought to hear that Toyota, who have practised TQM and kaizen for many years, are currently well on track to reducing operating costs by a further 50% in just 3 years. This is the size of the opportunity awaiting those organisations that can address this subject effectively.

**References**

