Measuring the impact of people management practices on business performance

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The context

• Search for competitive advantage
  – National level: productivity gap
  – Firm level: wide dispersion in firm performance
• Focus on ‘black box’
• “People are our most important asset”
• Smarter working: the knowledge economy
• How to maximise the return?

Overview

• What is ‘people management’?
• The basic propositions
• Theoretical perspectives
• The key questions
• Various measurement issues
• Next steps

What is ‘people management’?

• That part of an organisation’s activities which is concerned with inter alia: the recruitment, development, deployment and reward of its employees
• Current focus: practices that aim to engender a high degree of employee involvement in the execution and improvement of work processes
• Aided by practices that aim to ensure that employees have the ability, opportunity and motivation to be productive
• Labels: ‘high-involvement management’, ‘high commitment management’ or ‘high-performance work systems’
• Contrasted with control-oriented methods of work organisation (Taylorism)

The basic propositions

• Autonomy and variety -> motivation and commitment -> greater effort
• Collaborative working -> opportunities to share private knowledge -> better problem-solving -> improvements in working methods and quality
• Sophisticated recruitment and training -> skills to work autonomously and collaboratively
• Pay linked to performance -> employee identification & fairer distribution of rewards

Perspectives from industrial economics

• Technical efficiency a key determinant of productivity (along with capital deepening)
• Intangible assets increasingly an important notion
• The importance of knowledge as a source of competitive advantage, particularly tacit knowledge:
  – Some firm-specific skills
  – The design of work processes
  – How to motivate workers and elicit cooperation
  – Knowledge of markets and customers
  – Knowledge of suppliers
• Also discussed in terms of human capital, relationship capital and organizational capital
Perspectives from labour economics

- Historic concern with skills, incentives and rewards (returns to training, impact of performance-related pay, efficiency wages)
- More recently also a focus on teams, empowerment, asymmetric information and cooperation
- Teams allow transfer of valuable, idiosyncratic knowledge
- Autonomy can strengthen employee’s incentives by giving control over asset allocation
- Collaborative working can also alleviate monitoring costs through peer pressure

Perspectives from management theory

- Resource-based view: firms can earn supernormal rents from superior resources that are:
  - Valuable
  - Rare
  - Imperfectly imitable (through patents or need for sizeable initial investments)
  - Non-substitutable.
- AMO: Performance is a function of:
  - Ability
  - Motivation
  - Opportunity
- Contingency theory: firms that better align their business strategy and HR activities will perform better than those that do not

Perspectives from psychology

- The basis of the employment relationship is determined to large extent outside of the legal contract of employment
- Emphasis on the ‘psychological contract’ based on elements such as:
  - Fairness
  - Respect
  - Trust
  - Loyalty
  - Security
- HR practices that improve the psychological contract will have a positive impact on performance

Support from many quarters

- Many stakeholders have drawn attention to the potential benefits:
  - CBI-TUC (2001) The UK Productivity Challenge
  - DTI (2005) High-Performance Workplaces – Because People Mean Business
  - OECD (1999) OECD Employment Outlook

Support from many quarters

“What we did was to involve everybody within Jaguar. Previously, we’d involved management and certain staff. We involved everybody on the line, and we found out that the people on the line knew more about the problems and how to fix them than the engineers and the management… The solution was in combining the efforts of all the people at Jaguar: not just the management, not just the engineers, but also the people who actually built the cars. The results were nothing short of stunning.”

Sir Nick Scheele (Jaguar Cars)

Some cautions

- Employees not a passive factor of production: cohesiveness and reciprocity are important
- HR innovation likely to be complex and require continued commitment and a long-term view
- HR innovation not a technical process: employees (and managers) may have fears, insecurities and heterogeneous tastes for responsibility or flexibility
  - Managers may not wish to cede control
  - Employees may face prospect of work intensification
  - Employees may resist change (individually or collectively)
- There may be costs, e.g. training costs; disruption; wage costs
Some key questions

- Which HR practices are most important?
- How should these practices be configured?
- What is the scale of the return?
- Can the benefits be obtained in all firms?
- What about the costs?

The evidence – an overview

- General conclusion: high-involvement methods have a positive impact on firm performance
- Research based on a variety of methods
- Few studies find negative effects
- But little consensus over the key questions
- Wood and Wall: "evidence promising, but only circumstantial"

Measurement – an overview

\[ P = f(H, X) \]
\[ P = a + b_i H_i + c_j X_j + e \]

for a given sample \( k = 1 \ldots n \)

Consider:
- Measures of performance (P)
- Measures of HR practice (H)
- How to approach b
- The range of controls or moderators (X)
- Issues in respect of e
- Nature of k

Financial outcomes:
- stock market measures
- profitability

Organisational outcomes:
- productivity
- quality

Subjective vs objective measures

Employee outcomes:
- Autonomy
- Job satisfaction
- Commitment / loyalty
- Turnover/absenteeism
- Work intensification

Timing: past performance and lagged effects

\[ P = a + b_i H_i + c_j X_j + e \]

Presence vs coverage vs intensity

Rhetoric vs reality:
- Intended practices
- Actual practices
- Perceived practices
- Attitudinal outcomes
- Behavioural outcomes

Purcell and Kinnie (2006)

\[ P = a + b_i H_i + c_j X_j + e \]

Identifying the scale of performance effects from subjective measures

Variations in b across firms
- Contingent effects
- Impact on the median firm

Purcell and Kinnie (2006)
$P = a + b H_i + c_j X_j + e$

**The nature of the sample**
- Single-firm studies
- Sectoral studies
- Large-scale surveys
- Mixed method designs

**Summary**
- Theoretical reasons for expecting a link
- Findings generally positive
- But findings not wholly consistent
- Various measurement issues relating to:
  - Measures of performance
  - Measures of HR practice
  - Estimation of average effects
  - Causality
  - Nature of the sample
- All studies come with caveats due to methodological limitations.

**Next steps**
- More robust identification of cause and effect
- Greater focus on proximal outcomes
- More use of employee data
- More data-sharing and replication to test sensitivity

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