

# Productivity...

...'What's HR got to do with it  
OR

...Does investing in staff and HR pay off?

...What tools and techniques have an impact?

---

Duncan Brown, Head of HR Consultancy, IES



**ies**

institute for  
employment  
studies

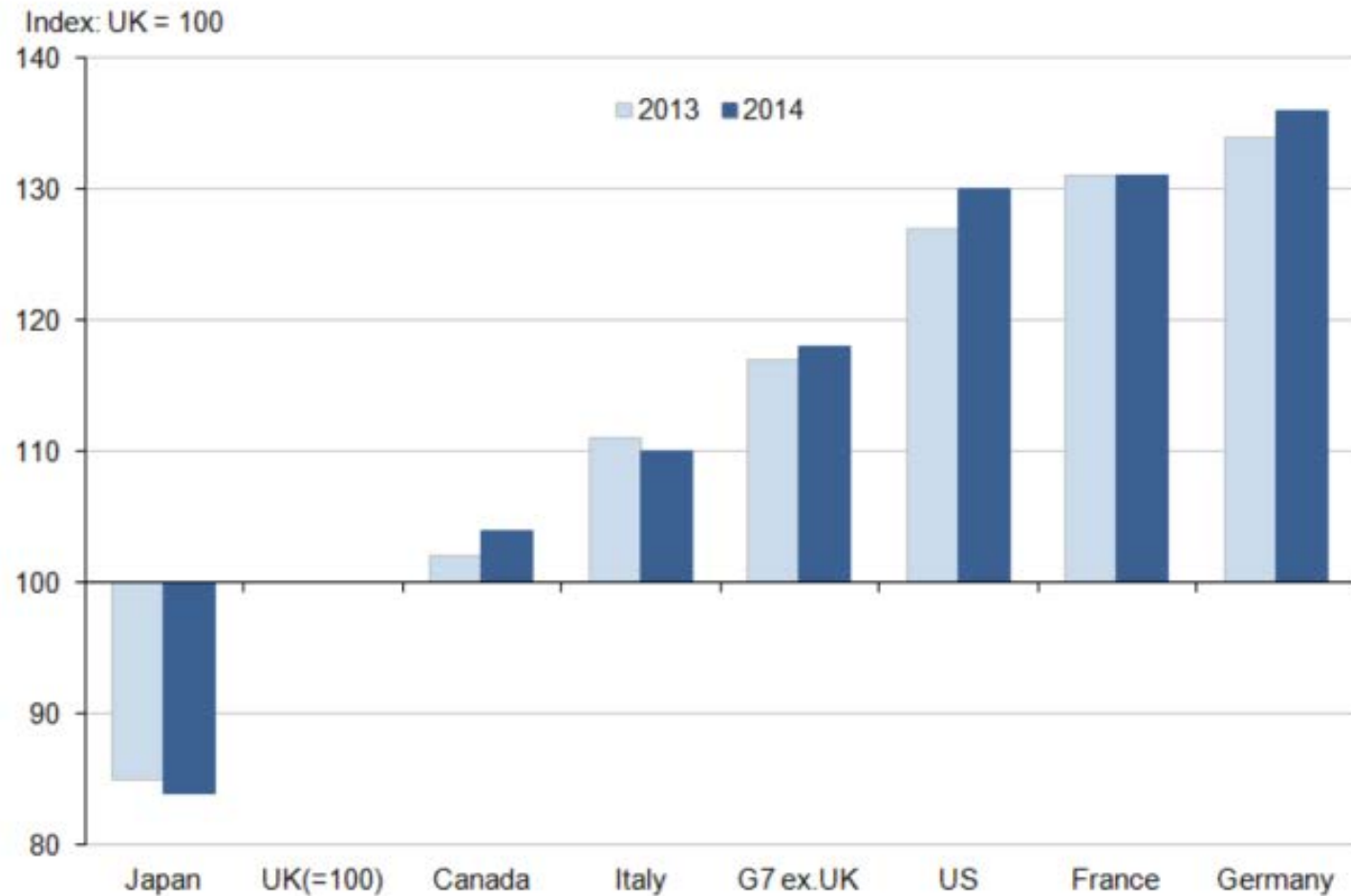
# Our agenda

- What's the issue: Is productivity our priority?
- Employee engagement: critical to productivity recovery; or outdated faddism?
- Pay, incentives and total rewards: productivity or cost driven?
- Diversity and Inclusion
- Performance management
- Conclusions

# Context: UK low productivity

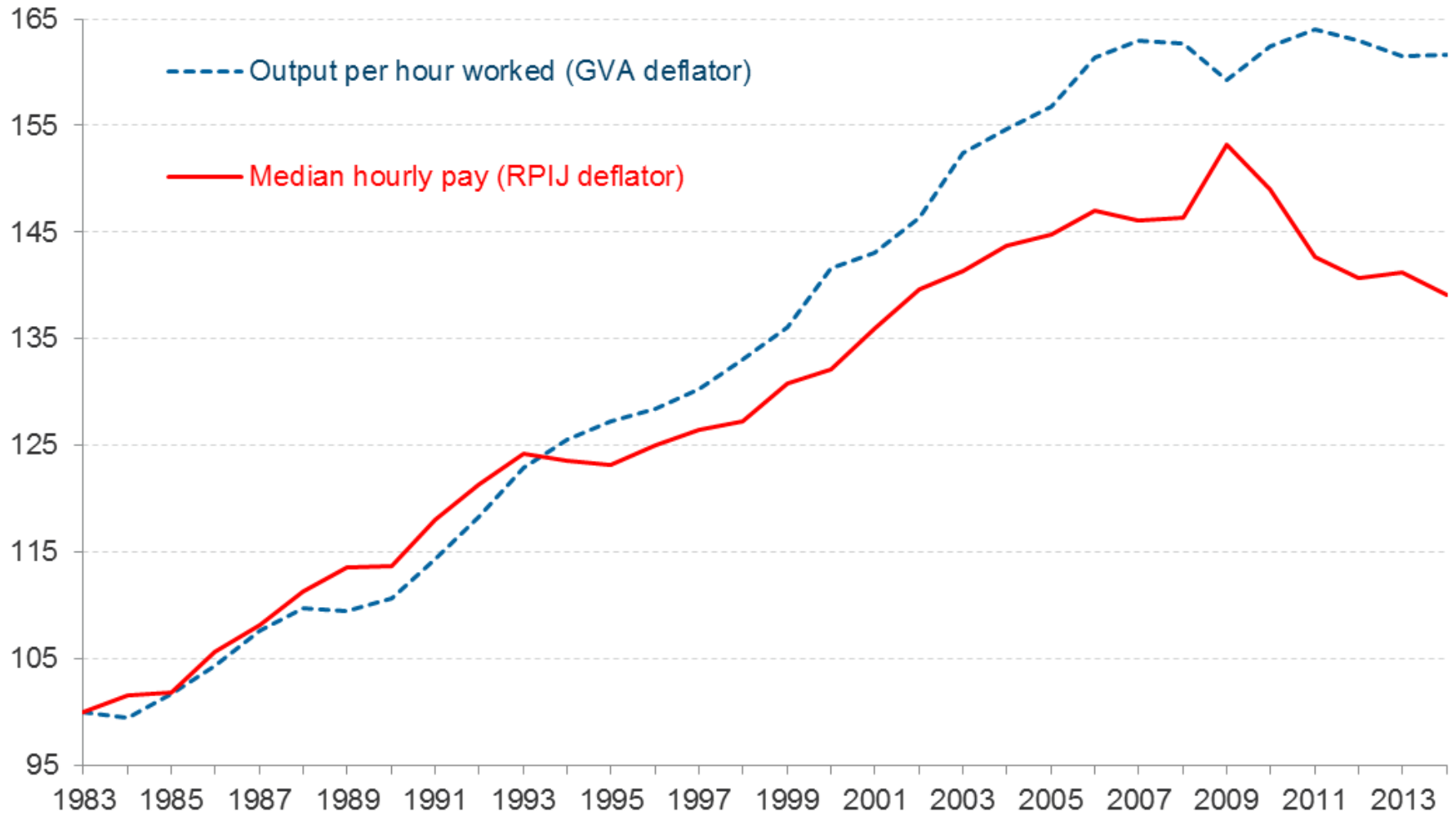
**Figure 1: GDP per hour worked, G7 countries**

