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# RESEARCH AND PRACTICE IN HUMAN RESOURCE MANAGEMENT

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## Exploring the Rhetoric and Reality of Performance Management Systems and Organisational Effectiveness – Evidence from Australia

Alan R. Nankervis, Pauline Stanton & Pat Foley

### ABSTRACT

Human resource management (HRM) theorists and professionals alike have in recent decades attempted to identify the ways in which particular HRM functions (or 'bundles' of such functions) influence and contribute to desired overall organisational outcomes. Many have suggested that performance management, in its broadest perspective, may hold the key to such linkages. This paper draws on survey data to explore the links between performance management systems and perceived organisational effectiveness. The study canvassed the opinions of senior, line and HRM managers in a variety of organisations and industry sectors in Australia. Executives/senior managers in this study were the most supportive of a strategic approach to the PMS-organisational effectiveness relationship, followed by HR professionals, whilst middle and line managers were clearly more focused on operational and implementation perspectives. Accordingly, executives/senior managers might be characterised as the sponsors of PMS; HR professionals as their advocates; and middle and line managers as the end users of such systems and their links to organisational effectiveness.

### INTRODUCTION

This paper explores the links between performance management (PM) systems and organisational effectiveness (OE) from the perspectives of managers in a range of organisations and industries in Australia. The paper focuses on three key areas – namely, managers' views of the organisational context (in particular strategy, vision, values, and performance alignment); perspectives of their PM systems, practices, and performance culture; and finally, opinions about the

links between their performance management systems and organisational performance. The study builds on an extensive literature on the links between strategic human resource management, employee performance management and organisational performance.

Strategic human resource management (SHRM) theory suggests that aligning business and HRM strategies leads to improved organisational performance and effectiveness (Schuler & Jackson 1987, Cascio 1989, Delaney & Huselid 1996, Ulrich 1998, Ulrich & Brockbank 2012). In the last two decades a number of studies (Huselid 1995, Ulrich 1998, 2007, Guest, et al 2000, Becker & Huselid 2006, Green, et al. 2006) have sought to examine the links between SHRM theory and actual HRM practices; to evaluate the contributions of HRM strategies and processes to business goals and outcomes; and perhaps more importantly, to demonstrate the direct links between specific HRM systems and overall organisational effectiveness.

In spite of a great deal of research there is no clear agreement and understanding of how SHRM leads to improved performance (Bosalie, et al. 2005, Becker & Huselid 2006, Guest 2011) and the role of performance management within that process. As Guest (2011) in particular argued, the debate as to whether there is a universal set of 'best practices' or 'bundles of practices' that can be applied in any situation versus a 'best fit' of HRM practices, which are based on the particular needs and situation of the organisation is still alive and well. Opening up the 'Black Box' to explore configurations of practices within organisations tends to demonstrate association rather than causation. Research shows that there are significant challenges in identifying the contributions of particular HRM practices to improved performance and in measuring individual and team contributions to organisational performance (Becker & Gerhart 1996, Bosalie, et al. 2005, Boudreau & Ramstad 2009). Also there is no clear agreement on the outcomes of performance management and appraisal processes and their contribution to overall organisational effectiveness (Aberdeen Group 2007, Bartram, et al. 2007).

What has become clear is that it is not just particular HR policies and processes that contribute to organisational performance. Thus, recent research has focused more closely on the relationships between management and HRM practices within organisations. Bowen and Ostroff (2004) highlighted the role of senior management in creating 'strong HR systems' by transmitting consistent messages across the organisational hierarchy about the desirable attitudes and behaviours (qualitative and quantitative performance) expected of employees. Other research demonstrated the key role of line managers in the execution of HRM policies and processes (Purcell & Hutchenson 2007), the different perceptions and understanding of HRM between managers at different levels within the organisation, and with HR practitioners, and the importance of top management support for HRM (Bartram, et al. 2007, Stanton, et al. 2010, Guest

2011, Guest & Conway 2011). This paper focuses on the views of a range of managers across a variety of organisations and industries to capture their experience and understanding of performance management and its contribution to organisational effectiveness. The paper presents research findings on managerial perceptions rather than strictly quantifiable linkages between PMS and organisational effectiveness thus, providing a snapshot of performance management practice in a sample of Australian organisations.

First, the literature on measuring performance and effectiveness, and in particular the theoretical and empirical linkages between performance management systems (PMS) and SHRM are explored. Second, the methodology utilised in this study is outlined; and third, the findings of the survey exploring the perspectives of Australian managers on these issues are reported. Finally, findings and conclusions are drawn.

### **MEASURING THE LINK BETWEEN PERFORMANCE AND EFFECTIVENESS**

Organisational outcomes such as profitability, productivity, return on investment, efficiency, and competitiveness are often cited when assessing the links between employee performance and organisational effectiveness. However, some authors have adopted a broader definition which blends financial and economic data with measures such as employee involvement and satisfaction, labour turnover and rates of sickness and absenteeism. Hence, Yeo (2003: 1999) defined organisational effectiveness as "...financial performance, where the consideration of budgets, assets, operations, products and services, and human resources are crucial in determining the overall bottom line of an organization"; the Aberdeen Group (2007: 4) considered that the two key effectiveness indicators are increased organisational profit and "... an increase in the employee retention rate during the last twelve months"; and Roy, et al. (2005: 252) argued that "... the most appropriate definition of (organisational) effectiveness is...the net satisfaction of all constituents in the process of gathering and transforming inputs into output in an efficient manner." (see also Connally, Conlon & Deutsch 1980).

The research undertaken for this paper was based on the premise, that whilst financial measures of effectiveness remain significant indicators of organisational performance, features such as customer service, HR metrics, and employee satisfaction can complement such narrow perspectives. This premise is supported by SHRM theory and parallels the research undertaken by the U.K. Chartered Institute of Personnel Development on associated issues (CIPD 2005). Guest (1997: 263) asserted that "the impact of HRM on performance has become the dominant research issue in the field", and further, that there is a pressing need for "... a theory about human resource management, a theory about performance, and a theory about how they are linked"; Patterson, et al. (1997: viii) bemoaned the "... surprisingly little research demonstrating the

causal links between people management and business performance”, whilst suggesting that there are ‘two clusters’ of significant HRM practices (namely, the acquisition and development of employee skills, and ‘high performance’ work practices (see also Guthrie 2001, Lawler 2005). Yeo (2003: 200) suggested that “... performance management should not be treated as an isolated system. Instead, measurement should be considered at the individual, process and (organisation) levels (and) can facilitate the alignment of the goals of all individuals, teams, departments and processes with the strategic aims of the (organisation)”. This study considers these aspects from the interpretations of such issues provided by the study respondents.

