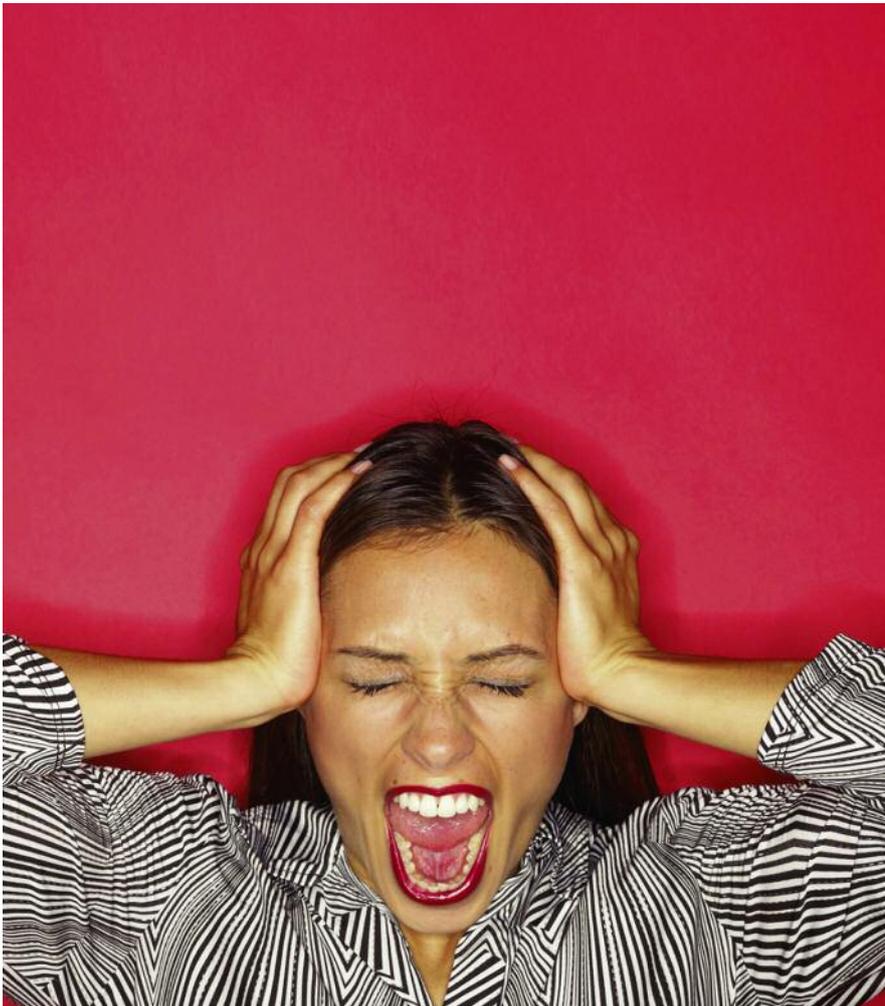


Does the introduction of 'high-performance work systems' really make a difference to business performance? Using representative data from British workplaces, **Michael White** and **Alex Bryson** assess the value of human resource management – and ask whether it is possible for firms to have 'too little' or 'too much'.

# Human resource management: how much do firms really need?



**H**uman resource management (HRM) is widely regarded as one of the key elements of business strategy in a world where the knowledge, creativity and enterprise of employees often provide the sole competitive edge. A great deal of research effort – much of it done at CEP – has been devoted to demonstrating the links between HRM practices and business performance and to identifying 'what works'.

Out of this research has come the central idea of 'high-performance work systems' (Appelbaum et al, 2000) and a wealth of studies showing that the practices that such systems embody – those focused on employee participation, skills development, team-working and incentives in combination – are associated with better business performance (see Bloom and Van Reenen, 2011, for a review of this body of work).

Yet despite this progress, there remain many unanswered questions and unquestioned assumptions about HRM. Are the associations between HRM practices and business performance truly causal? Or do already strong businesses adopt high-performance work systems because it is the 'smart' thing to do and their employees are 'worth it'?