2013 and 2014

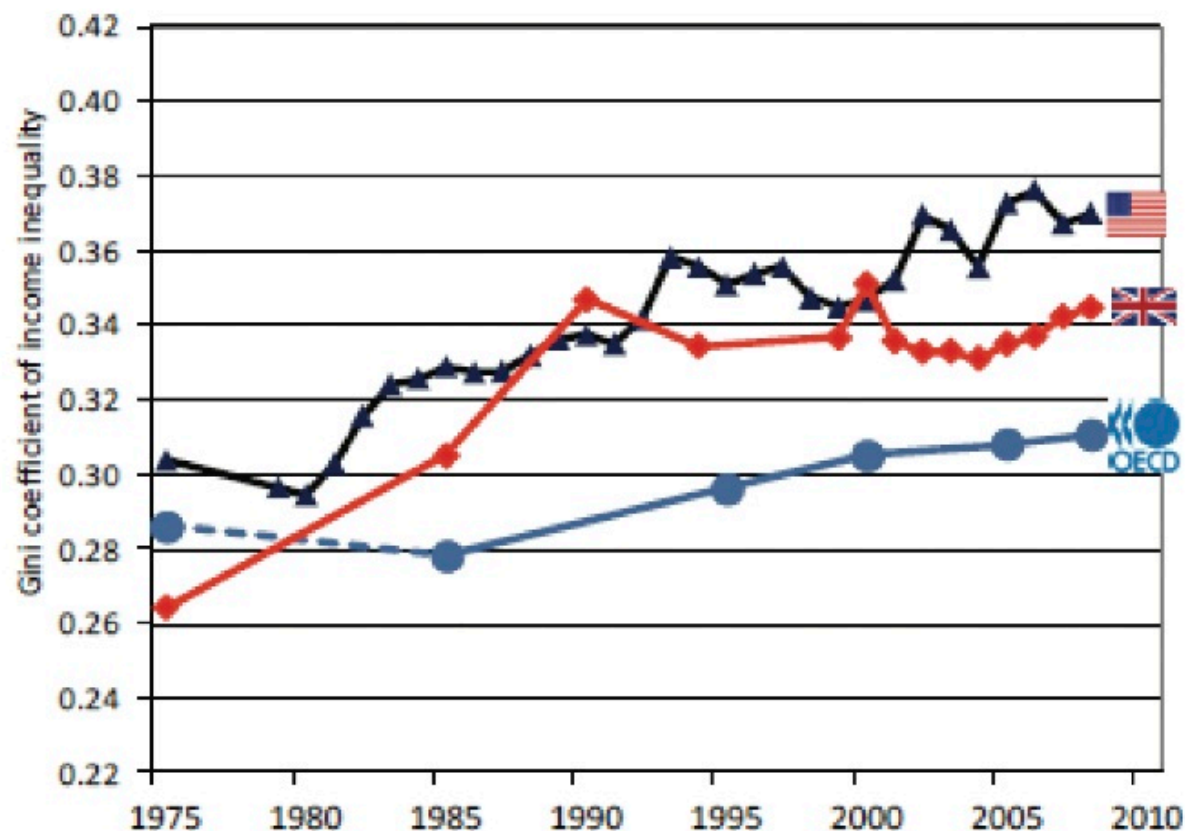


# UK: low productivity, even lower pay

*Indices of real-terms productivity and pay: 1983 = 100*



# But growing inequality

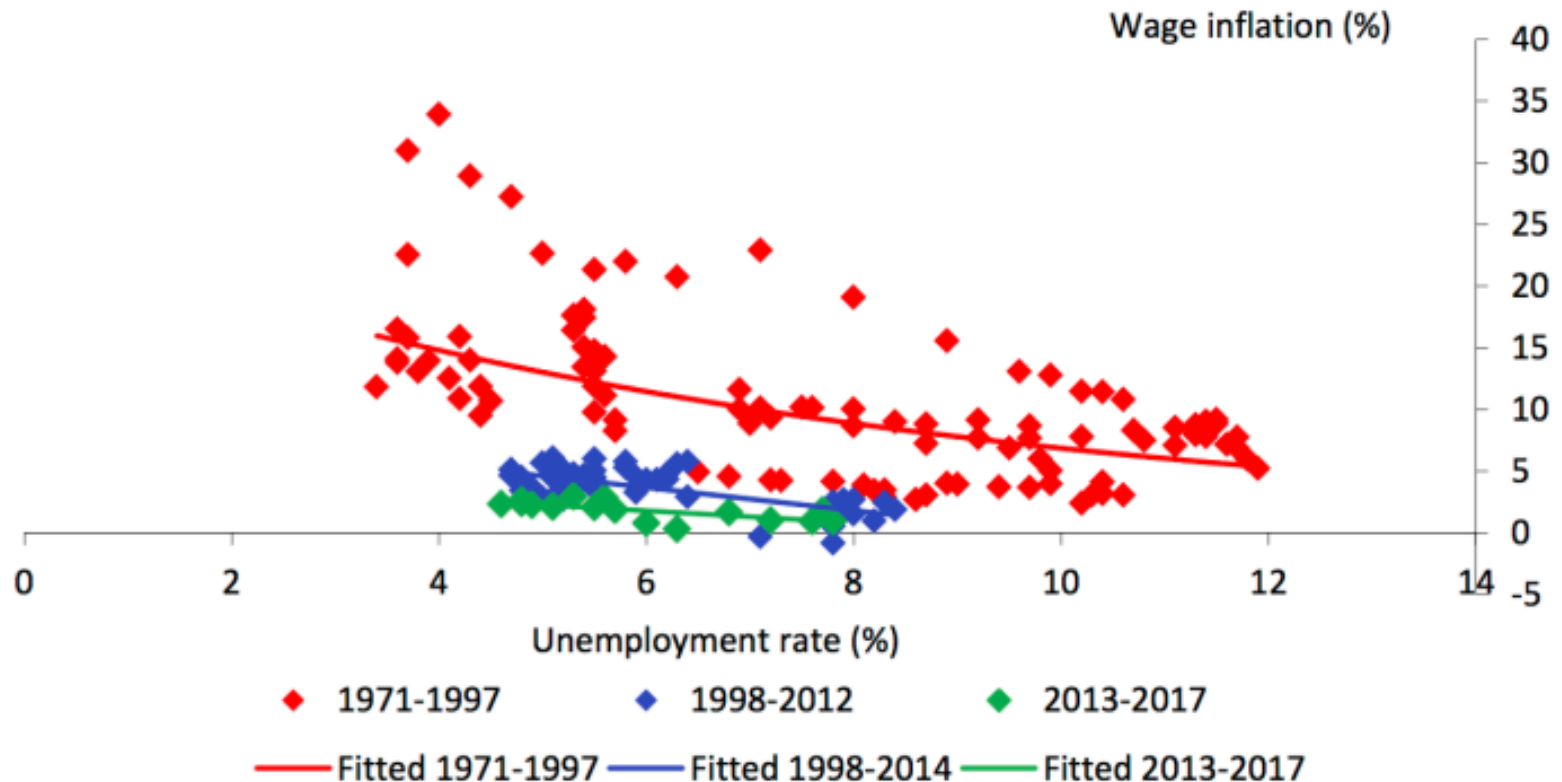


**Figure 1. Trends in inequality of disposable income**

Source: OECD 2011. 'Divided We Stand: Why Inequality Keeps Rising'

# Traditional relationship of earnings growth and unemployment broken down

Chart 3: UK Phillips curve



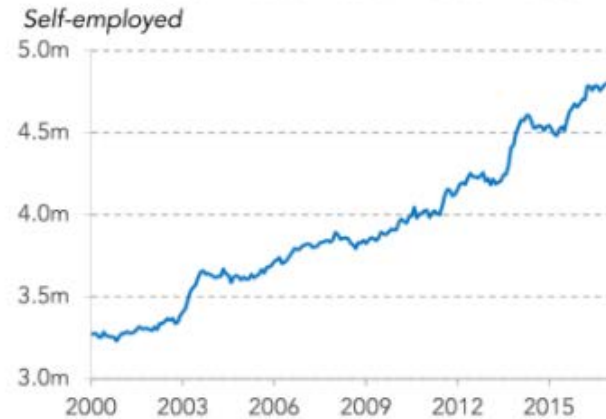
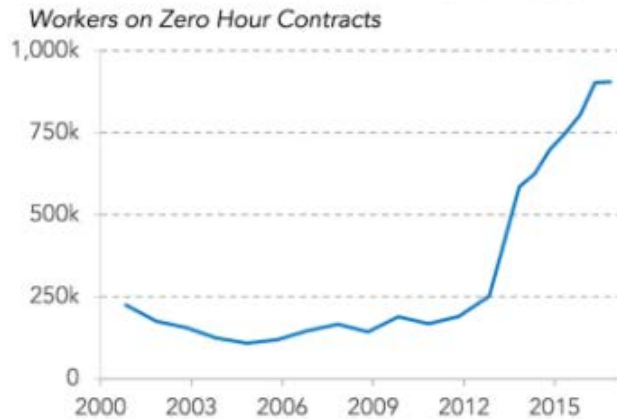
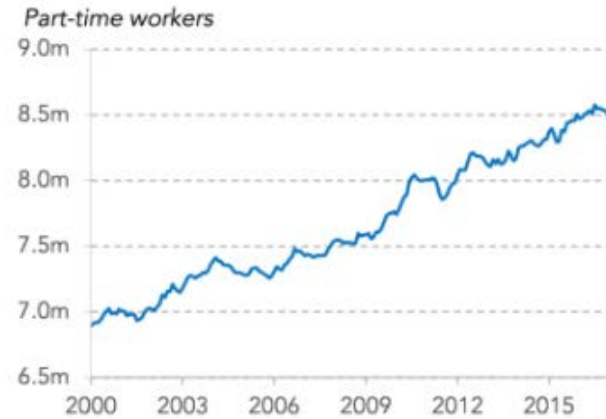
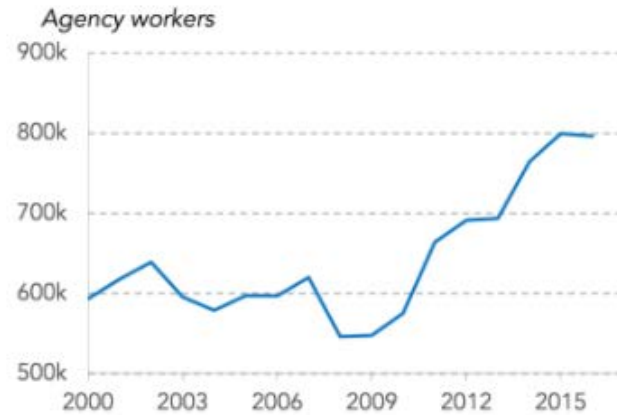
Sources: ONS and Bank of England calculations.

