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Just what is the *evidence for a positive effect* of management and leadership on national, organisational or individual performance (see Figure 1). In understanding this issue there are some key questions that might be asked:

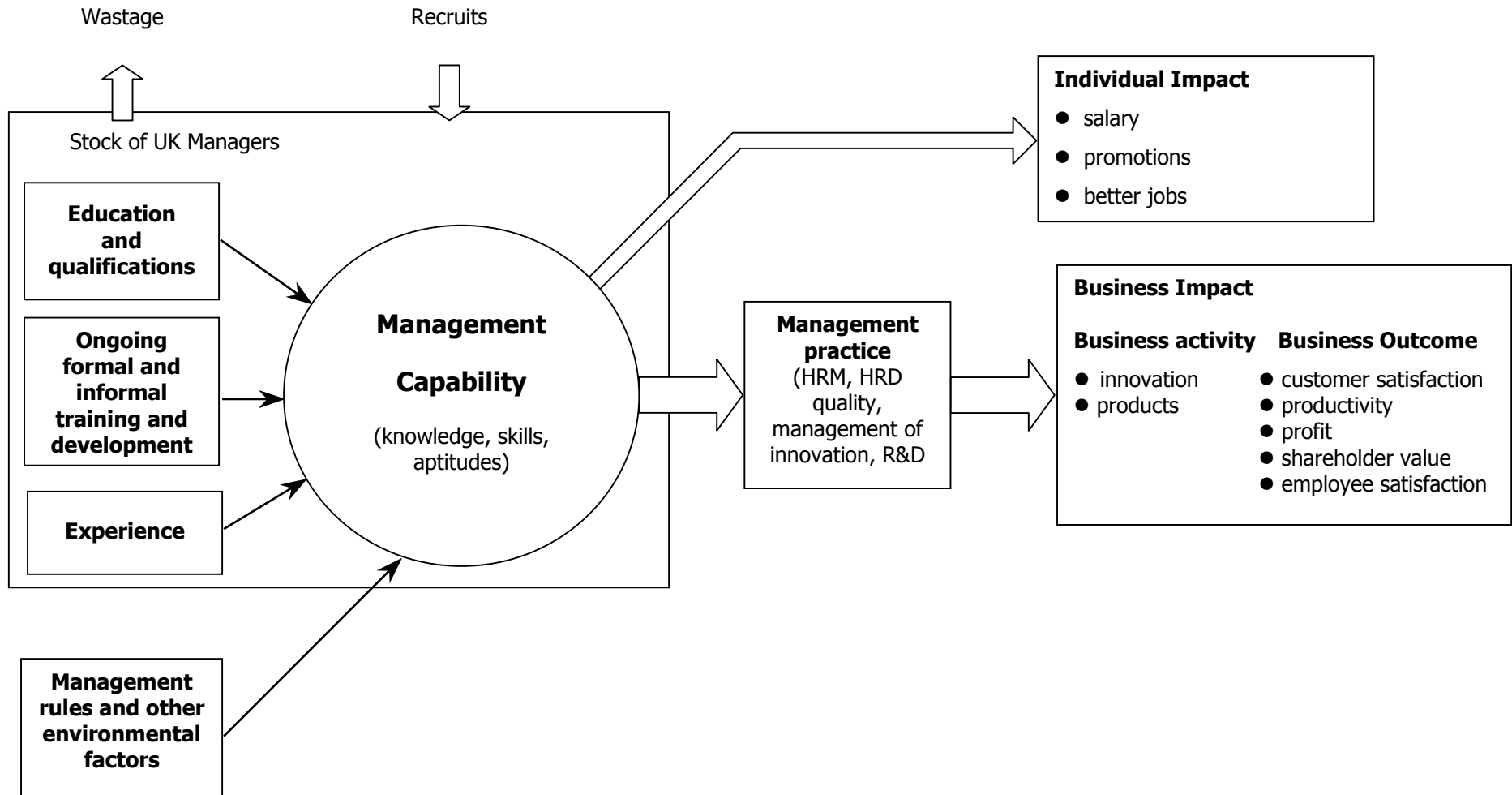
- Does management and leadership capability make a difference to *national* performance?
- Does management and leadership development increase *organisational* performance?
- Does management and leadership development increase *individual* management and leadership capability and individual performance?

## Management and leadership capability and national performance

There is persistent concern that levels of productivity are low in the UK. Reports dating back to the 1980s (*eg* Handy, 1987; Constable and McCormick, 1987) assumed a fairly simple link between national economic performance and a deficit of good managers. More recent work has tended to propose a more complex relationship and government's interest in this relationship remains unabated (DTI, 2001).