Does each step along the path of HRM implementation produce an additional response from employees and so an incremental improvement in business performance? Or is it only when some critical threshold of practice has been reached that a pay-off begins to show itself? And is it possible to do 'too much' HRM, leading to adverse consequences? These are some of the issues raised not only by HRM critics (of which there are plenty in Britain, though fewer in the United States) but also by its advocates.

There is little chance of demonstrating causality through experiments or quasi-experiments – HRM systems are too complex and too intertwined with business development and they may take years to develop. Instead, we have investigated whether there is at least a plausible mechanism through which HRM practices can influence performance. Focusing on mechanisms has been a common strategy in medical research where it has led to many advances, but it is less common in economic research, which often adopts a 'black box' approach.

Research on HRM suggests that the key mechanism probably lies in the motivations of employees. Practices of participation and team-working foster workplace experiences such as challenge, personal growth, variety, self-esteem, responsibility, autonomy and self-control. These are things that individuals intrinsically value and when those values are fulfilled, they obtain additional rewards to make their jobs more motivating. The HRM system then supports and reinforces these values through appropriate recruitment, training, in-job learning opportunities and financial rewards.

Furthermore, the research suggests that employees may become more committed to an organisation that offers them the opportunity to fulfil values with which they can identify. Such concepts have been introduced into economics by Akerlof and Kranton (2005) who propose that role 'identity' affects individual utility, and hence incentive, alongside financial reward.

But these are merely concepts: how can they be measured and tested in practice? Here, recent developments in work psychology prove very helpful.

Theories of work motivation have been increasingly unified with theories of work attitudes and in parallel, there have been advances in identifying the work attitudes that best predict performance. For example, one study suggests that 'overall job attitude' – a combination of job satisfaction and organisational commitment – explains as much as one quarter of the variation in focal-task performance, wider 'contextual' performance, lateness, absence and quits (Harrison et al, 2006).

Theory and evidence therefore suggest that to demonstrate a plausible mechanism, one has only to show that HRM systems in practice do increase job satisfaction and organisational commitment. But while most HRM experts agree that a system is required to attain major pay-off, how much HRM (how many practices of the desirable type) constitutes a complete system? And what are the consequences when HRM development is still below that threshold? Moreover, some research has suggested that going far above the threshold level can adversely affect employees, via stress and exhaustion, so there may be an issue of too much HRM as well as too little.

Most research to date has made the simplifying assumption that every increment of HRM practice is of some positive value, leading to a linear relationship between practice and attitude or practice and performance. In our study, we assess both linear and non-linear relations between the intensity of HRM system development – the number of practices implemented, across participation, teams, recruitment, training/development and incentives – and attitudinal measures of employees' 'intrinsic job satisfaction' and 'organisational commitment'.

The main results of our study are depicted in Figures 1 and 2. They strongly indicate a non-linear relationship between HRM intensity and attitudes. There appears to be a threshold (around 15 practices out of the 43 included in our HRM index) beyond which workplace attitudes become steeply and progressively more positive.

So rather than there being any problem of too much HRM, there is substantial evidence that too little HRM can be a problem. The left-hand portion of the curve slopes downwards so that

## Workplace attitudes become steeply and progressively more positive once a threshold of HRM practices has been reached

Figure 1: How employees' organisational commitment changes as more human resource management practices are introduced

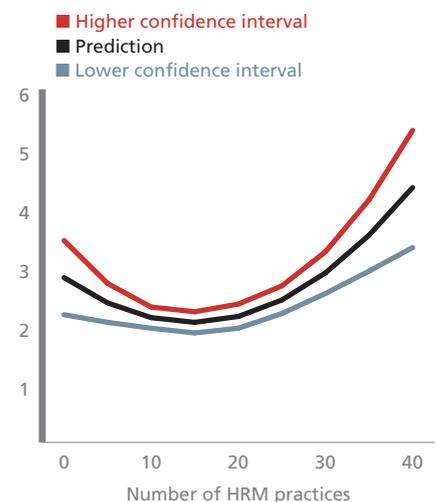
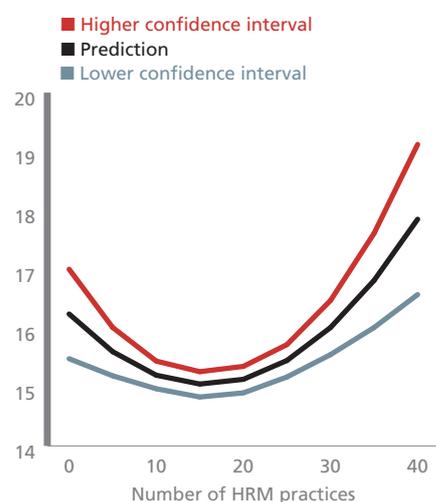