Notes: Wage inflation refers to annual whole economy total pay growth.

# Employers have cut investments in skills and training: the low cost road?



# Too flexible in employment models?



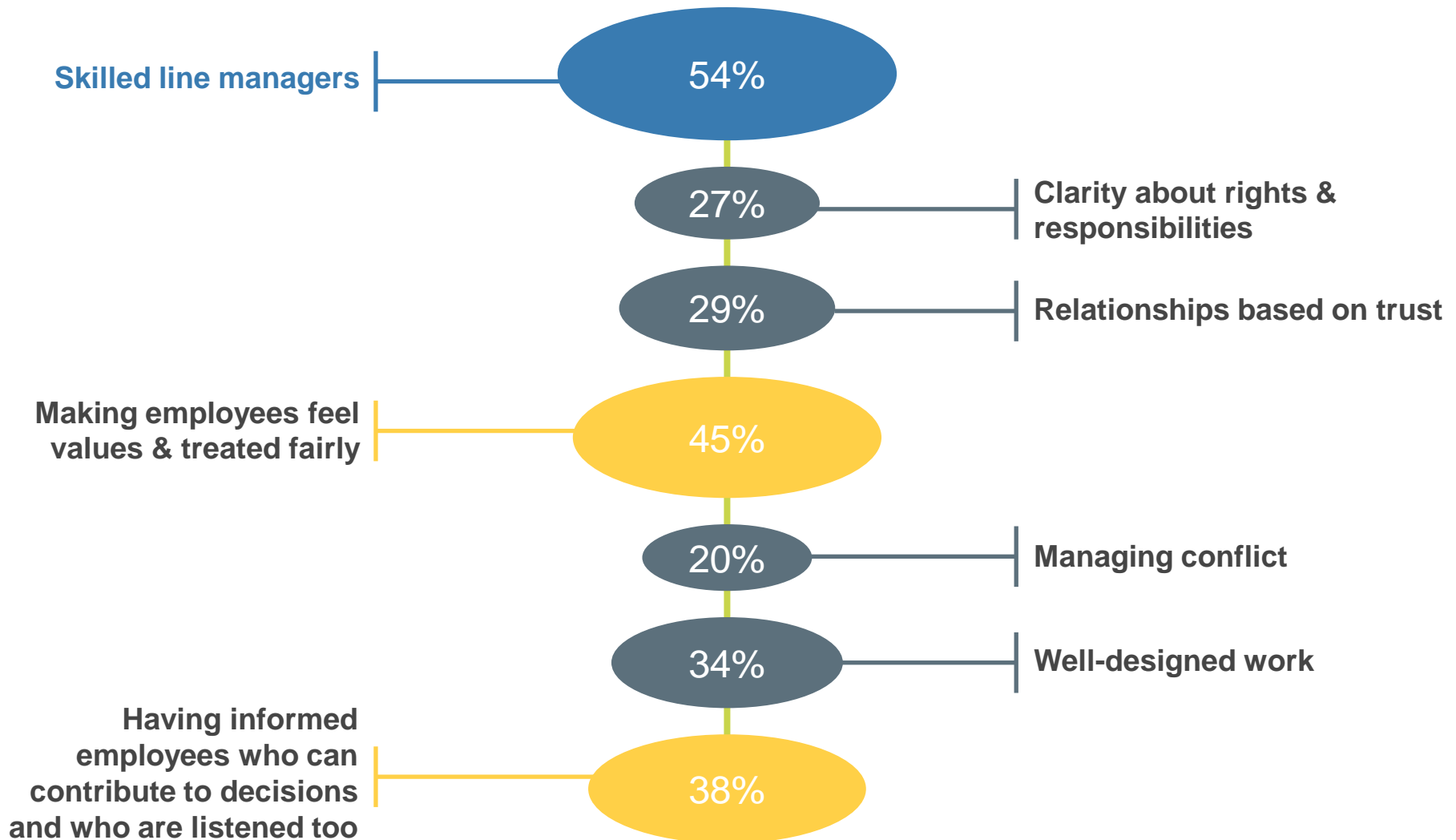


**Is this at the heart of the UK's low productivity?**

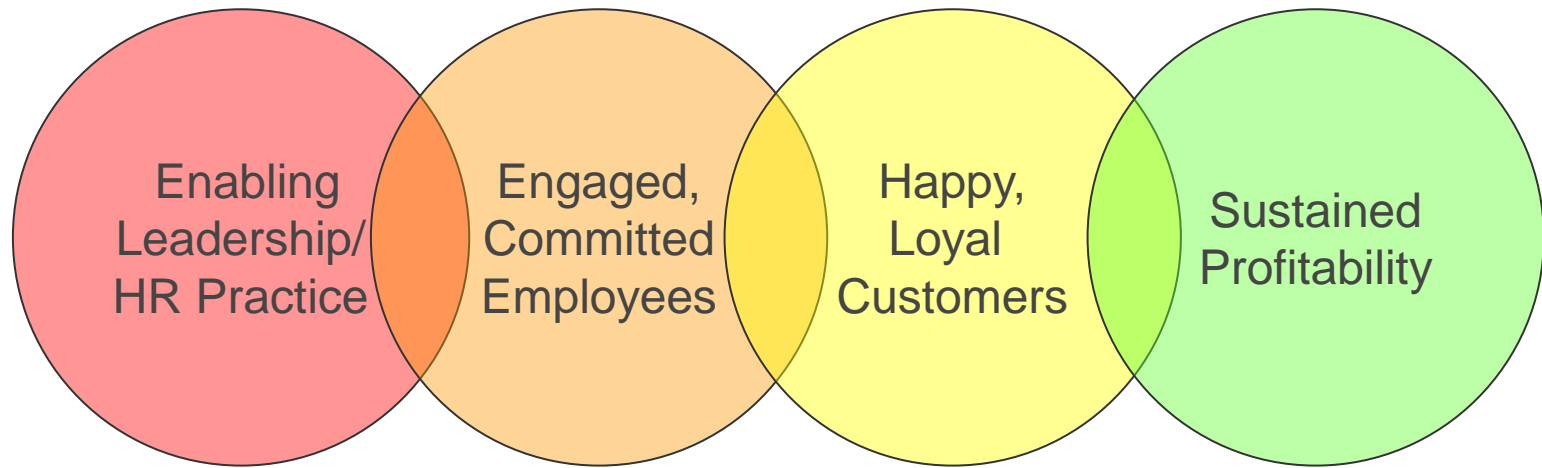
**What is HR focusing on at the moment?**

# How can we impact on productivity?

Figure 2: In your opinion, which areas should your organisation focus on to further improve productivity?  
(Results re included as a percentage of respondents)