Studies conducted by Vandenberg, et al. (1999), Sung, et al. (2005) and Watson Wyatt (Anonymous 2006) evidenced strong links between high performance work systems (HPWS) and HR programmes, respectively, with organisational performance as measured in narrow financial terms such as productivity and profitability. Performance management also appears consistently in the HPWS literature as one of the key practices contributing to effective organisations, as are employee involvement and participation (Zachoratos, et al. 2005, Mackey & Boxall 2007). Vandenberg, et al. (1999) also emphasised the importance of employee participation systems (for example, information about HR processes, customer feedback, knowledge of the business and the power to make work decisions) on organisational performance. Sung and Ashton (2005) suggested that HR “... reward and commitment practices...” (p. 15), including broad performance management systems, are the key aspects, driven by business strategies; whilst the Watson Wyatt study concluded that “... eight years of research... has consistently found a strong correlation between HR program design and (organisation) financial performance” (Anonymous 2006: 1). All of these aspects can be considered as inputs to or outcomes of a comprehensive and integrative performance management system.

A great deal of investment has been devoted between performance and business operations. Research by Huselid (1995), Delaney and Huselid (1996), Youndt, et al. (1996), Becker and Gerhart (1996), Patterson, et al. (1998), Guthrie (2001), CIPD (2001, 2005), Lawler (2005), Cheng, et al. (2006), the Aberdeen Group (2007), and Chang (2007) all reported research evidence of clear links between performance management systems and business strategies can result in improved organisational effectiveness. The 2001 CIPD (p. 7) study concluded that “... more than thirty studies carried out in the U.K. and U.S. since the early 1990s leave no room for doubt that there is a correlation between people management and (organisational) performance, that the relationship is positive, and that it is cumulative – the more and the more effective the practices, the better the result.”. Delaney and Huselid (1996), and Guest (2011) both agreed, but raised questions about how this relationship occurs. Thus, whilst strategic HRM theory and several applied research studies concur that the linking of PMS with business objectives and outcomes can contribute significantly to enhancing organisational effectiveness, there is also contrary evidence that suggests that

the reality might not match the rhetoric. Many of the studies that have taken place in this area have focused on the views of HR managers who are often not involved where the action is (namely, at the manager, subordinate interface, other sources such as (CIPD 2001, 2005, Green, et al. 2006), and Stanton, et al. (2010) have presented argument the further away from decision making managers are the more difficult it is to be fully engaged.

## **METHODOLOGY**

### **Subjects**

This study was conducted to elicit the perspectives of a range of (primarily) generalist managers (line, middle and senior) across a range of industries and organisations in Australia. Specifically, on their views of performance management in general and their experience of the practice of performance management in their organisation were sought, in order to contribute to the ongoing discussion on the performance management organisational effectiveness conundrum. How the research was undertaken is presented, next.

### **Procedure**

The study was conducted by survey of Australian line, middle and senior managers and some HR practitioners utilising online and mail techniques with three existing databases. The databases included those provided by an industry association, a consultancy company, and the alumni of an MBA programme in an Australian university. The researchers did not have direct access to the databases and so were unable to estimate the exact response rate. However, this was not intended to be a representative sample, more a snapshot of current practices across a wide range of organisations, as perceived primarily by their generalist (non HRM) managers.

### **Measures**

The questionnaire was comprised of six sections with 130 questions. It was partially based upon the 2005 CIPD survey conducted in the UK to allow subsequent comparison, but significant variations and additions were also included. The sections included organisation and participant details; organisational strategies, values and culture; views on performance management; the organisation's current performance management system; performance management systems in general; and the outcomes of performance management.

Whilst the study primarily collected quantitative data, there were also some limited qualitative findings in response to one survey question. The data were analysed using ANOVA and thematic content analysis techniques. Both forms of data are presented in the paper, with the qualitative material complementing the quantitative data.

## RESULTS

### Quantitative Findings

This paper reports on participants' general perceptions of the overall links between their PMS and organisational effectiveness. In particular relationships with the six constructs: vision, values and performance alignment (VVPA); high performance culture (HPC); performance management views (PMV); performance management systems (PMS); performance management systems/practices (PMP); and performance management system effectiveness (PMSE) are reported. The six constructs were measured with different scales. VVPA and HPC and PMV used a five point scale, which ranged from one Strongly Disagree to five Strongly Agree with the mid value of three as Unsure. PMS and PMP used a four point scale ranging from one Strongly Disagree to four Strongly Agree. PMSE used a four point scale with end points one Very ineffective to four Very ineffective. All items are reported in the direction in which they were originally worded, but to test the reliability and for scale construction some scale items directions were reversed. The six constructs showed robust reliability with their Cronbach's alpha ranging from 0.77 to 0.90. The descriptive statistics, reliability estimates and correlations between these constructs are presented in Table 1.

**Table 1**  
Descriptive statistics, reliability estimates, and correlations among study variable

Variable	M	SD	EXSM	MM	LNM	HRM	Other	1	2	3	4	5
1 VVPA	3.628	0.868	0.071	0.007	0.052	-	-	<b>0.89</b>				
2 HPC	3.800	0.675	0.131*	0.009	-0.042	-0.084	-	0.603***	<b>0.90</b>			
3 PMV	4.069	0.504	-0.100	0.087	-0.055	0.124*	-	0.077	0.096	<b>0.77</b>		
4 PMS	2.373	0.620	0.138*	0.041	-0.047	-0.044	-	0.460***	0.505***	0.034	<b>0.86</b>	
5 PMP	2.946	0.480	0.056	0.066	0.128*	0.001	-	0.247***	0.279***	0.390***	0.349***	<b>0.81</b>
6 PMSE	2.431	0.630	-0.001	0.018	-0.032	-0.033	0.112	0.374***	0.463***	0.114*	0.591***	0.378**

Notes: a. n = 304, M = Mean, SD = Standard Deviation, EXSM = 169, MM = 39, LNM = 28, HRM = 44, Other = 24.

b. Values on the diagonal are the reliabilities.

c. \*p < 0.05, \*\*p < 0.01, and \*\*\*p < 0.001, two tailed test.

The five groups were coded into dichotomous groups with 1 indicating membership of the group and 0 non membership. This coding allowed for an initial analysis of whether any of the groups were different from the rest of the respondents, and each of the six constructs. Group differences on the six constructs were first explored using dichotomous groups and then explored using ANOVA to assess mean differences between the groups and post hoc

pairwise comparisons were conducted using the Tukey HSD test. These quantitative findings are complemented by some of the qualitative comments that were made by respondents on each of the constructs, and regarding their overall satisfaction with their current performance management system.

In total there were 304 usable responses from executives/senior managers (EXSM – 55.6%), middle managers (MM – 12.8%), some HR professionals (HRM – 14.5%), a smaller proportion of line managers (LNM – 9.2%), and other who are not in these management groups (OTHER – 7.9%). Table 1 shows the descriptive features of six constructs. The main relationships are summarised. Vision, values and performance alignment (VVPA) ( $r = .374$ ,  $p = .000$ ), high performance culture (HPC) ( $r = .463$ ,  $p = .000$ ), performance management views (PMV) ( $r = .114$ ,  $p = .049$ ), performance management systems (PMS) ( $r = .591$ ,  $p = .000$ ), performance management systems/practices (PMP) ( $r = .378$ ,  $p = .000$ ), were positively and significantly correlated with the construct of performance management system effectiveness (PMSE).