- Porter and Ketels (2003) have recently reviewed the evidence for causes of the UK's relatively poor productivity compared with other countries. Porter questions to some extent that the UK's economic performance is poor, and more strongly questions that the quality of UK management is the most important determinant of economic performance. Other institutional factors seem likely to be more important. On the issue of management quality, Porter recognises that '*there is always room for improvement*' but also that '*efforts to upgrade management will not however be sufficient to achieve a sustained improvement in UK competitiveness.*' Porter also judges it likely that the issue of management quality should be of more concern at lower levels of management, where the UK management development infrastructure is weaker.

Figure 1: Framework for the measurement of management capability



Source: IES 2002

## Does the UK have a management skills shortage?

If management and leadership were having a negative effect on the economy, one might expect a clear deficit of management and leadership skills to be reported. The evidence shows that management skills are by no means the biggest skills challenge for the UK.

- The National Skills Taskforce examined skill shortages and skill gaps in many sectors. Management skills were part of this study in each sector. Although the sectoral reports of the National Skills Taskforce often mention managers, management skills are not included in the six main areas of skill deficiency identified overall in the UK (basic skills, generic skills, maths, intermediate level skills, ICT, adults with no qualifications) (DfEE, 2000).
- Campbell *et al.* (2001) in the *Skills in England* report reinforce the view that skill shortages are predominantly in technical skills, but they do mention management skills as an employment 'hotspot' along with intermediate level skills, ICT, generic/transferable skills and numeracy.

More detailed evidence from other studies reinforces the view that there may be qualitative shortfalls in management skills, but such evidence is based on perceptions of management quality by other employees.

- Horne and Stedman Jones (2001) in a survey of 15,000 managers found that over one-third of managers and almost half junior managers rated the quality of leadership in their organisations as poor. This study also casts doubt on asking top managers their opinion of leadership. Senior managers and executives were far more likely than junior managers to rate the quality of leadership as high.
- Charlesworth *et al.* (2003) in a survey of over 1,800 public sector managers found only one-third of managers giving a high rating to senior management teams, but 44 per cent giving a high rating to their immediate manager.
- Keep and Westwood (2003) use wider business arguments, for example the low business gains from business process re-engineering programmes and mergers, to argue a lack of managerial skill. These failures are by no means unique to the UK.

There is little reliable data on the quality of UK management relative to that of other countries. The Institute for Employment Studies has recently helped DTI scope the availability of internationally comparative data on the management population and its qualifications (Jagger *et al.*, 2002), which showed just how difficult this task is.

One international difference, which is relatively easy to measure, is the proportion of managers who have higher-level educational qualifications (typically degrees or equivalent). Johnson and Winterton (1999) reported 18 per cent of managers qualified to degree level. The influential Handy report (1987) posed the argument that managers in the UK have not been well educated compared with their counterparts in other countries.

Bosworth (1999) in a very comprehensive overview of the stock of UK management highlights the low qualification levels of UK managers relative to those of competitor nations, and comes to rather pessimistic conclusions about the quality of UK management.

Assessing whether lower qualifications also means low managerial skills relative to other countries is tricky. We have very little reliable evidence as to whether UK managers are 'better' or 'worse' than those of other countries. For example, Bosworth quotes an Australian survey of Asian business executives (Savery *et al.*, 1994) who held rather poor views of UK managers compared to those from other countries but there is no evidence of the depth of their direct experience of the various nations covered.

## **Management and leadership capability, and organisational performance**

Demonstrating the impact of management and leadership within the organisation has also proved difficult in practice. A line of research has sought to explore the impact of a range of factors on individual performance and customer satisfaction.

- Rucci *et al.* (1998) analysed two quarters of data from 800 stores in the Sears retail group in the US. The data covered business data, customer and employee attitude data. Causal pathway modelling was used to unpick the cause and effect relationships linking employee attitudes, customer attitudes and business results. Employee attitudes towards the job and attitudes towards the employer both emerged as key factors associated with customer attitudes and in turn with business results. The line manager emerged as a key link in this chain through a critical item '*how does the way you are treated by those who supervise you influence your overall attitude about your job?*'
- Barber *et al.* (1999) conducted a similar study with nearly 100 stores of a major UK retailer. The data collected spanned 65,000 employees and 25,000 customers. Employee satisfaction and employee commitment were related to sales increases. There were also more indirect links to sales through improved staff attendance and increased customer loyalty (linked with customer service). The quality of line management as

perceived by staff emerged as an important link in this value chain via its impact on employee commitment.

This evidence would tend to reinforce the high interest in managers as motivators of staff who then produce better business results.

Cockerill (1993) tried to link management capability with organisational performance using a framework of seven competencies. He found that six of the selected competencies were positively related to measures of organisation performance. Overall, the competence of a manager explained about 15 per cent of unit performance in dynamic, but not stable, environments.