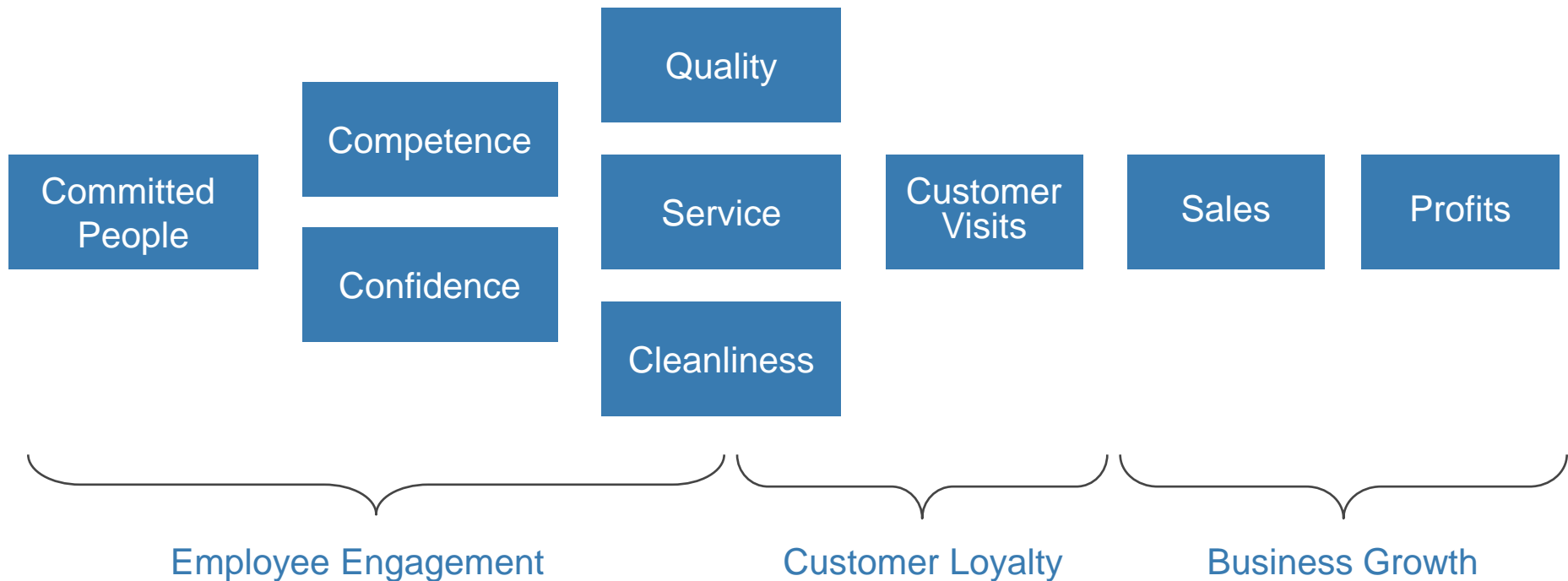


# Engagement: Research shows strong correlations between elements of the Service Profit Chain



- “***The Service Profit Chain***” [Heskett, Sasser & Schlesinger (1997)] identified a number of top companies who exploited a clear link between engaged employees and loyal customers to achieve sustained, market-beating profitability;
- **Gallup** in ‘Managing your Human Sigma’ identified that teams with high employee and customer engagement were **2.4** times more likely to be top performers than teams where engagement was not high;
- **The Corporate Leadership Council** in a study across its 200 member organisations identified engaged employees delivered a **20%** performance premium over those not engaged.

# McDonald's People Profit Chain



# Organisational benefits delivered by engagement in research studies

- Improved customer service
- Lower staff turnover
- Better attendance
- Improved safety
- Beneficial behaviours
  - taking initiative
  - wanting to develop
  - organisationally aligned
- Higher productivity
- Improved customer service

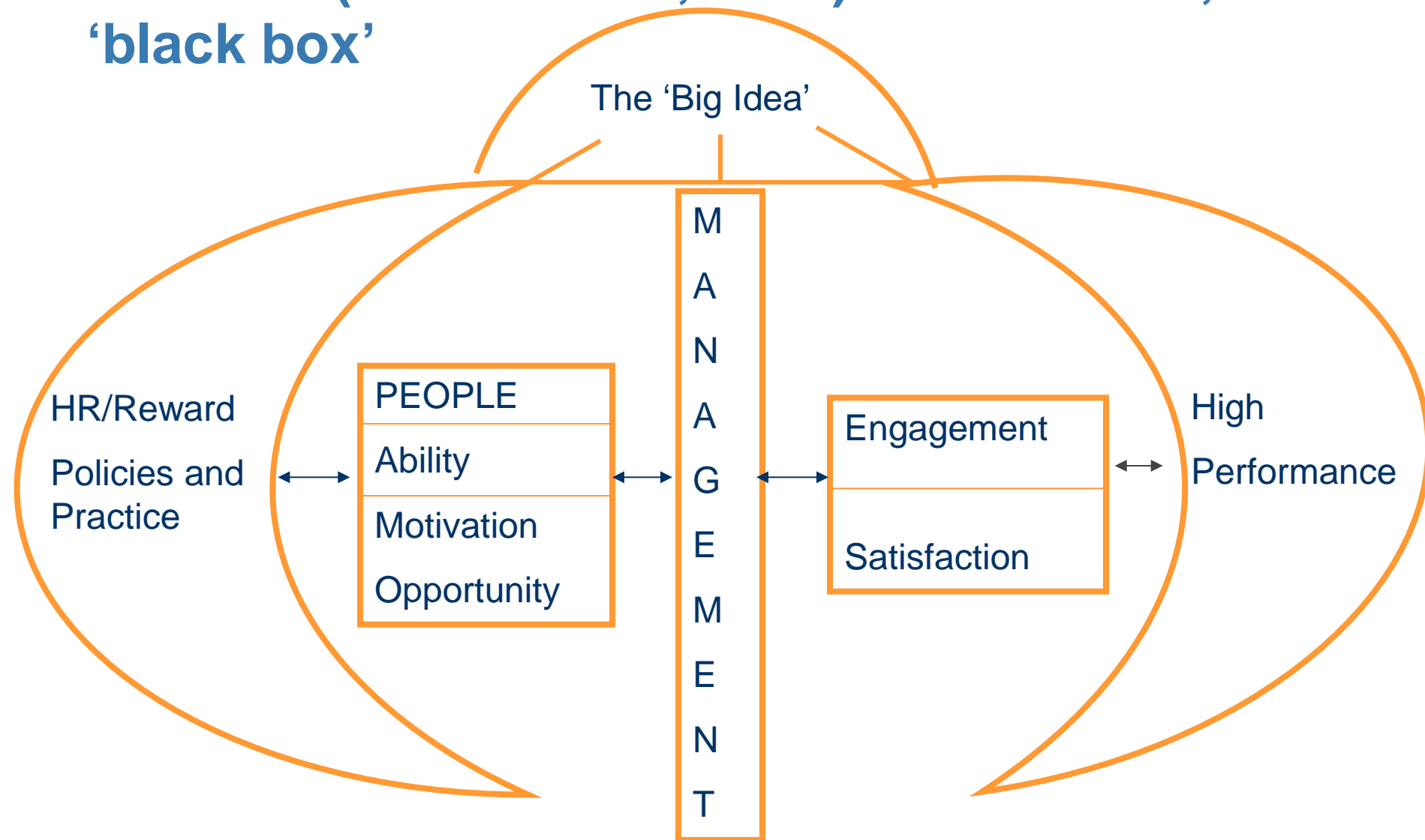


Inputs



Outputs

# Research also indicates how the linkages are manifest (after Purcell, 2003): the 'bundle', the 'black box'



# IES research in London trusts lay behind the NHS engagement model





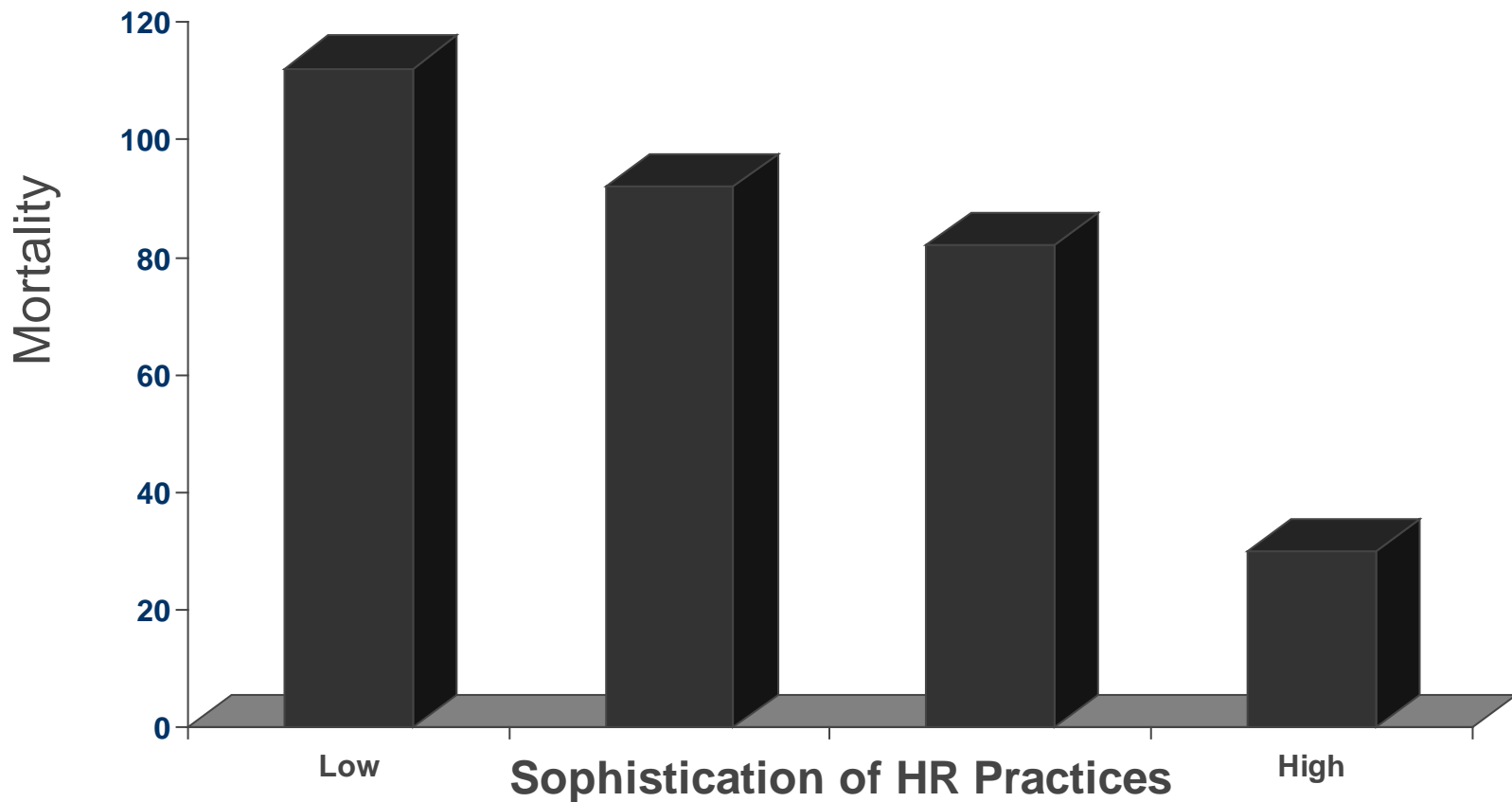
# The impact of high performance work practices in private sector