There were also significant differences in how the dichotomous groups responded to the constructs. Executives/senior managers ( $r = .131$ ,  $p = .023$ ) were significantly different from the other groups being more likely to agree that their organisation had the characteristics associated with a high performance culture (HPC). Executives/senior managers ( $r = .138$ ,  $p = .017$ ) were also more likely to agree that leading performance management practices are part of their organisation's performance management system (PMS) than other groups (PMS). HR professionals ( $r = -.123$ ,  $p = .032$ ) were less likely to agree than other groups that vision statement, strategy and directions, and values were widely known and were an important part of performance management in their organisation (VVPA). However, HR professionals ( $r = .124$ ,  $p = .032$ ) were more likely to agree with statements about the degree to which performance management needs to be a developmental and continuous process that integrates people with their organisation (PMV). Line managers ( $r = -.128$ ,  $p = .027$ ) were more likely to disagree than any other group that their organisation's performance management system is integrated with other organisational practices (PMP). These differences will be evaluated in more detail in the next section when each of the constructs are analysed in detail to explore differences between groups.

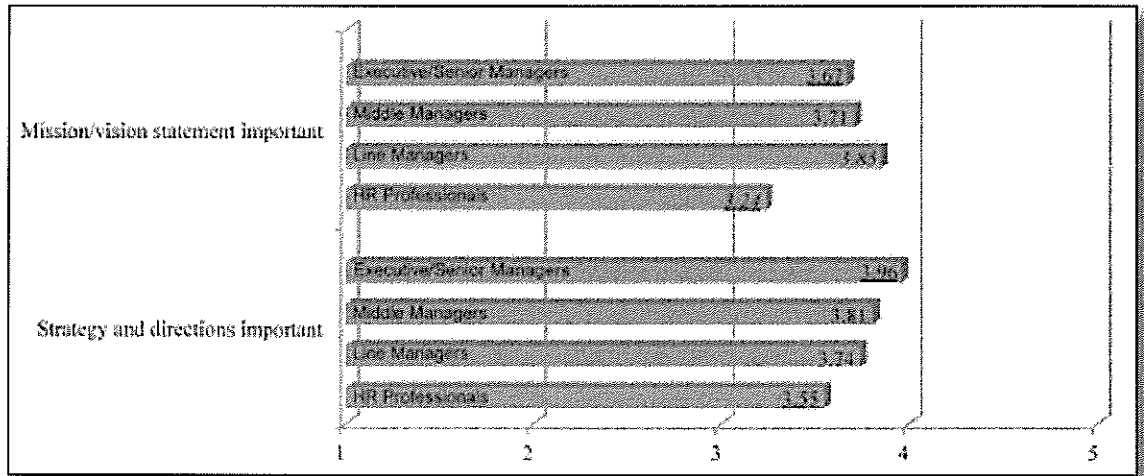
### **Vision, Values and Performance Alignment (VVPA)**

The vision, values and performance alignment construct explored the relationship between vision, values and performance management. It was found executive/senior management ( $M = 3.67$ ,  $SD = 0.85$ ) was more likely to agree than HR professionals ( $M = 3.35$ ,  $SD = 0.86$ ,  $p = .033$ ) that vision and values are an important part of performance management in their organisation. This difference is evidenced by the responses to two questions. Both executive /senior managers ( $M = 3.67$ ,  $SD = 1.14$ ,  $p = .034$ ) and line managers ( $M = 3.85$ ,  $SD =$



1.01,  $p = .036$ ) were also more likely to agree that the mission/ vision statement is an important component of performance management than HR professionals ( $M = 3.24$ ,  $SD = 1.22$ ). Executive/senior managers ( $M = 3.96$ ,  $SD = 1.07$ ) were also more likely to agree than their HR counterparts ( $M = 3.55$ ,  $SD = 1.17$ ,  $p = .026$ ) that strategy and directions was important in performance management in their organisation.

**Figure 1**  
**Performance management and organisation's strategies, values and culture**



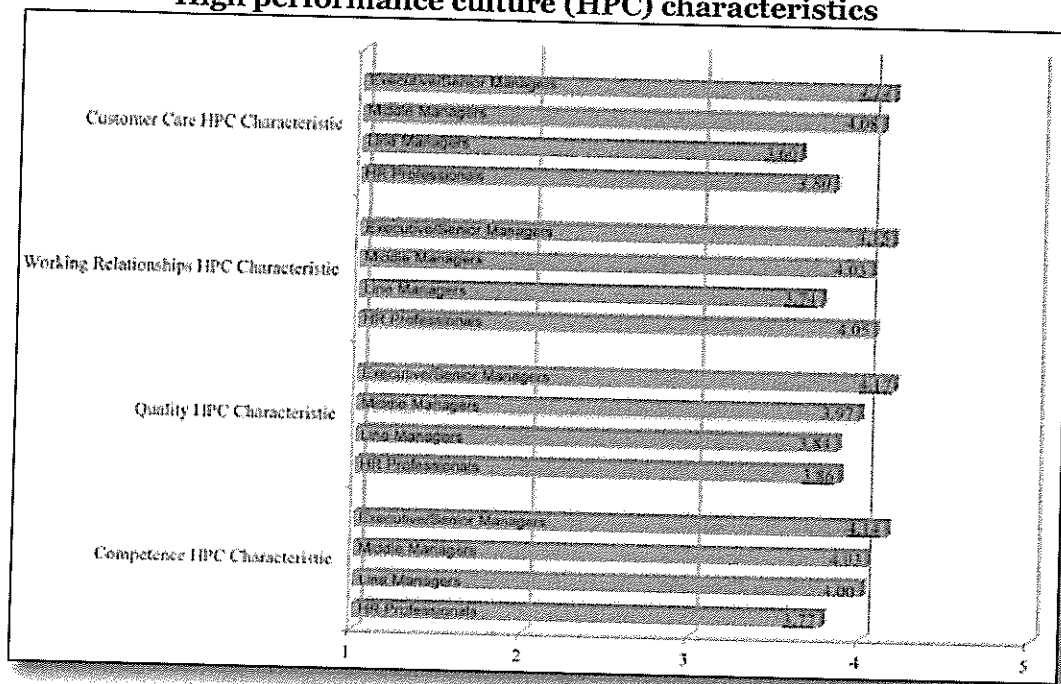
### High Performance Culture (HPC)

This construct included the characteristics of customer care, quality, flexibility, competence, skills/ learning targets, business awareness, working relationships, contribution to team, financial awareness, productivity, aligning personal objectives with organisational goals, and achievement of objectives. Four of these characteristics elicited significantly different responses from executive/senior managers and HR professionals.

