

## **PEOPLE AS A KEY RESOURCE OF COMPANY PERFORMANCE**

Lenka PUCIKOVA, Paul WOOLLISCROFT, Milos CAMBAL

### **ABSTRACT**

*Recent years have seen a lot of new management approaches for improving organizational performance such as: total quality management, flat organizations, empowerment, continuous improvement, reengineering, kaizen, team building, and so on. Business leaders today are forced to focus even more on the profitability of their business. During the last several years, companies have initiated Performance Management (PM) systems to improve the quality of their management. In many companies they have succeeded, but in quite a few they have failed. This article presents the importance of Human Resources Management (HRM) and employees as a key factor on success of the company. Authors report that people in organization are a key resource of performance of company. The aim of the article is to analyze literature review and findings of researches with the purpose of completing the PhD theses of authors.*

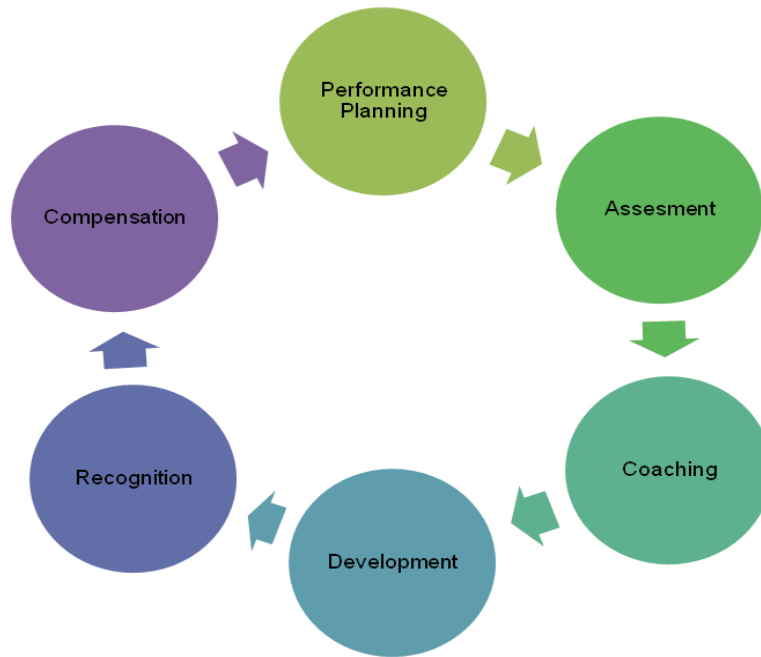
### **KEY WORDS**

*Performance Management, Human Resources Management, Performance Appraisal*

### **INTRODUCTION**

Armstrong's Handbook of Performance Management (1994/2006) noted that the aim of Performance Management is a means of getting better results from the organization, teams and individuals within an agreed framework of planned goals, objectives and standards. In fact, the PM cycle includes performance planning, assessment, coaching, development, recognition and compensation (Fig. 1).

Most experts agree that, when PM is implemented well, it can lead to important benefits for organizations. Based on Cascio (2006) study organizations with systematic PM systems are 51% more likely to outperform others regarding financial outcomes and 41% more likely to outperform others regarding additional outcomes including customer satisfaction, employee retention, and other important metrics. Another reason PM has become so popular is that it provides useful information needed for decision making in other HRM and development activities. For instance, consider the relationship between PM and training. Without doubt, PM provides information on developmental needs for employees. In the absence of a good PM system, it is not clear that organization will use their training resources efficiently.



**Fig. 1** *The Performance Management Cycle (Armstrong, 1994/2006)*

Without doubt, using a PM system is one of the best ways to drive performance, manage expectations and increase employee satisfaction within an organization. Certainly, to manage and improve employee's performance, managers must explore the causes of performance problems, direct manager and employee attention to those causes, develop action plans and empower worker to find solutions, and use performance- focused communication. Surely, effective management of human resources can form the foundation of a high- performance work system (Krajcovicova et al, 2013). That means an organization in which technology, organizational structure, and people and processes all work together to give an organizational and advantage in the competitive environment. Hollenbeck and Wright (2011) argue that human resource management must ensure that the organization has the right kinds of people to meet the new challenges. Moreover maintaining a high performance work system may include development of training programs, recruitment of people with new skill sets, and establishment of rewards for such behaviors as teamwork, flexibility, and learning. In fact, the employees are an integral and indispensable part of running the business smoothly and efficiently. That's why, keeping in mind the crucial role of employees, a recent trend known as performance management has come into practice. In fact, using performance management can ensure that employees not only fulfill their responsibilities, but do so to the best of their abilities and up to company's expectations. Performance management allows the company to tap the full potential of staff. In short, it can be described as a comprehensive process starting from monitoring and developing the desired traits to rating their progress and rewarding them for their achievements. Lawer and McDermott (2003) made a point that it is very difficult to effectively manage human capital without a system measures performance. Therefore, an effective performance management system should be a key building bloc of every organization's human capital management system.

## **FOCUSING ON PEOPLE RATHER THAN TECHNOLOGY**

There is a common assumption that if companies perform well, they must have good managers at all levels of the organization. New researches confirm the notion that managers and management are more important than the industry sector in which company competes. Effective management has long been thought to make companies more efficient. However, it has always been assumed that good management increases productivity, this proposition has been proven in 2002 by McKinsey study of the manufacturing sector. To assess and measure the impact of management techniques, the researchers interviewed the director at 100 companies worldwide. Three management techniques had been thought to improve company's performance: lean manufacturing, which minimizes waste; talent management, which attracts and retains high-caliber people; and performance management, which rewards employees who meet set goals. Moreover, management must guide individual and collective action so that they harmonize with company's overall strategy and values. Based on Vickers (2007) study, a good PM system will require the right balance of technology, hard metrics and soft skills. It's a critical challenge to meet, however, nowadays the high performance is the only long-term key success. In fact, PM is a process for establishing shared understanding about what is to be achieved and how it is to be achieved, and an approach to managing and developing people that improves individual, team and organizational performance. Moreover, PM focuses on future performance planning and improvement and personal development rather than on retrospective performance appraisal.