Source: FOW (N=297)

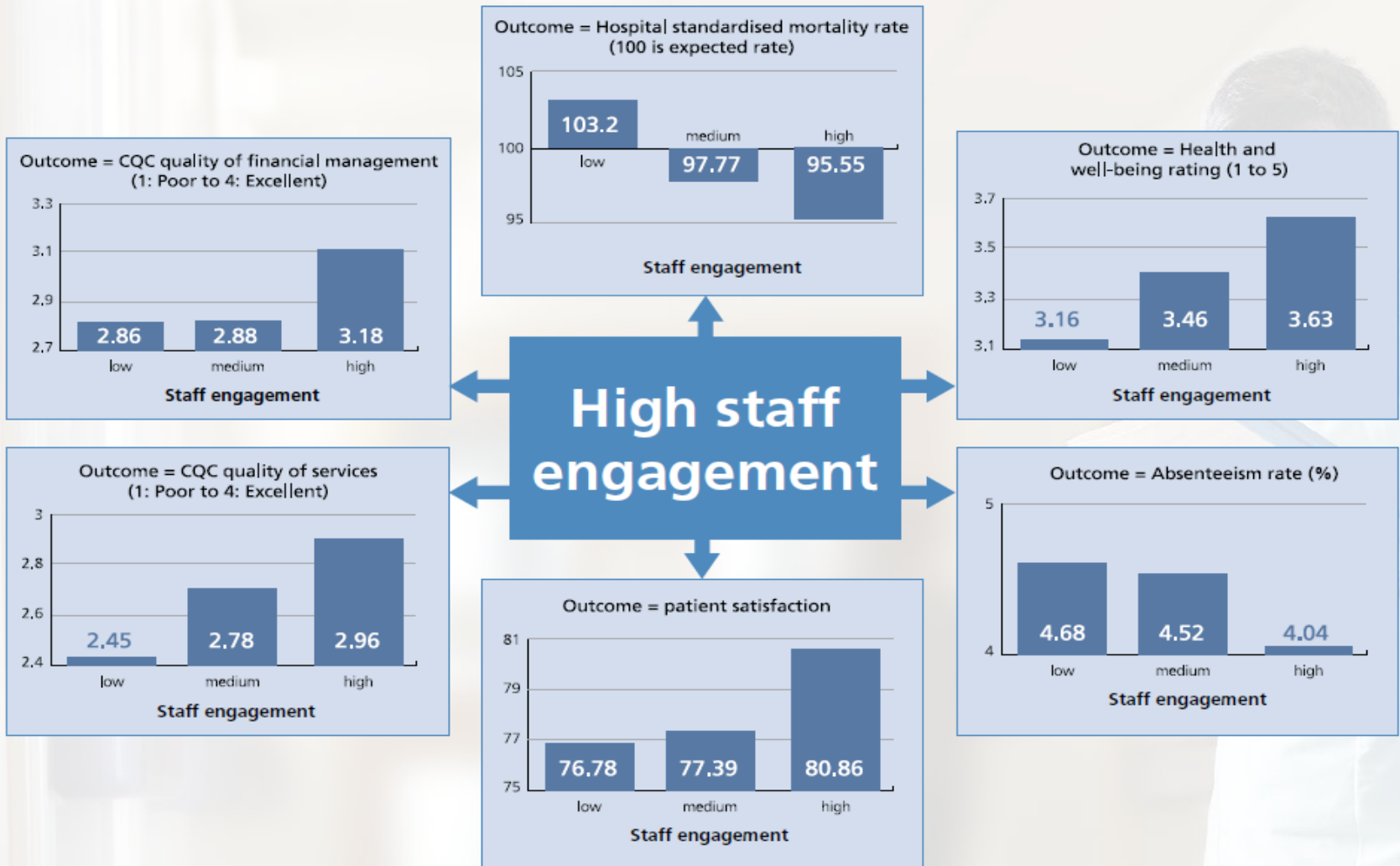
# The evidence that HR levers matter in public...

*“A hospital which appraises 20% more staff and trains 20% more appraisers is likely to have 1,090 fewer deaths per 100,000 admissions”*



Source: West et al, 2004. See also Combs et al, 2006

# The impact of engagement in the NHS



# IES conclusions on leveraging engagement to improve NHS performance

*“The evidence gathered makes clear that there is no ‘silver bullet’ that will result in employees being automatically engaged leading to performance benefits flowing throughout the NHS. High levels of employee engagement can deliver positive organisational benefits. Appropriate HR practices managed in combination can help to build and improve employee engagement and higher levels of performance are more likely to occur, particularly in customer service and care settings”.*

# High performance work practices highlighted by meta-analysis

- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"><li>• Task discretion</li><li>• Task variety</li><li>• Problem solving teams</li><li>• Descriptions</li><li>• Project teams</li><li>• Team briefings</li><li>• Suggestion scheme</li><li>• Staff survey</li></ul> | <ul style="list-style-type: none"><li>• Induction</li><li>• Work shadowing</li><li>• Off-the-job training</li><li>• On-the-job training</li><li>• Training plan</li><li>• Training budget</li><li>• Annual performance review</li><li>• Evaluation of training</li></ul> | <ul style="list-style-type: none"><li>• Organisational Performance-related pay</li><li>• Individual performance-related pay</li><li>• Formal employee consultation procedures</li><li>• Formal discipline and dismissal procedures</li><li>• Flexible benefits</li><li>• Flexible working</li><li>• Equal opportunity policy</li></ul> |
|---|--|--|

# Engagement?

## Engagement Question Agree/Strongly agree

▪ We work hard here to meet customer expectations	77%
▪ I respect my co-workers	73%
▪ I get a sense of accomplishment from my work	65%
▪ I have a good understanding of my department's goals	60%
▪ My manager provides the support I need	60%
▪ My future career opportunities here look good	35%
▪ There is an effective process to identify my development needs	32%
▪ I receive valuable career guidance	27%
▪ If the organisation does well I share in our financial success	43%
▪ This is one of the best places to work	38%
▪ I am paid fairly compared to outside	40%
▪ I am fairly paid for my contribution	39%
▪ I receive appropriate recognition	38%
▪ My performance has a significant impact on my pay	36%
▪ Reward and recognition are fair and transparent	28%
<b>Highly engaged</b>	<b>12%</b>
<b>Partly engaged</b>	<b>35%</b>

# Reward: have pay awards been too low? Why might you want to increase pay?

- Link to employee engagement, human capital and productivity
- Close the gender pay gap, boost talent pool and productivity
- Reduce inequality and sharing in success

BUT

- Do pay increases pay off?
- Can you/how can you get a return on the investment in employees' pay?
- Are particular reward strategies and practices associated with higher performance?