Executive/senior managers ( $M = 4.14$ ,  $SD = 0.89$ ) were more likely to agree than either HR professionals ( $M = 3.80$ ,  $SD = 1.21$ ,  $p = .047$ ) or line managers ( $M = 3.60$ ,  $SD = 1.12$ ,  $p = .014$ ) that customer care was a characteristic of their organisation's HPC. Executives/senior managers ( $M = 4.15$ ,  $SD = 0.83$ ) also agreed more often than line managers ( $M = 3.74$ ,  $SD = 0.98$ ,  $p = .036$ ), but not HR professionals that good working relationships was a characteristic of their HPC. Executives/senior managers ( $M = 4.17$ ,  $SD = 0.81$ ) were more likely to agree that their HPC was characterised by quality than HR professionals ( $M = 3.86$ ,  $SD = 1.00$ ,  $p = .043$ ). With respect to HPC and competence as a characteristic, executives/ senior managers ( $M = 4.14$ ,  $SD = 0.84$ ) expressed higher levels of agreement than HR professionals ( $M = 3.77$ ,  $SD = 1.12$ ,  $p = .014$ ). Executive/senior managers were more likely than other groups to see their organisation as having a high performance culture characterised by customer care, good working relationships, quality and competence.

There were non significant differences recorded on the other characteristics – namely, flexibility, skills/learning targets, business awareness, contribution to team, financial awareness, productivity, aligning personal objectives with organisational goals, and achievement of objectives. With average mean scores for these characteristics it may be assumed that they are considered equally important aspects of performance management systems by the participant groups. Also more operational outcomes such as customer care, competence, quality can be perceived as more characteristic of a high performance culture by executives/senior managers, but less so by HR professionals. Customer care, and working relationships were perceived as more characteristic of their HPC by executive/senior managers than by line managers.

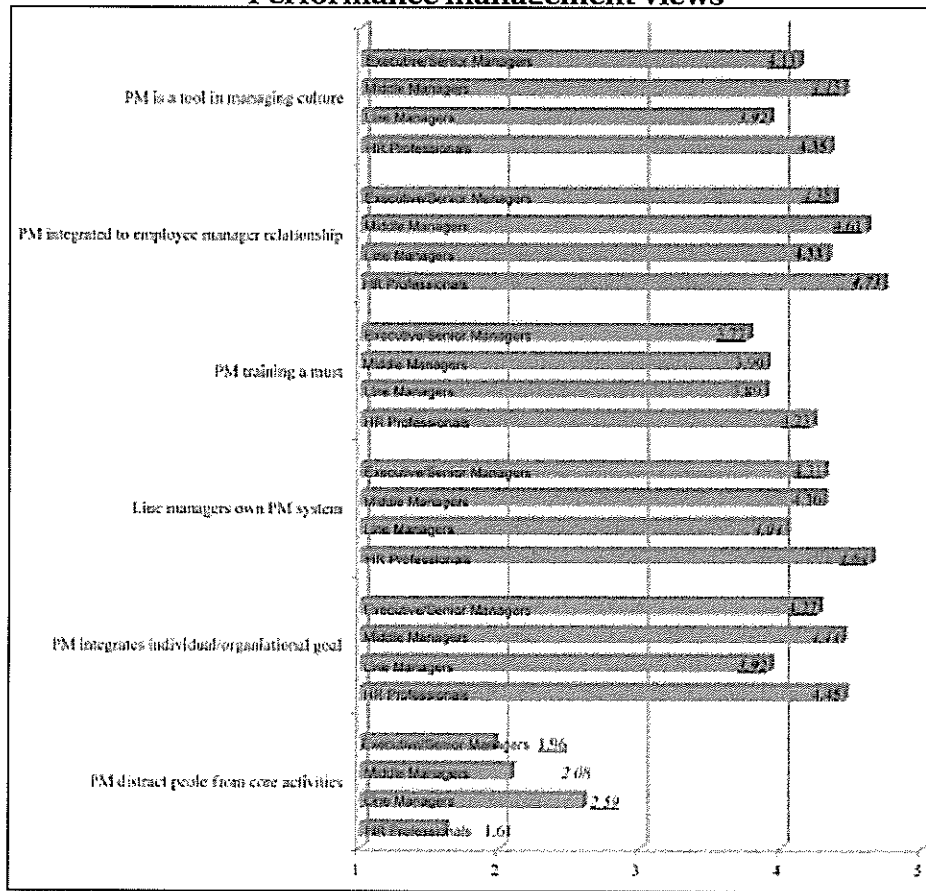
**Figure 2**  
**High performance culture (HPC) characteristics**



**Performance Management Views (PMV)**

This section of the survey drilled more deeply with respect to participant opinions on a broad variety of aspects of performance management systems. These included (inter alia) links to stretch goals, integrated approaches, line management ownership, developmental versus evaluative foci, motivational aspects, links to organisational culture, qualitative versus quantitative techniques, training, communication issues, and links to rewards systems. These statements measure leading practices in performance management. Specifically, the degree to which performance management needs to be a developmental and become a continuous process that integrates people with their organisation. On the Performance Management Views scale as a whole executive/senior managers ( $M = 4.02$ ,  $SD = 0.50$ ) were less likely to agree with these leading practices than HR professionals ( $M = 4.22$ ,  $SD = 0.44$ ,  $p = .022$ ).

**Figure 3**  
**Performance management views**



### Performance Management Systems (PMS)

A broad variety of possible links between PMS and other HR functions or processes were included. Notably job design, staffing strategies, learning and development, rewards and remuneration, succession planning, employee discipline and counselling, HR information systems, and HR planning. Only four of these links elicited significant responses. Specifically, staffing strategies, learning and development, succession planning, and employee counselling.