## Management and leadership and individual performance

Various studies that look broadly at what impacts on employee performance can give us some clues as to the nature of general links which are likely to occur between HRM practices and the performance of individual managers and leaders. A few of these studies have looked at managers, but more have looked at the whole workforce.

- In an exploration of a quality programme in a retail organisation, Rosenthal *et al.* (1997) discovered that it was associated with positive effects on individuals. Several months after the training associated with this programme, staff remained committed to it and displayed this commitment in their behaviour.
- In a study of 16 organisations by Winterton and Winterton (1999), they separated out the improvements resulting from management development at an individual performance level from those at an organisational level. These clustered in three areas: specific managerial skills and competence; personal confidence and a sense of empowerment; and understanding how to develop others. (1999:107)
- Strebler and Bevan (1996) in their study of competence-based management development, found that this approach to management development had high *perceived* value on a self-reported basis, but there was little empirical evidence of improved capability.
- In an evaluation study of LiP, three quarters of those employers anticipating training benefits said they had achieved them: these included better induction, training being better related to business priorities and changes in the way training was carried out (Hillage and Moralee, 1996). They also found 60 per cent reporting improved workforce outcomes (understanding, skills, commitment etc.) and a large majority reporting some direct or indirect improvements in

such key areas as quality and productivity or anticipating these in due course.

- In an early and rare example of a meta-analysis of many different management and leadership development interventions, Burke and Day (1986) examined 70 managerial training studies. In examining their assessments of effectiveness, measured often by ratings of skill or of performance, management training was found on average to be 'moderately effective.'
- Bramley (1999) in a wide review of the literature found no empirical evidence to support the case for off-the-job management education, nor for generic management courses.

### **The contributory role of organisational processes and climate**

Research suggests that processes which precede, support and reinforce the development activities play a big part in capability enhancement.

- In a UK study, HRD managers were twice as likely to rate management development as having high organisational impact where fast-track development was used (Thomson *et al.*, 2001). Jones and Whitmore (1995) found those engaging in the personal developmental activities recommended by the development centre were more likely to advance in the organisation than a comparator group who were not selected.
- Research on adult learning tells us that development is likely to be more enduring and effective when certain features are in place: these include the timeliness and relevance of the training, opportunities for learning transfer, mechanisms for review and feedback and reward and recognition for any behaviour/attitude modification (Tamkin and Barber, 1997)

### **Does capability necessarily lead to performance?**

It may be that we should not expect to find research that demonstrates a simple link between management and leadership development, capability, individual performance and organisational performance. There are several other factors that are likely to intervene in this relationship.

### **Management and leadership development, and organisation performance**

Published studies on the benefits of development programmes on performance are relatively rare.

- A management-training programme provided by British Telecom was claimed to have saved the company £270 million.

This figure was an estimate made by managers of the value of errors made by untrained junior managers, and waste caused by missed deadlines, customer complaints *etc.* Performance improvements were examined following each training course. (Lee, Coaley and Beard, 1993)

- Winterton and Winterton (1996) in an in-depth analysis of 16 UK organisations, looked at the impact of competence-based management development activity on performance. They found a statistically significant relationship between competence-based HRD systems and business performance, especially where the management development activity was linked to business strategy. Although a frequently quoted example, this was a comparatively small-scale study.
- DTZ (1998) examined 127 firms that were using TEC (Training and Enterprise Council) related management development activity. 63 per cent of firms could identify an impact of this development on business performance (*eg* improved morale, improved response times and greater flexibility, and improvements in quality) leading to greater customer loyalty or new business.
- In a UK study of management training (Mabey and Thomson, 2000), it was found that positive outcomes could largely be attributed to the way an organisation made its policy choices concerning the setting up and running of management training and development processes.
- Thompson (2000) found that company performance in over 600 aerospace establishments was not related at all to total management development spend, but high performing firms spent more of their management development budget on people management skills (27 per cent of spend) than low performing firms (9 per cent of their spend).
- Mabey and Ramirez (2003) have led an EC funded research project analyzing management development in six European countries. Findings indicate that 25 per cent of variance in organisational performance is explained by three factors: a strategic approach to HRM, a long-term, proactive and strategic approach to management development and, on the part of line managers, a belief that their employer takes management development seriously. Further analysis on a sub sample of companies where financial data was available found a modest but significant amount of variance (15 per cent) in firm productivity was explained by line managers reporting positively on their employer's management development strategy.

Few studies have taken leadership, as opposed to management, development as their focus.

- Barling *et al.* (1996) conducted a study on the effects of transformational leadership training in one region of a large

Canadian bank. Significantly positive impacts were found for those participating in the training when measured by subordinate perceptions of their leadership, subordinate ratings of their own organisational commitment and two aspects of branch level financial performance.