Figure 2: How employees' intrinsic job satisfaction changes as more human resource management practices are introduced



## In terms of employee attitudes, it might be better to have no HRM than just a little

employee attitudes are most negative just before the threshold is reached. From the viewpoint of employee attitudes, it could be argued that it is better to have no HRM than to have just a little.

We estimate that about one half of British workplaces are in the lower end of HRM development and experiencing slightly depressed employee attitudes, while the other half are in the upper end of HRM development and experiencing increasingly positive attitudes. So there appears to be scope for really extensive gains in employee attitudes (and motivation) through the development of more complete HRM systems.

This conclusion has a high degree of generality. In the first place, our data come from the 2004 Workplace Employee Relations Survey and are representative of all British workplaces in the market sector except the very smallest. To ensure that our results do not depend on any peculiarity of the index of HRM system intensity that we constructed, we also looked at an alternative index of HRM practice. This one matched questions used in three British studies of recent years, and obtained very similar results.

Nonetheless, there is clearly more research to be done. It will be especially interesting to attempt replication with the 2011 Workplace Employee Relations Survey: what happens to the employee attitude curve as HRM becomes more widely and intensively adopted? And does a favourable impact of HRM on employee attitudes depend on the benign economic environment that existed in 2004 but had been lost by 2011?

There are also questions of a more fundamental nature. First and foremost, there is the underlying explanation for the threshold effect, an issue discussed in the work of Bowen and Ostroff (2004). Anyone maintaining that firms act rationally will also ask why not all of them adopt the more intensive HRM regimes to which employees respond if, as we believe, this contributes to business performance via the improved job satisfaction and organisational commitment of employees.

There are several possible reasons: for some workplaces, the costs may outweigh the benefits; or the benefits may vary for different kinds of firms – those with low intensity HRM may still be doing the best available to them. Or again, weaker and less intensive HRM systems may deliver other kinds of benefits, apart from employee motivation, to the firms operating at this level of development.

Some employers may also be confronted by constraints, such as opposition from middle management or trade unions, which make it hard to advance further. Such firms may be on the way to the kind of highly developed HRM system on which we focus, but the road ahead may be long and hard.

While we can speculate as to the possible reasons for selective, partial or constrained implementation of HRM systems in British workplaces, only additional research will reveal whether workplaces with low or moderate HRM development are suffering real losses as a result.

This article summarises 'Positive Employee Relations: How Much Human Resource Management Do You Need?' by Michael White and Alex Bryson, published in *Human Relations* 66(3): 385-406 (2013); earlier version available as CEP Discussion Paper No. 1097 (<http://cep.lse.ac.uk/pubs/download/dp1097.pdf>).

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### Further reading

George Akerlof and Rachel Kranton (2005) 'Identity and the Economics of Organizations'. *Journal of Economic Perspectives* 19(1): 9-32.

Eileen Appelbaum, Thomas Bailey, Peter Berg and Arne Kalleberg (2000) *Manufacturing Advantage: Why High-performance Work Systems Pay Off*. Cornell University Press.

Nicholas Bloom and John Van Reenen (2011) 'Human Resource Management and Productivity', in *Handbook of Labor Economics* edited by Orley Ashenfelter and David Card, Vol. 4b, Ch. 19: 1697-1769.

David Bowen and Cheri Ostroff (2004) 'Understanding HRM-Firm Performance Linkages: The Role of the 'Strength' of the HRM System', *Academy of Management Review* 29(2): 203-21.

David Harrison, Daniel Newman and Philip Roth (2006) 'How Important are Job Attitudes? Meta-analytical Comparisons of Integrative Behavioral Outcomes and Time Sequences', *Academy of Management Journal* 45(2): 305-25.

## More complete HRM systems could deliver really extensive gains in employee motivation