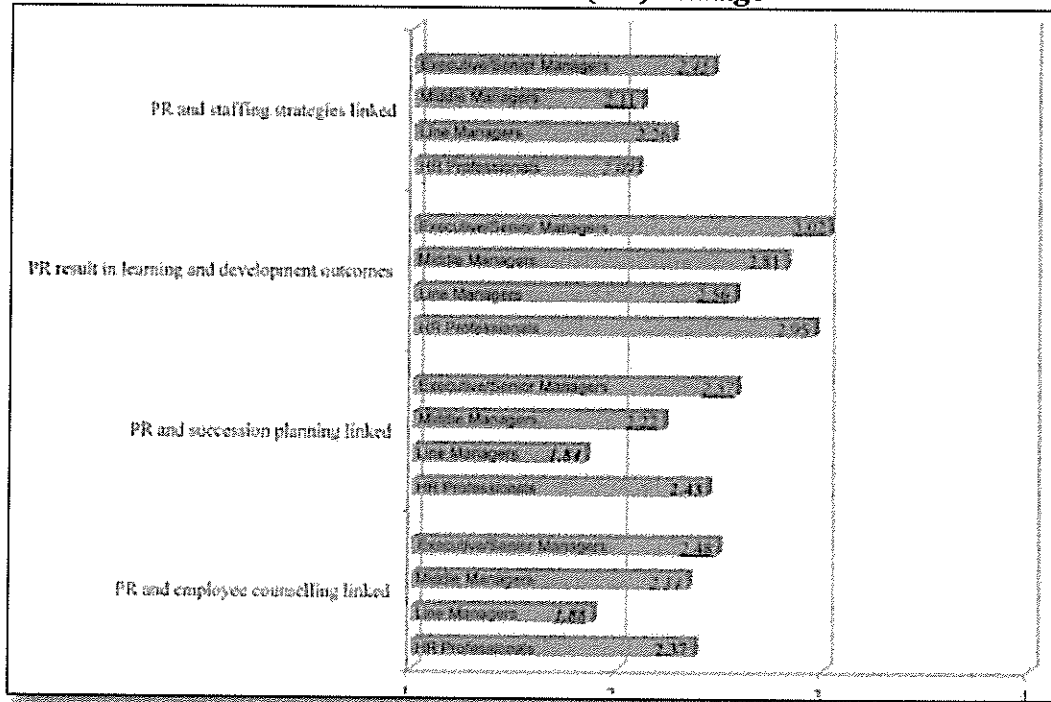
Executives/senior managers ( $M = 2.45$ ,  $SD = 0.84$ ) were more likely to agree than both middle managers ( $M = 2.11$ ,  $SD = 0.83$ ,  $p = .030$ ) or HR professionals ( $M = 2.09$ ,  $SD = 1.02$ ,  $p = .018$ ) that, 'Staffing strategies are linked to the outcomes of performance'. Executives/senior managers ( $M = 3.02$ ,  $SD = 0.79$ ,  $p = .010$ ) were more likely to agree that performance reviews often result in learning and development outcomes than line managers ( $M = 2.56$ ,  $SD = 1.05$ ). The between and within group differences were significant  $F(4,291) = 2.493$ ,  $p = .043$ . Executives/senior managers ( $M = 2.57$ ,  $SD = 0.92$ ,  $p < .001$ ) and HR professionals ( $M = 2.43$ ,  $SD = 1.06$ ,  $p = .012$ ) were more positive than line managers ( $M = 1.84$ ,  $SD = 0.85$ ) that succession planning was linked to performance management in their organisations. Executive/senior managers were also more positive than middle managers ( $M = 2.22$ ,  $SD = 0.85$ ,  $p = .035$ ).

This difference in levels of agreement on these practices between executive/senior managers and HR professionals is demonstrated by examining the responses to six questions within this scale. There were significant differences. The between and within group differences were significant  $F(4,294) = 2.739, p = .029$ ) between all levels of management regarding the role of PMS as an essential tool in the management of organisational culture. The most positive in order were middle managers, HR professionals, executive/senior management and finally line management. Both HRM professionals ( $M = 4.35, SD = 0.65, p = .025$ ) and middle managers ( $M = 4.45, SD = 0.56, p = .007$ ) were more positive than line managers ( $M = 3.92, SD = 0.85$ ). Executive/senior managers ( $M = 4.13, SD = 0.81, p = .020$ ) were less likely to agree than middle-managers ( $M = 4.45, SD = 0.56$ ) that performance management is an essential tool in the management of organisational culture. HR professionals ( $M = 4.73, SD = 0.45$ ) were more likely to agree than executives/senior managers ( $M = 4.38, SD = 0.68, p = .001$ ), and line-management ( $M = 4.33, SD = 0.68, p = .011$ ), that a PMS should be 'a continuous and integrated part of the employee-line manager relationship'. With respect to universal training for performance management, HR professionals ( $M = 4.23, SD = 0.96$ ) were significantly more supportive than executive/ senior managers ( $M = 3.77, SD = 1.03, p = .010$ ). Finally, HR professionals ( $M = 4.64, SD = 0.69$ ) were more likely to agree that, 'It is essential line-managers own the performance management system', than both executives/senior managers ( $M = 4.31, SD = 0.80, p = .019$ ) and the line managers themselves ( $M = 4.04, SD = 0.71, p = .003$ ). The between and within group difference were significant  $F(4,292) = 3.615, p = .007$ .

Both executives/senior managers ( $M = 4.27, SD = 0.84, p = .048$ ) and HR professionals ( $M = 4.45, SD = 0.85, p = .011$ ) were more likely to hold the view that PMS will only succeed if it integrates the goals of the individuals than line managers ( $M = 3.92, SD = 1.09$ ). Executive/senior managers ( $M = 1.96, SD = 0.93, p = .045$ ) and middle managers ( $M = 2.08, SD = 0.91, p = .017$ ) were all significantly more likely to disagree with the statement that 'performance management distracts people from more important core activities' than were line management ( $M = 2.59, SD = 1.15$ ). The between and within group differences were significant  $F(4,297) = 5.064, p = .001$ .

The between and within group differences were significant  $F(4,291) = 5.114, p = .001$ . Finally, there was more agreement that employee counselling is linked to performance reviews by executives/ senior managers ( $M = 2.48, SD = 0.87, p = .001$ ), HR professionals ( $M = 2.37, SD = 0.87, p = .024$ ), and middle managers ( $M = 2.34, SD = 0.75, p = .038$ ) than by line managers ( $M = 1.88, SD = 0.88$ ). The between and within group differences were significant  $F(4,293) = 3.445, p = .009$ .

**Figure 4**  
**Performance reviews (PR) linkage**



#### **Performance Management Systems/Practices (PMP)**

This construct embraced and extended on the range of characteristics indicated earlier in construct PMV, and included both factual and perceptual elements. Significant responses in this construct addressed HR horizontal alignment issues ('performance management is integrated with other people-management processes'); development focused PMP; employee-organisation integration; and 'performance management is an integral part of the people management strategy'. Also explored were perceptions such as 'performance management is bureaucratic and time consuming' and 'the aims and objectives of performance management are well communicated and fully understood'. Executive/senior management scores ( $M = 2.97, SD = 0.45, p = .029$ ) and middle managers' scores ( $M = 3.03, SD = 0.40, p = .022$ ) were more likely to agree than line managers' scores ( $M = 2.76, SD = 0.56$ ) that their organisation's performance management system is integrated with other organisational practices. This difference can be clearly seen by examining the responses to the six questions.