- In a study of the state of leadership in UK organisations, Horne and Stedman Jones (2001) concluded that where systematic implementation of leadership development did exist, this related strongly to the perceived quality of leadership in that organisation and organisational performance.

## **Wider HRM and organisation performance**

There is a large and increasingly coherent body of data on the link between HRM practices more widely and organisational performance. Whilst much of this does not look at management capability directly, the skill of application of people management practices is inevitably an important element, positive HRM practices rely on good quality managers for their delivery. This argument is especially important in some of the most recent research (eg Purcell *et al.*, 2003) which emphasises the quality of implementation of HRM.

For an excellent review of all but the most recent of these studies, see Richardson and Thompson (1999).

### **'High performance' HR practices**

The key early studies of HRM and performance were mostly American and looked at whether certain 'high performance', or 'progressive' work practices were associated with higher organisational performance.

- Huselid (1995) examined 13 measures of HR practices for both managerial and non-managerial staff in over 900 firms. The practices selected were so-called 'high performance' work practices. Firms employing these practices registered significantly lower staff turnover, higher staff productivity and better financial performance over both the short- and long-term than those firms which did not adopt the 'high performance' practices.
- Another wide ranging study, this time of 590 firms in the US adopting 'progressive' HRM practices, including selectivity in staffing, training and incentive compensation found these practices related positively to perceptual measures of organisational performance. (Delaney and Huselid, 1996)
- Pfeffer (1994) identified five top-performing US firms between 1972-92 based on percentage of stock returns. These companies were characterised by 'high commitment' work practices. Pfeffer claimed that people management practices



were enduring sources of competitive advantage (Pfeffer, 1998).

## Contingency models of HRM

Other researchers have become more interested in the idea that the range of HRM practices which will affect performance depends on the type of business and HR strategies being adopted. The tend to distinguish between 'low skill' strategies that rely on cost reduction and 'high skill' strategies that focus on quality, variety or service. The empirical evidence here is interesting but less substantial than for the universal 'best practice' approach.

- A longitudinal study of 388 manufacturing organisations in Florida collected data about the age, sales, export performance, life-cycle stage and markets of each organisation, and asked each CEO to judge the degree to which the human resource strategy of his or her company supported international activities (Gomez-Meija, 1988). It was found that the *most significant predictor of success* in exports, was the human resource strategy of the organisations sampled.
- Youndt *et al.* (1996), in a study of manufacturing plants, found HR practices aimed at enhancing the employee skill base to have the largest impact on productivity in those plants pursuing a quality rather than cost strategy.
- Arthur (1994) studied the business performance of U.S. Steel mini-mills. The HR strategies were characterised as 'commitment systems' where attempts were made to shape employee behaviours and attitudes by forging links between organisational and employee goals, or 'control systems' where the goal of HR was to reduce direct labour costs, or improve efficiency by compliance with specified rules and procedures and by basing employee rewards on measurable output criteria. The mills with higher commitment systems had higher productivity, lower scrap rates and lower employee turnover than those with control systems.
- Delery and Doty (1996) found the financial performance of those banks adopting three HR practices, namely profit-sharing, results-oriented appraisals and employment security, was 30 per cent better than the average across 219 banks.

In the UK, the body of evidence on the link between HRM and organisational performance is also growing.

- Patterson *et al.* (1997) in a longitudinal study of manufacturing companies in the UK, grouped training with other practices affecting the acquisition and development of skills. This group of HR practices were found to have a strong influence on productivity (18 per cent of variations in productivity and 19 per cent in profitability).

- Fox and McLeay (1991) examined various HR practices and found a clear positive relationship between financial performance and the degree of integration between corporate strategy and the human resource management functions *in practice*.
- Thompson (2000) in the UK aerospace industry showed that firms increasing their use of high performance work practices between 1997 and 1999 recorded increases in value-added per employee of from 20 to 34 per cent. Both the number of practices and the proportion of employees covered by practices differentiated between more and less successful firms.
- Most recently, Purcell *et al.* (2003) have used a more in-depth case study approach to try and shed light on the HRM-performance link. They have explored a range of strategic HR elements. The case studies show strong association between employee attitudes, employee views on the quality of HR management applied to them and store performance. The study also showed that the number and extent of HR practices was less important than the effectiveness of their implementation.

There appears to be an emerging consensus that there are a number of broad approaches to HRM that can bring performance benefits to most organisations. These include policies designed to build employee commitment to the organisation, and to acquire, build and retain employee knowledge and skills. However, the way in which these broad approaches are most successfully applied is likely to be contingent on the environment, strategic orientation, operational characteristics and history of each organisation. It is the application of HR processes rather than the policy intention which appears the crucial differentiator.

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