# Arguments for increasing low pay

*“We understand organisations are still struggling to provide general increases, but a company that does not work hard to retain its employees and invest in its people will find itself in a difficult situation” Chartered Management Institute*

- Good for people

- Original human capital research (Schultz, 1961): investing in education pays off

- Good for countries

- 18 US states increased their minimum wage above the federal level in 2015, adding \$360 million to GDP and creating 3,000 new jobs

- Good for society

- JRF Study: growing proportion of child poverty amongst employed families: even in care sector, low pay is employer choice, not economic necessity
- IHG adopted the London Living Wage in May 2012, phased increases to over 800 employees of nearly £5,000

*“Not only does this foster a loyal and hardworking workforce, it can lift people out of poverty, give a proper reward for their labour”.*

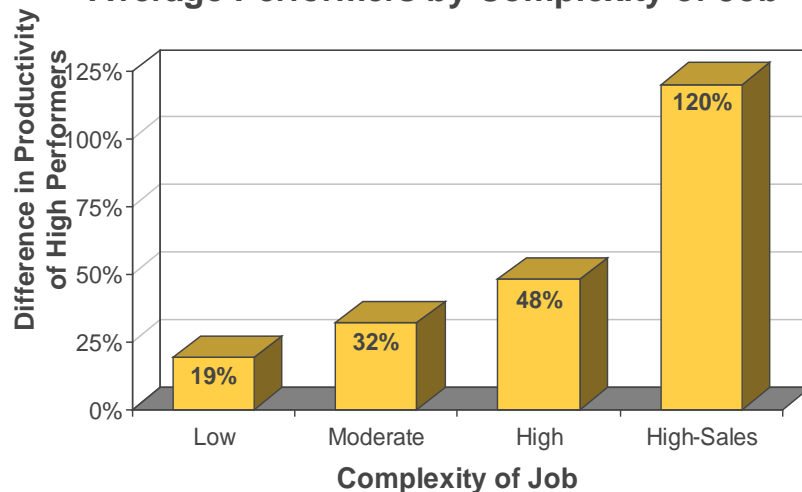


# We know that higher-skilled jobs can add more value to the employer

**Profits Realised if One Employee Moves from Average to High Performance**

Job Complexity	Avg. Base, Bonus + Benefits (000's)	Profitability Gain/ Headcount Reduction	\$ Saved (000's)	\$ Spent (000's)	Net Profit per Top EE (000's)
Low	\$53.7	19%	\$10.2	(\$4.3)	\$5.9
Moderate	\$96.4	32%	\$30.9	(\$11.6)	\$19.3
High	\$173.5	48%	\$83.3	(\$27.8)	\$55.5
High—Sales	\$175.8	120%	\$211.0	(\$34.8)	\$176.2

**Difference in Productivity of High vs. Average Performers by Complexity of Job**



One technology company's recent projections

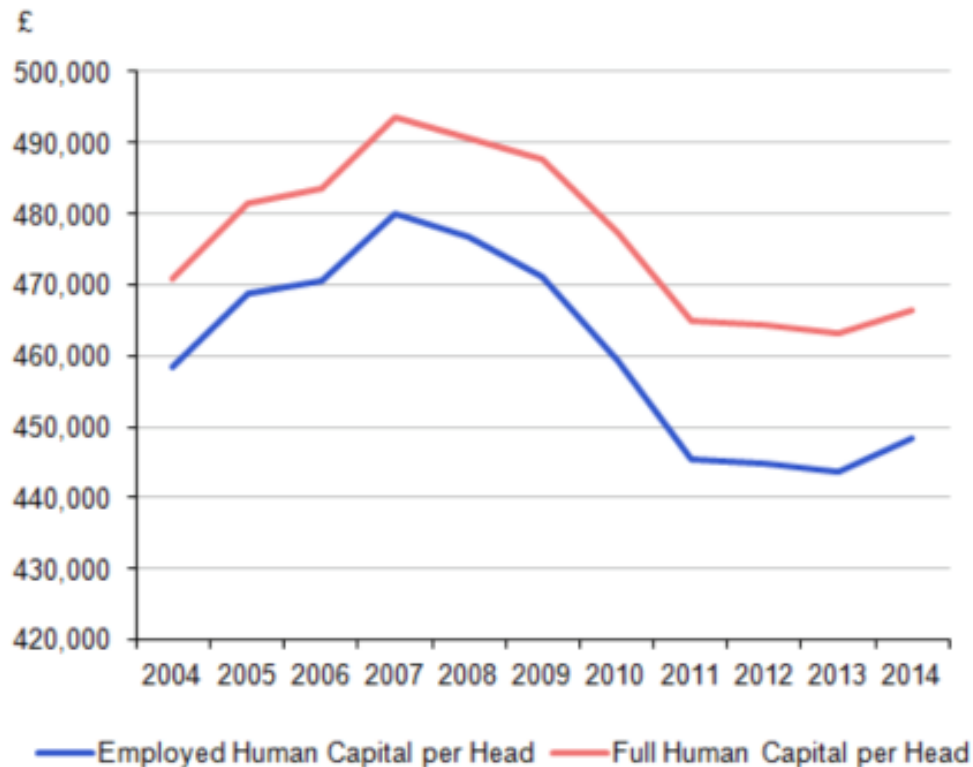
See J.E. Hunter, et al., "Individual Differences in Output Variability as a Function of Job Complexity," *Journal of Applied Psychology*, 1990

**UK: lots of low skill, low pay jobs**

# The UK is not investing enough in its workforce to stay competitive

**Figure 2: Employed and full human capital per head (working age population), 2004 to 2014**

UK



Source: Annual Population Survey (APS) - Office for National Statistics

# **A growth in skills/competency pay approaches**

# Skills and competency-based pay

“Skill is nothing, a mere hoard of gold, til it is set to work” Troilus and Cressida

- Around since the 1930's
- Originally used in manufacturing to upskill and multi-skill
- Revival in customer service and admin processing roles
- Forms:
  - Skill blocks and progression steps
  - Additional grades and career progression
  - Pay increases based on 'how's' and 'what's' (professional jobs)
- Research record
  - Associated with higher productivity (Lawler, 1986, Ledford 1998)
  - Popular with employees

# A reversal of delayering & broadbanding?

## New grade structure in one retailer

“The potential for upward mobility in many UK employers has been diminished ..cost pressures have created two-tier workforces”  
John Philpott, 2015

Management	Specialist
Supervisor	
	Technical Adviser 2
Senior Adviser	Technical Adviser 1
Adviser II (3 steps/rates)	
Adviser 1	

“This year, Waitrose introduced a new product specialist role in Fruit, Vegetables & Flowers, with an accredited Level 3 qualification from City & Guilds. 500 Partners completed the learning for the new specialist role”.

# PRP and Bonus Schemes: do they work?

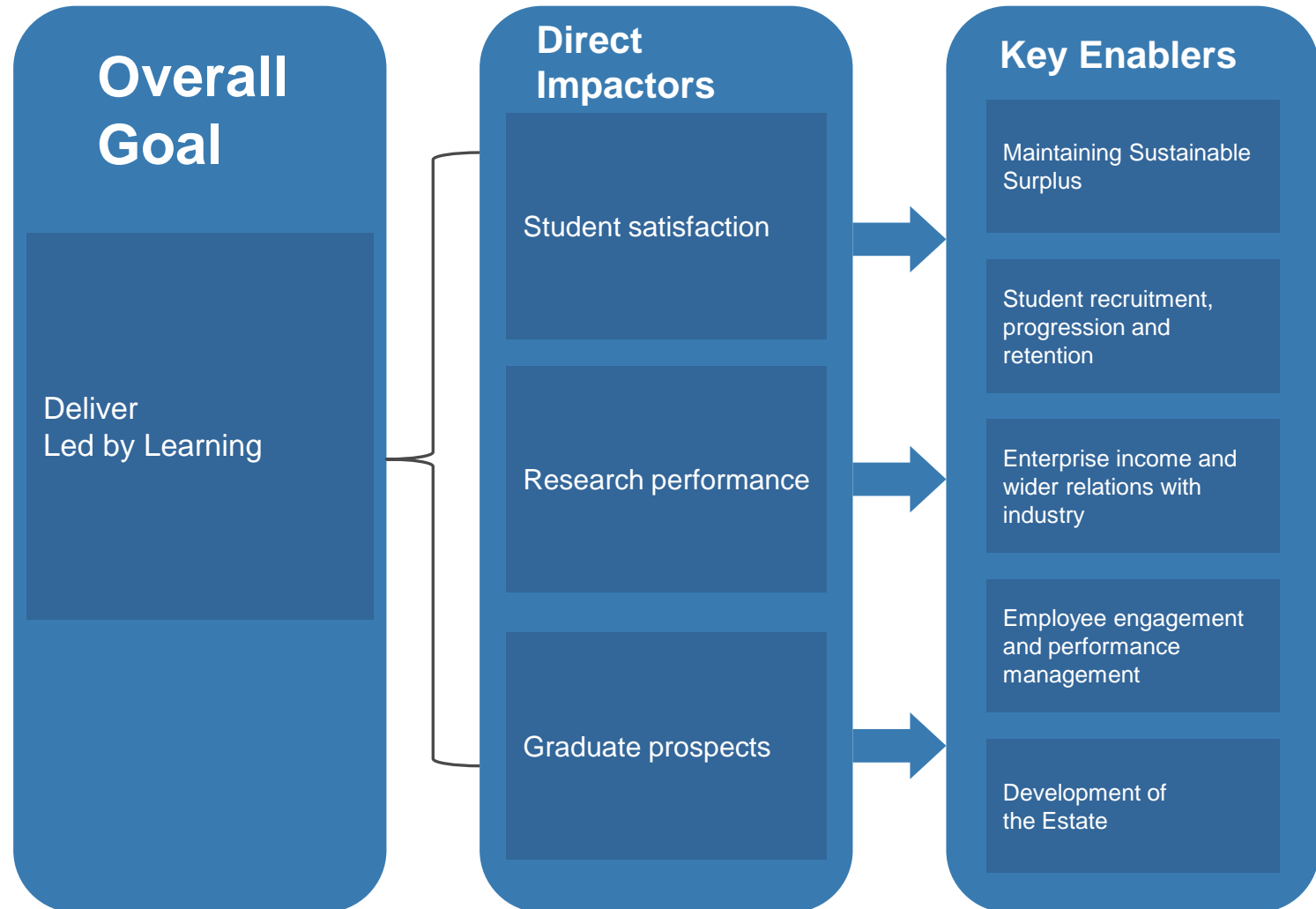
- There is evidence that high performing companies make greater use of performance pay, for example from the major WERS study (1999).
- Research also suggests that profit sharing & share schemes are associated with high organisation performance, 'the John Lewis model'.
- The evidence on executive bonus plans is much more contradictory, with the majority suggesting only weak associations at best between executive pay levels and institution performance.
- The SSRB summarised common problems with PRP in the public sector as being:
  - Poor performance management and objective setting;
  - An unclear justification and rationale;
  - The small size of opportunities and payments.
- Burgess and Metcalfe's(2007) review of PRP in the public sector paints a mixed picture, with evidence that incentives have positively affected behaviour and performance in some settings, including education and health, but points to difficulties in alignment.
- There is also evidence that knowledge workers prefer pay to be based on performance, and that the public also believe that it should be based on performance.
- Armstrong and Brown (2010) conclude there is no universally successful PRP, no "best practice, only best fit".
- PRP's success is therefore highly situation-specific.