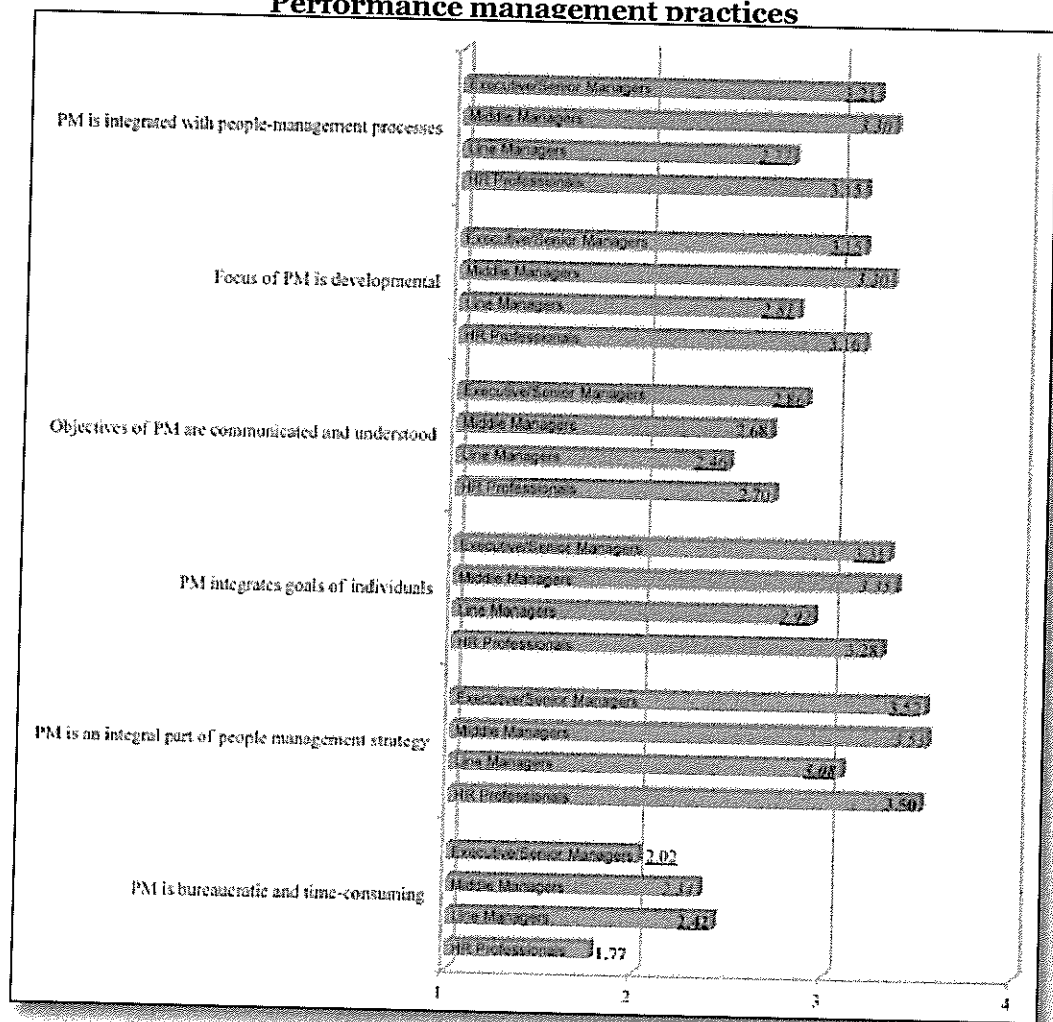
The views of executives/senior managers ( $M = 3.21, SD = 0.86, p = .012$ ) and middle management ( $M = 3.30, SD = 0.74, p = .014$ ) were more similar with

respect to the integration of PM with integrated with people management processes ( $M = 2.77$ ,  $SD = 0.82$ ). The between and within group differences were significant  $F(4,289) = 3.612$ ,  $p = .007$ ). There is also a similar difference in relation to a focus on 'developmental' performance management, with executives/senior managers ( $M = 3.15$ ,  $SD = 0.80$ ,  $p = .045$ ) and middle managers ( $M = 3.30$ ,  $SD = 0.62$ ,  $p = .017$ ) believing that its aim is more developmental than do line managers ( $M = 2.81$ ,  $SD = 0.98$ ).

Executives/senior managers ( $M = 2.86$ ,  $SD = 0.87$ ) agreed more often than line-managers ( $M = 2.46$ ,  $SD = 0.91$ ,  $p = .040$ ) that 'the aims and objectives of performance management are well communicated and fully understood'. Both executives/senior managers ( $M = 3.31$ ,  $SD = 0.86$ ,  $p = .027$ ) and middle managers ( $M = 3.35$ ,  $SD = 0.66$ ,  $p = .046$ ) also felt there was a greater integration of employee and organisational goals through performance management systems than line managers ( $M = 2.92$ ,  $SD = 0.94$ ). Executives/senior managers ( $M = 3.52$ ,  $SD = 0.71$ ,  $p = .006$ ), middle managers ( $M = 3.53$ ,  $SD = 0.56$ ,  $p = .020$ ), and HR professionals ( $M = 3.50$ ,  $SD = 0.77$ ,  $p = .026$ ) all felt that PMS was more 'an integral part of the people management strategy' than line managers ( $M = 3.08$ ,  $SD = 1.00$ ). The between and within group differences were significant  $F(4,288) = 3.282$ ,  $p = .012$ .

On the more perceptual questions, line managers ( $M = 2.42$ ,  $SD = 0.95$ ) were more likely to experience performance management as 'bureaucratic and time consuming' than executive/senior managers ( $M = 2.02$ ,  $SD = 0.90$ ,  $p = .036$ ), and HR professionals ( $M = 1.77$ ,  $SD = 0.78$ ,  $p = .004$ ). Middle managers ( $M = 2.34$ ,  $SD = 0.88$ ) were more likely to share this experience than HR professionals ( $M = 1.77$ ,  $SD = 0.78$ ,  $p = .004$ ). The between and within group differences were significant  $F(4,291) = 4.290$ ,  $p = .002$ .

**Figure 5**  
**Performance management practices**

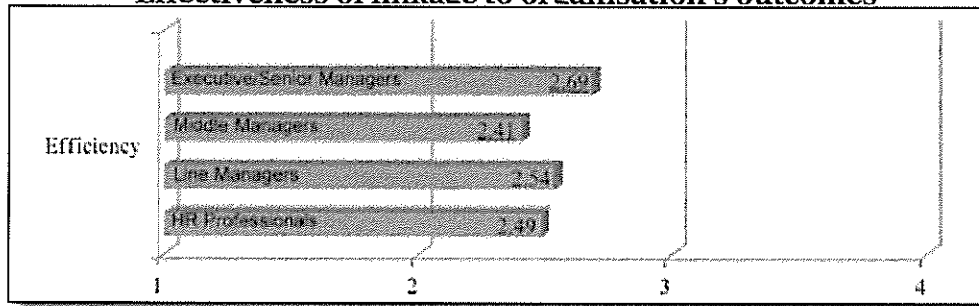


**Performance Management System Effectiveness (PMSE)**

Perceptions of how effectively the performance management system was linked to organisational outcomes had few variations. When the groups were coded to dichotomous groups no group had a significant correlation with the scale. In terms of the organisational outcomes of quality of goods or service, innovative capacity, cost, market share, return on investment, profitability, and quality of workforce there were non significant group differences. The only significant group difference was between executives/senior managers ( $M = 2.69, SD = 0.79$ ) who were more likely to see the performance management system as effectively linked to organisational efficiency outcomes than were middle managers ( $M = 2.41, SD = 0.73, p = .044$ ).