## **EMPOWERING EMPLOYEES**

Based on Trend survey in 2011 within the Slovak companies more than 42% of employees are satisfied with their current job mainly because of the possibilities to educate which offer them a career growth. When management, as stated by Cagne (2002) takes steps to ensure that each person has the skills and resources necessary to accomplish his or her priorities, employees gain a new sense of empowerment. They know exactly what they have to do and surely have the resources to get the job done. In addition, most experts agree that good PM requires employees to prepare a self-assessment and reflect on their efforts over the reporting period.

Hay Group conducted the research in 2009 where they were focusing on comparison of companies where employees are highly engaged (through communication and leadership) and highly enabled (carefully selected for well-designed job with adequate resources and training) with companies with low engagement. This research found big performance differences. Based on the research, the companies with high engagement and enablement have four and half greater growth than the companies with low engagement. Furthermore, they have more than 54% higher customer satisfaction. Overall leadership, employee and organizational learning comprise organizational capability.

Besides, Armstrong (1994/2006) emphasizes that employees are more productive when they believe management has the skill to lead them to success and to provide them with the knowledge and resources they need to meet requirements. Performance improvement is not achievable unless there are effective processes of continuous development of employees. More specifically, PM is concerned with aligning individual objectives to organizational objectives and encouraging individuals to uphold corporate core values. Furthermore, providing opportunities for individuals to identify their own goals and develop their skills and competencies. Moreover, motivating people by providing them with recognition and the

opportunity to use and develop their skills and abilities. Thus, PM is essentially a developmental process that aims to improve the performance and potential of people through their own efforts and with the help of their managers and the organization.

## LINKING INDIVIDUAL GOALS WITH BUSINESS GOALS

DeNisi and Pritchard (2006) conducted an expectancy- based motivational model for individual performance improvement (Fig. 2). They observed that the key for PM is to ensure that evaluation and outcomes are structured so that employees will focus their actions in the ways desired by the organization. In brief, the stronger the links between each element in the motivation process, the greater will be the motivation of employees to improve their performance.



**Fig. 2** *Expectancy- based motivational model for individual performance improvement (DeNisi, Pritchard 2006)*

An important aim of performance management is to support the achievement of the business strategy. Paladino (2011) noted that HRM integration is linking different aspects of human resource management, especially organizational development, human capital management, talent management, learning and development. It is focused on performance improvement in order to increase organizational, team and individual effectiveness. Aligning individual goals with the corporate goals makes everyone aware of what is critical to the company's success. Furthermore it keeps people focused on the most important aspects of their jobs. In other words each employee should have a clear goals and the ability to accomplish those goals. Thus managers should determine whether employees have the necessary skills and other resources. Correspondingly, employees should participate in setting their own goals. Equally, they should feel that they are in control, in the sense that they have the skills, authority, and resources to accomplish those goals.

## CONCLUSION

In order to reengineer organizations and improve technology, companies have tended to overlook their most valuable asset, their people. Measuring the contribution of people to the performance of an organization is not easy, but evidence of the link between organizational performance and people management rising. Surely, people want to have goals and to succeed in achieving their goals, and that kind of achievement can have a huge impact on revenues and profits of company. Regardless of the system used to manage performance, several elements must be in place to create the context for good performance. The system must be focused on the future, which is where the desired performance will occur. Besides, employees must be involved in regulating their own performance. As mentioned previously the purpose of the article is to complete PhD thesis of authors which needs further research of the impact of Performance Management to company performance.

## ACKNOWLEDGMENT

This paper has been published as a part of submitted VEGA project no. 1/0787/12 „The identification of sustainable performance key parameters in industrial enterprises within multicultural environment“.

## REFERENCES

1. ARMSTRONG, M. 1994/2006. *Handbook of Performance Management: an evidence-based guide to delivering high performance- 4<sup>th</sup> edition*. Kogan page Limited: ISBN 978 0 7494 5392 3
2. CASCIO, W.F. 2006. *Handbook of research in international human resources management*.
3. CAGNE, K. 2002. *Using Performance Management to Support an Organization's Strategic Business Plan*. Employment Relations Today.
4. HOPKINS, B. 2009. *Cultural Differences and Improving Performance- How Values and Beliefs Influence Organizational Performance*.
5. HOLLENBECK, N., WRIGHT, G. 2011. *Fundamentals of Human Resource Management*.
6. HAY GROUP SURVEY 2009. *Tough Decisions In a Downturn Don't Have to Lead to Disengaged Employees*, <http://www.haygroup.com>
7. DORGAN, S., DOWDY, J. 2002. *How Good Management Raises Productivity*. The McKinsey Quarterly.
8. DORGAN, S., DOWDY, J. 2006. *The link between management and productivity*. The McKinsey Quarterly.
9. DeNISI, A.S., PRITCHARD, R.D. 2006. *Performance Appraisal, Performance Management and Improving Individual Performance*. Management and Organization Review.
10. KRAJCOVICOVA, K., CAGANOVA, D., CAMBAL, M. 2013. *Competency models utilization in industrial enterprises*. In Advanced Materials Research.
11. PALADINO, B. 2011. *Innovative Corporate Performance Management: Five Key Principles to Accelerate Results*.
12. VICKERS, M., BALTHAZAR, C., 2007. *Finding the Keys to Performance Management*. Employment Relations Today.