# Do stock/shares help or hinder?

- High performance working research generally finds employee financial participation is one of the basket of HR practices which is influential eg WERS
- Reasonable research record for all employee share plans eg HMRC Oxera papers, though studies strongly correlate effectiveness with employee communications and voice.
- Effects seem to be in terms of identification/alignment and incentive
- Chang et al: effects on patents, citations etc (controlling for R & D spend), via encouraging risk taking/acceptance of failure, encouraging long term commitment and teamwork, less from owner-interest alignment.
- Enhanced where:
  - Smaller firms and teams/less free-riding, (though broad-based plans)
  - Longer timescales
  - Lower starting level of stock ownership
  - Retention issues in the industry
  - Unionisation
- Links with customer service/innovation, loyalty and productivity eg Michie (2005)



# Focusing on strategic goals: a university success share



# Research shows that the total rewards environment creates the context for high engagement and productivity

## Culture/People Management

- Supportive supervisors
- Regular open feedback
- Team-working
- Involvement in decision-making
- Career development
- Work life balance

### Rewards

- Performance pay
- Variable pay
- Based on service/quality
- Single status
- Team rewards
- Recognition

- Brown and West's study of 22 service employers, including the public and charitable sectors, found strong links between the quality of management and financial and non-financial rewards, levels of employee engagement and customer/public service and financial performance

## Staff Attitudes/ Engagement

- Satisfaction with pay & recognition
- Treated fairly
- Feeling involved & developed
- Commitment

**Performance**

# Our total rewards research

- Confused terminology, difficult to isolate and research
- Big change in the environment: totally rewarding for most?
- Engagement linked with a range of positive outcomes in research eg attendance, safety, attrition etc
- HR and total reward practices linked to organisational performance and particularly turnover intention
- But research studies suggest
  - Highly situation specific, no one solution
  - About the interaction of financial and non-financial factors and not a single practice eg PRP and interaction of pay and workloads
- Fairness key driver of engagement
- Some studies support importance of benefits and choice
- Communications comes out as important need and failing
- Total reward statements come out positively from number of studies
- Employee recognition comes out as very important need and failing



# Diversity and inclusion policies: Any impact?

- McKinsey: worth \$28 trillion globally, £170 billion (PwC), 21% GDP in EU
- 'Time for a new gender equality playbook...glacial progress' McKinsey (2017)
- Iris Bohnet vs Dobbin and Kalev (2016), Warmington and Kline (2016) similar
- CIPD white paper: only 10% feel their policies are effective, a third of senior managers don't feel the gender pay gap is an issue, 32% unprepared for new reporting requirements

# Summarising the evidence

- There is a gender pay gap (though some deny)
- It has declined but got 'stuck'
- Last year's United Nations-backed International Women's Day was branded as '[Planet 50-50 by 2030](#)' The UK ranked at 30th out of the 33 countries in the OECD's female employment ranking.
- A variety of interacting economic, social and political factors help to explain this eg widening top to bottom differentials
- 'Progress will not be easy, it will require a collective sustained effort of various actors and will not be quick' (O'Reilly et al 2015)

<https://www.brighton.ac.uk/crome/events/cambridge-journal-of-economics-equal-pay.aspx>

<http://www.fillthegap.eu/pl>

<http://gw4.ac.uk/project/the-gw4-pay-equality-research-consortium-perc/>

<http://www.cardiff.ac.uk/research/explore/research-units/women-adding-value-to-the-economy-wave>

- Fairness matters to people
- There are 'rational' reasons that employers don't act on their gaps
- There are other reasons - pay decisions are socially mediated
- Progress requires multiple initiatives by multiple stakeholders over sustained periods



# Other researched factors/actions

- Flexible working:
  - New EU directive on WLB and support for parents and carers; and 44 MPs proposal to increase paternity leave (April 2017)
  - Germany Elterngeld allowance came in 2007, % fathers taking leave rose from 3% to 20%
  - My Family Care Survey: 2% take up by men – culture and pay barriers.
  - Association at the moment with lower earnings
- Recruitment:
  - Blind interviewing impact
  - Smaller gaps in female-led firms (Hensvik 2014)
  - Controlling pay setting reduces gaps (Menino, 2013)
- Education:
  - Girls taking 2 STEM subject 'A' levels had wages 33% higher (London Economics, 2015); employer training associated with 6% higher wages (Olsen, 2010)

# Boston: closing the wage gap

- 2012 initiative to eliminate 17% gender pay gap
- Voluntary city/state, employer and HE initiative
- Research highlights 9 primary causes
- 33 interventions for employers, HE and investors – feeding the pipeline, attracting/retaining/promoting
- Has resulted in a decline of c2%

# Case studies: Lewisham Council, the Power of Parity Study



- Lewisham Council has a long history of promoting female equality and actually has a negative pay gap
- IES research: So what worked?
- A consistent focus on the issue from the top over many years
- A long term 'grow your own' talent management and sourcing approach
- A values-based, culture-driven, pragmatic approach
- A consistent focus and approach over time with clear goals and priorities, but with flexibility and opportunism in practice
- Balance of informal activities (such as mentoring) and formal policies (such as flexible working and recruitment methods and monitoring), varying to suit over time.
- HR policies, monitoring through audits and quantitative data played an important enabling and supporting role throughout
- The inclusion of all aspects of diversity, not just gender

<http://www.employment-studies.co.uk/system/files/resources/files/lew0716.pdf>



# Performance management: lots of change



**Forbes**

**“The Performance Appraisal: A Workplace Evil That Must Be Destroyed Like a Blood Sucking Vampire”**

- July, 2012



**Microsoft**



**Adobe**

Rank & Yank

No formal performance management

**‘Controversial Civil Service performance management to stay until 2018 “at earliest” ...’**



**“Yes, Everyone Really Does Hate Performance Reviews”** *WSJ*, April, 2012

# Performance management: the overfull suitcase



# Why PM isn't working

- Unclear purpose and mode
  - HR process not linked to business goals
  - What does good look like (system or performance)
  - Improvement or assessment?
- Poor design
  - Overloaded – trying to hit too many requirements
  - Backward not forward looking
  - Dominated by a 'best practice' conventions (eg SMART objectives)
- Good idea badly implemented
  - Lack of line ownership & skill
  - Compliance not conversations
  - Complex, bureaucratic process