**Figure 6**

**Effectiveness of linkage to organisation's outcomes**



**Qualitative Findings**

A single qualitative question in the survey requested respondents to identify the three key issues in performance management systems. Whilst it necessarily elicited multiple different responses, the main themes which emerged were different for executives/senior managers, middle managers, line managers and HR professionals, although there were some shared perspectives. Thus, for executives/ senior managers, the issues most frequently mentioned included can be summarised as a common understanding of the PMS; adequate training in the need for and use of the system; and an associated culture of accountability. 'Common understanding' encompassed such aspects as specific communication of the purposes and value of the PMS; 'buy in' and commitment at all organisation levels, especially by management; adequate feedback mechanisms; user friendly systems; linkages between employee KPIs and organisation goals; and clarity of purpose.

Some examples of such comments follow: 'open and transparent communication', 'acceptance by employees of the system', 'recognition that performance management is not a punitive process, but a process of continuous improvement', and 'integration into the organisational culture...it needs to become part of the organisational narrative'. More cynical comments included 'culture eats performance management every day for breakfast', 'scrap them, dismiss the HR department, scrap the bonus system', 'should be abolished', and 'it is not a tick box, nor an opportunity to have a go'.

PMS training was perceived to include not only functional or process details, but also identification of the mutual benefits of performance management, and shared recognition that performance management should be a 'normal everyday event' or a 'positive process'; which might be conducted as a several stage process – for example, 'one-on-one, class and then follow-up instruction'. Measurement and accountability aspects mentioned encompassed clear links to organisational objectives, 'needs to be able to extract trends across the business, objectives must be cascading and linked to the business strategy', realistic goals ('SMART principles'), individual employee accountability, and 'selecting the right KPIs/metrics, to measure them and assign appropriate weighting to make



it clear which are the most important'. One respondent suggested holding HR managers accountable as they have 'the primary responsibility for the conduct of performance management programs (unit cost relationship with achieving outcomes – identify professional development'.

Middle manager responses can be summarised as commitment, ownership and alignment. With respect to commitment, comments such as 'everyone in the organisation has to take the process seriously', 'support from senior management', and 'a cohesive and understanding management team' are reflective. The importance of stakeholder ownership of the PMS was expressed in such suggestions as 'consultation (buy in), user friendly system', 'ownership from executive management, ownership and input by staff recognition and developmental plan for staff', and 'stakeholder involvement in the development of the system'. Alignment was explained through feedback 'in both directions', 'alignment from top to bottom of goals', and 'integration with the vision, values, business plans and HR activities'.

Line managers focused more clearly on operational issues such as user-friendliness, effective communication about the PMS purposes and processes, and employee benefits. The need for simple, transparent, and consultative systems was frequently raised, from the perspectives of both employees and their supervisors – as examples, 'it should be a system that is easy to use and is not time demanding', and 'effectively and timely reporting systems which matches the culture and maturity of the organisation... simple to use'. Communication and employee benefits issues raised included an emphasis on employee motivation, 'direct feedback to employees on how they are performing', and regular HR surveys – 'PMS should encourage employee development by encouraging skill and competency enhancement'.

Many of these themes were also echoed by the HR professionals, who responded to the survey, but they placed more emphasis on strategic aspects such as linking employee and organisation goals; multiple stakeholder 'buy-in', especially executives, middle and line managers; and clear alignment between PMS and all other HR systems. The flavour of such comments includes the following:

- 'link performance to behaviours, relationships, and the individual to the organisation'
- 'managers and employees as ambassadors of the process...'
- 'aligning individual and organisational goals...' 'easy to use system that is appropriate to the organisation and that is linked to the
- organisation's strategic and operational goals'

With respect to respondents' satisfaction with their current PMS, there was a variety of comments on their effectiveness from all management levels. Those who were 'mildly' or 'very' satisfied cited such issues as in house system development; close links to organisational culture change and/or other HRM processes; senior management support; positive staff feedback and a 'positive'

supervisor employee review process; the ability to retain staff through KPI linked performance bonuses; well structured and integrated systems; regular revision of the PMS: reviewer skills; user friendly procedures; and consistent applications across the organisation, for their satisfaction. Illustrative comments included:

- 'directly designed to foster change in culture – 70 per cent behaviour and values, 30 per cent outcomes'
- 'executive management always receives positive feedback from staff'
- 'it is an accepted system that provides the opportunity for staff and management to have face to face discussions about their performance. It is generally an overwhelming experience'
- 'the tool/system we use does require work to line up competencies with our values'
- 'we are able to retain staff in a tight labour market (skills shortage) by paying above average salaries, linking some KPIs to performance bonuses, providing candid feedback on individual and group performance, and by maintaining a harmonious work environment'
- 'the system is well understood and reviewed regularly to keep up to date with trends and feedback ... simple not time consuming, motivates employees'
- 'it's an integral part of our culture and an essential tool in the balanced scorecard methodology we employ'
- 'I am satisfied because it's consistently applied across the whole organisation, which drives outcomes...'

For those respondents who were most dissatisfied with the efficacy of their PMS, the main themes included their difficulty of usage; a compliance rather than a developmental focus; lack of alignment with organisational values and goals; inadequate reviewer training; lack of senior/middle/line management commitment and support; insufficient communication about the PMS; inconsistency of application across the organisation; or simply, the absence of a formal system. Particular comments included the following:

- 'it is non existent...'
- 'not enough people know how it works and utilise it effectively...it is not taken seriously...implemented in a patchy fashion'
- 'the system is not yet established enough...still in transition and under ongoing review'
- 'too cumbersome and compliance-based'
- 'organisational vision, values and strategies are not well defined, therefore individual goals and objectives cannot be related back to organisational objectives'

- 'lack of commitment by senior management and the board, no link to succession planning or pay scales...the process is just to tick a box at audit time'
- 'the systems are in place and well-documented and communicated. However, the nature of the industry being what it is, everyone is hard pressed for time, and the senior management has failed to communicate the need and the relevance of a proper and properly implemented system'
- 'no matter how hard we try, (PMS) have the opposite effect'
- 'the current system does not express the employee value proposition'.

## **DISCUSSION**

Whilst the findings reported in this paper include a blend of factual and perceptual data on the nature, characteristics, linkages and overall effectiveness of the performance management systems employed by the respondents' organisations, they also provide valuable evidence on the different views of executive, middle and line managers, and HR professionals. The six constructs delineated above (namely, VVPA, HPC, PMV, PMS, PMSP, and PMSE) are discussed separately and then aggregated towards the end of this section of the paper.

Both executives/senior managers and HR professionals reported that their organisations' performance management systems (PMS) enshrine their vision and cardinal values (VVPA), but the former were in stronger agreement than the latter. Line managers were even less supportive. As this would seem to be a factual matter rather than a mere perception, the responses suggest that HR professionals and line managers are less convinced than their senior managers of the actual alignment between PMS and organisational visions and mission statements. These findings might also imply that the rhetoric of such a strategic alignment (as asserted by authors such as Becker & Gerhart 1996, Delaney & Huselid 1996, Guest, et al. 2000) is not so well operationalised in reality, and is more consistent with Aberdeen's (2007) findings.