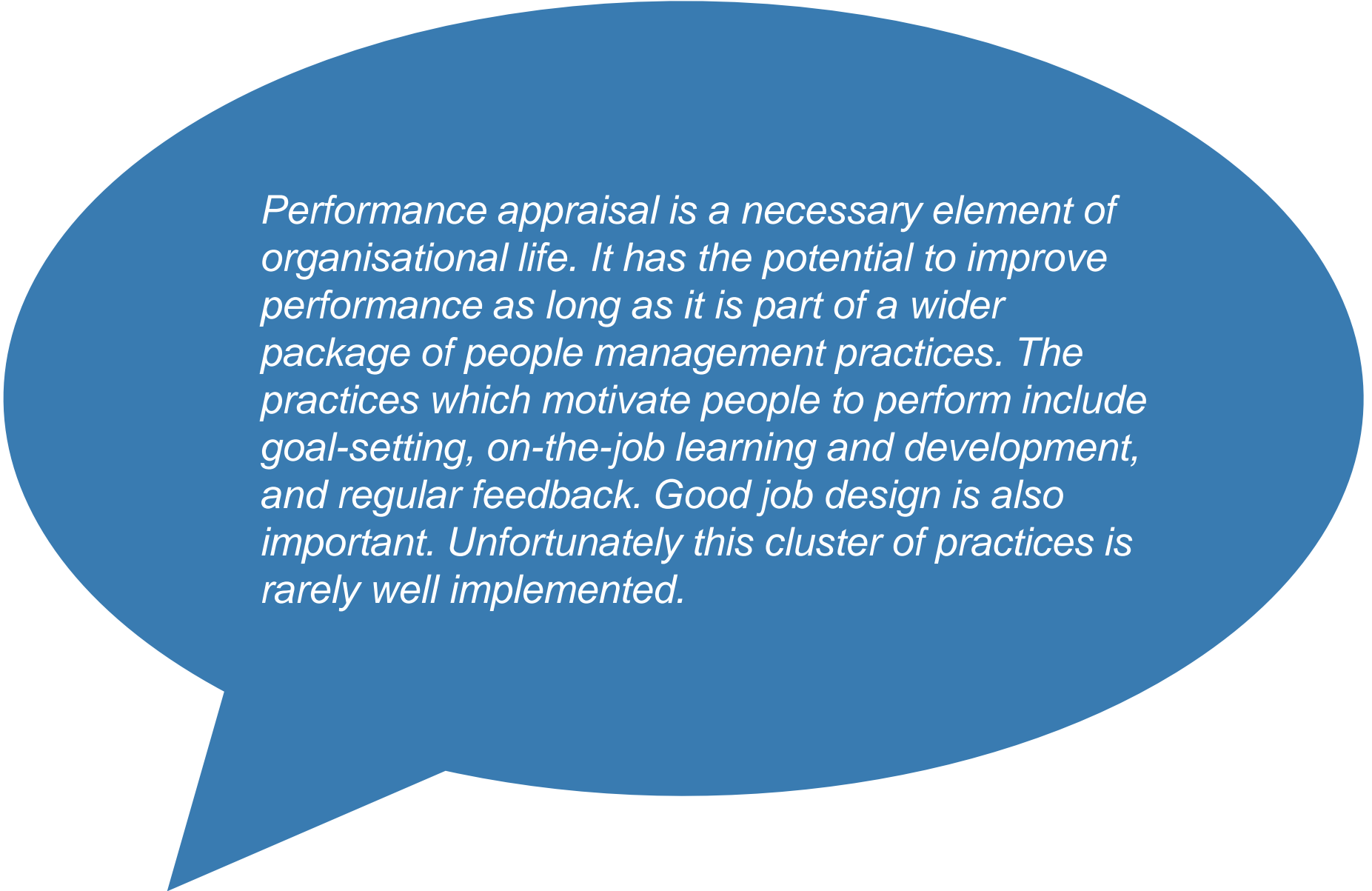
# Developments in performance management

## Challenges

- Corporate & personal goals are passing ships
- One model but different needs
- Ill judged competencies
- Unsafe conversations
- PRP not delivering
- Inaccurate ratings not reflecting performance
- Poor performance not addressed
- 360 inputs of varied validity
- Too high tech, too low touch
- Lack of job knowledge is inhibiting assessment quality

## Improvement/changes

- Golden thread
- Continuous not one-off process
- Positive psychology/strengths-based
- Underpinning values
- Multi-source feedback
- Removal of ratings
- Segmentation

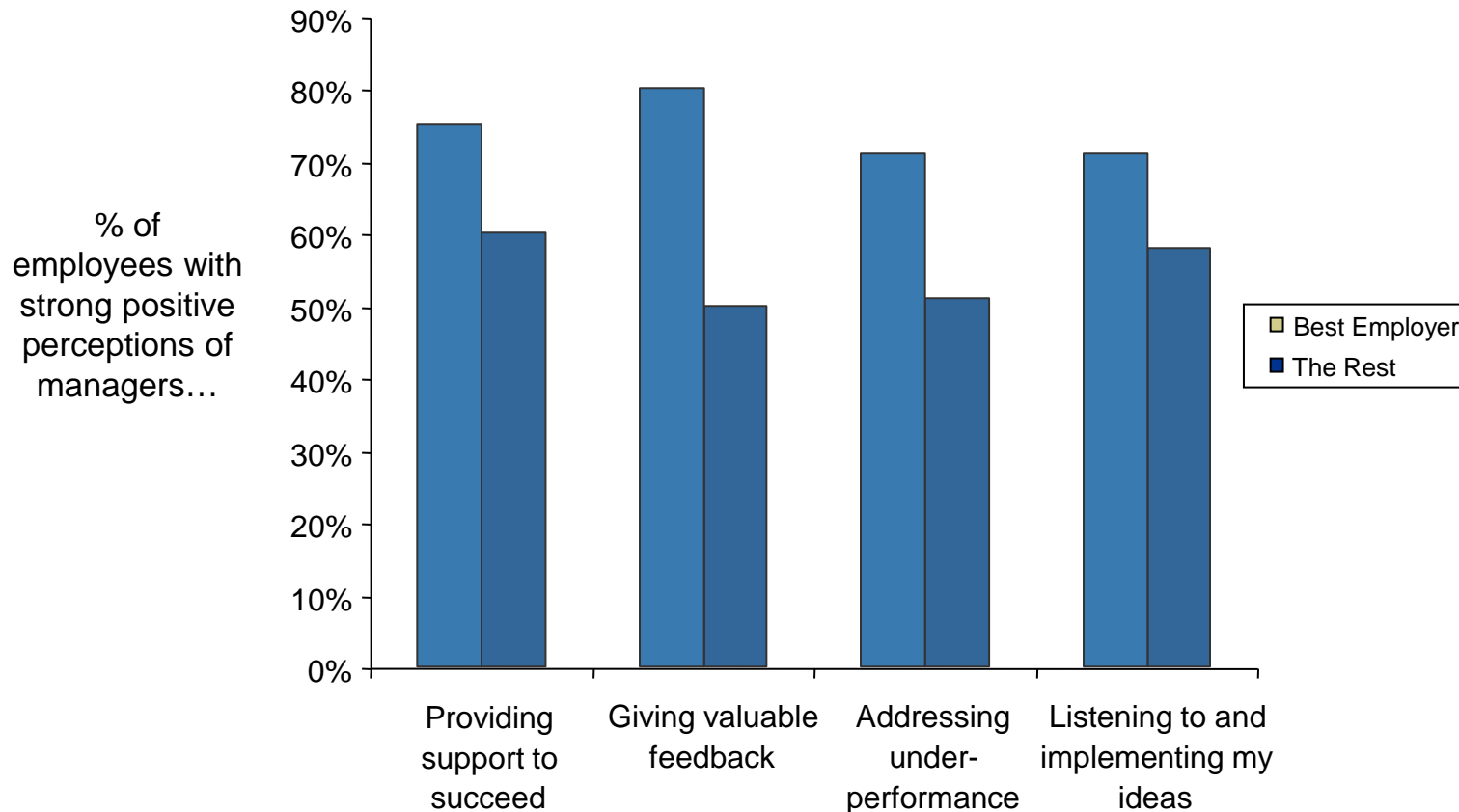


*Performance appraisal is a necessary element of organisational life. It has the potential to improve performance as long as it is part of a wider package of people management practices. The practices which motivate people to perform include goal-setting, on-the-job learning and development, and regular feedback. Good job design is also important. Unfortunately this cluster of practices is rarely well implemented.*

# Recognising line managers have the key role to play

*“The line manager is the lens through which I see the company and the company sees me”* Chris Bones (Engaging for Success 2009)

- The performance management ‘system’ is simply an information store about performance. Problems arise in how managers carry out their responsibility.
- Effective line managers use PM to boost employee engagement



# Conclusions

- High employee engagement levels can deliver positive organisational benefits, including productivity.
- The bundle of HR practices is associated directly with higher organisational performance.
- Appropriate HR practices and processes, both financial and non-financial and managed in combination, can help to build and improve employee engagement
- Badly designed or executed policies can hinder it.
- Where employees feel totally rewarded for their contribution and valued and recognised by managers, then higher levels of employee engagement and of performance are more likely

## In summary...

- It's the bundle
- Get to know your employees
- Context is king
- Be evidence-based
- Be more innovative, rather than copying



# Thanks

Duncan leads the HR Consultancy and Research work at IES, a leading independent research-based charity which supports improvement in HR and employment practice.

He has more than 25 years' experience in HR consulting & research with Aon Hewitt, PwC and Towers Perrin. He spent 5 years as Assistant Director General at CIPD.

His clients have included major companies such as National Grid and Lloyds Banking Group, public sector bodies such as the Cabinet Office and National Health Service and not-for-profits such as Cancer Research and the United Nations.

Duncan is a leading commentator on HR, and publishes widely. His last book was on reward effectiveness.

He has participated on Government taskforces concerned with fair pay, engagement, pensions and human capital reporting. He advises a number of remuneration committees

*Human Resources* magazine placed him in its listing of the top 5 most influential thinkers in UK HR.

Duncan has an MA from Cambridge University, an MBA from the London Business School and is a Fellow of the CIPD. He is a Visiting Fellow at Kingston University where he obtained his PhD in reward strategy earlier this year.

Read his blogs at:

<http://www.employment-studies.co.uk/news-press/ies-reflects>

<http://www.cipd.co.uk/pm/members/duncanbrown9000272/default.aspx>

duncan.brown@employment-studies.co.uk

0750 8047636

Twitter: @duncanbHR