With respect to the links between high performance cultures, PMS, and desired organisation outcomes such as customer care, quality, competence and working relationships (HPC), it is apparent that executives/ senior managers differ from HR professionals, and line managers on all such criteria. All of these can be considered to be more operational than strategic issues. There were no significant differences between the responses of different levels of management on PMS outcomes such as flexibility, business awareness, financial awareness, and the alignment of employee and organisational goals, but the majority of responses were less than effusive with respect to their alignment with business goals (Delaney & Huselid 1996, Sung 2005, Green, et al. 2006).

In contrast, PMV responses indicated a clear divergence in the opinions of HR professionals versus other organisational managers in regard to the integrative approach of their PM systems, their role as a 'continuing and integrated part of the employee-line manager relationship', line manager 'ownership' of performance management, the need for specific performance management training, and the importance of PMS in strengthening organisational culture. HR professionals were considerably more supportive of all of these elements than executives/senior managers and line managers, and middle managers only agreed with them with respect to the last characteristic. It may be inferred here that HR professionals are more focused on the strategic aspects of PMS, especially in relation to their broader organisational outcomes (culture, cascading responsibilities, upgraded skills through specific training, and embedded systems), and is consistent with some previous research (for example, Guest, et al. 2000, Jas & Skelcher 2005, CIPD 2005, Lawler 2005, Green, et al. 2006, Greiling 2006, Nankervis & Compton 2006). However, even if this were true, the less supportive views of their executive/senior, middle and line management counterparts are likely to derail their best laid plans. Of particular concern is the apparent reluctance of line managers to accept their natural 'ownership' of the performance management system. Again illustrating a contrast between HRM rhetoric and reality.

With respect to the horizontal alignment of performance management with all other HRM systems, which is one of the two key pillars of SHRM theory (Ulrich 1998, 2007, Cascio 1999, Green, et al. 2006) – fewer of the respondents were actively supportive of the links to staffing strategies, learning and development, succession planning and employee counselling. Surprisingly, executives/ senior managers valued the link between performance management and overall staffing strategies more highly than either HR professionals or line managers, and the latter were consistently less supportive with respect to links with learning and development, succession plans and employee counselling. This is of considerable concern, as line managers represent the crucial operational conduit between the performance of their employees and the potential achievement of desired organisational goals and objectives (Connally, et al. 1980, Patterson, et al. 1997, Sung & Ashton 2005), and as HR professionals could be expected to be mainly responsible for the organisations' overall staffing strategies (Jas & Skelcher 2005, Green 2006).

Consistent with their responses in other parts of the survey, line managers were significantly less enthusiastic than either executives/senior managers or HR professionals about the more strategic elements of PMSP, including the integration of PMS and other HR processes (horizontal alignment); the affiliation of employees' performance objectives with organisations' financial goals; the perception that PM systems should be an integral part of HRM strategies (vertical alignment). Whilst not surprising (see Nankervis & Leece 1997, CIPD 2005, Nankervis & Compton 2006), this finding suggests that many of the performance management systems reported on do not appear to have

involved line management sufficiently in their design and implementation stages, or simply that communication strategies have been less than adequate. In partial support of this, as the key players in the implementation of PMS, both middle and line managers (as opposed to other managers) more commonly agreed that communication about performance management was inadequate, and that PMS were often 'bureaucratic and time-consuming'. Similar findings have been reported in other such studies (Parhizzani & Gilbert 2004, Brown 2005, CIPD 2005, Sung & Ashton 2005).

Finally, the findings of this study show many similarities with earlier research in respect of the features which contribute to the perceived effectiveness of PM systems PMSE. Namely, the importance of a common understanding of their goals and processes between all stakeholders; comprehensive and ongoing communication strategies; ownership of the chosen system by all users; user-friendliness; and clear links between PMS, all other HRM processes, and with organisational culture and desired outcomes (Nankervis & Leece 1997, Greiling 2006, Nankervis & Compton 2006, Bartram, et al. 2007, Stanton, et al. 2010). Not surprisingly perhaps, executives/ senior managers and HR professionals (in that order) were generally more impressed with the effectiveness of their systems than either middle or line managers, and focused on arguably more strategic elements (for example, cultural outcomes, horizontal and vertical alignment) compared with a more operational focus for middle and line managers (for example, commitment, ownership, user friendliness, employee benefits).

## **CONCLUSION**

This paper reports on some of the quantitative and qualitative findings from an Australian research study, which focused on the perceptions of a wide range of managers (executives/senior managers, middle and line managers, HR professionals) on the links between performance management and organisational effectiveness. Whilst the data parallel the findings of many similar studies – in particular, that the rhetoric of performance management system designers is not always shared by all organisational stakeholders or reflected in operational realities; and that linking PMS to organisational effectiveness is often problematic – the paper contributes to the associated literature by demonstrating the sometimes conflicting imperatives of different management levels. Thus, executives/senior managers in this study were the most supportive of a strategic approach to the PMS organisational effectiveness relationship, followed by HR professionals, whilst middle and line managers were clearly more focused on operational and implementation perspectives. Accordingly, executives/senior managers might be characterised as the sponsors of PMS; HR professionals as their advocates; and middle and line managers as the end users of such systems and their links to organisational effectiveness.

The findings from this study are not claimed to represent managerial perceptions of the performance management–organisational effectiveness conundrum across Australian industry, due to its sample size and coverage. However, it adds to the associated stream of literature, by extending an understanding of the contributions of HRM processes to business outcomes and the diverse views of different managerial levels. Future studies might extend research to larger or industry specific samples, or to other HRM processes such as staffing, human resource development, rewards and retention programmes.

## AUTHORS

**Alan R. Nankervis** is an HRM academic with more than twenty years experience at universities in Sydney, Melbourne, Perth, Canada, the United Kingdom, and in Asia. He was formerly the co-editor of the 'Research & Practice in Human Resource Management' journal. His research interests include strategic HRM, comparative Asian management/HRM, performance management and firm effectiveness, and services management.

Email: [A.Nankervis@curtin.edu.au](mailto:A.Nankervis@curtin.edu.au)

Professor **Pauline Stanton** is a Professor of Human Resource Management at Victoria University Melbourne. She researches in HRM in the health sector, high performing work practices and employee relations in Multinational Enterprises. Pauline has taught, researched and consulted in Australia, UK, Vietnam, China, Singapore and Mongolia.

Email: [pauline.stanton@vu.edu.au](mailto:pauline.stanton@vu.edu.au)

**Pat Foley** is a management consultant specialising in innovation and entrepreneurship. Until 2012 he was a Senior Lecturer in Management at Victoria University Melbourne.

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