

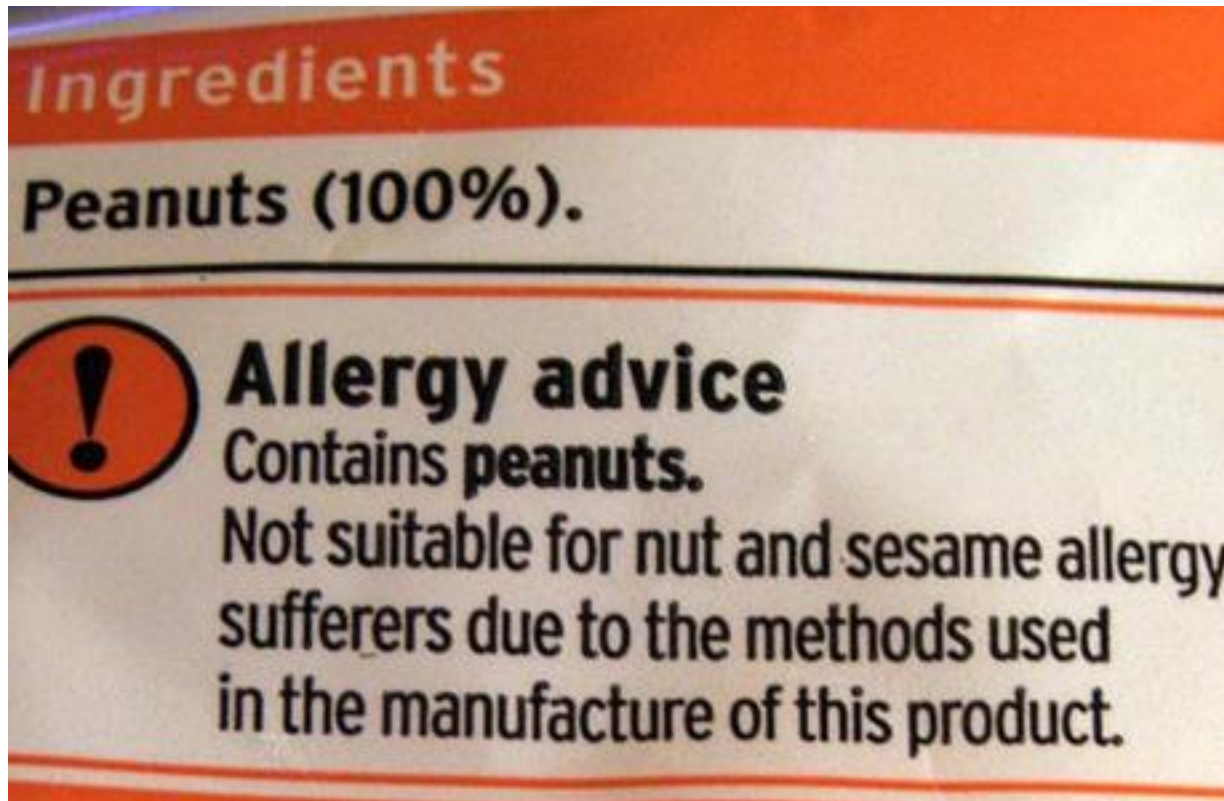
The people and performance link: What's the evidence?

Penny Tamkin, Associate Director

12 December 2013

Do people make a difference?

The way an organisation manages its people impacts on its performance *Accounting for People*



So what is human capital?

'the **stock** of accumulated knowledge, skills, experience, creativity, and other relevant workforce attributes'

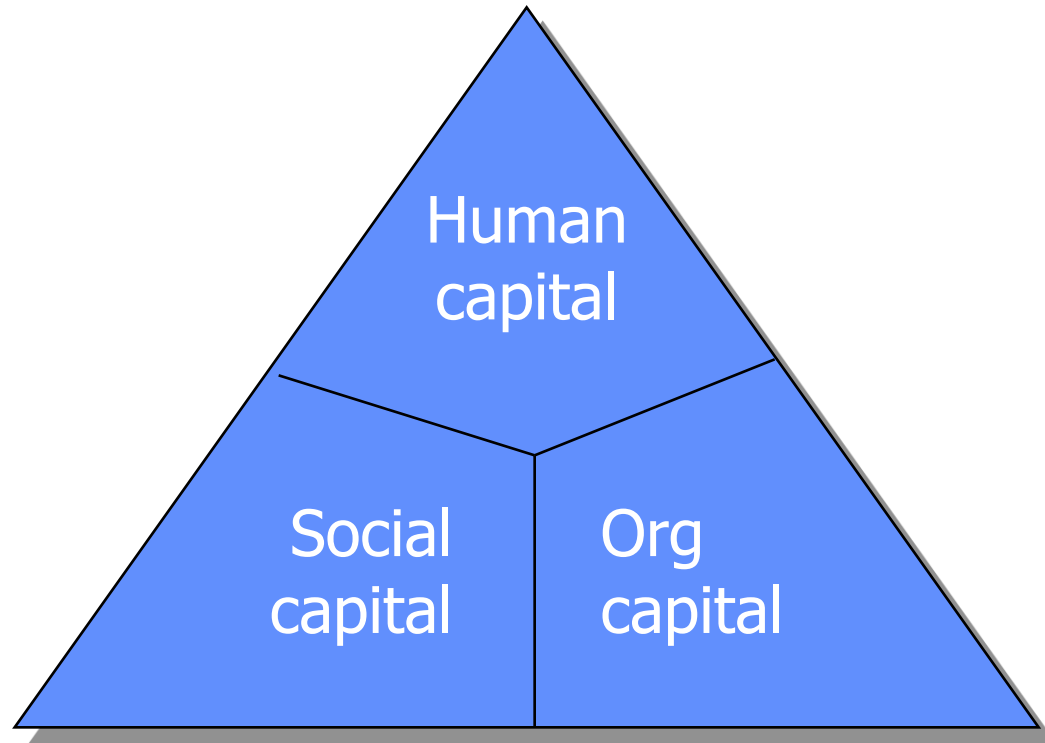
HR Nalbantian, RA Guzzo, Dave Kieffer, Jay Doherty

the capabilities, knowledge, skills and experience of the company's employees and managers, as they are **relevant to the task at hand**, as well as the **capacity to add** to this reservoir...through individual learning'

Dess & Picken

Intellectual capital

Skills, behaviour, knowledge



Relationships
& networking

Systems
& processes

...and human capital management?

'...a strategic approach to people management that focuses on the issues that are critical to an organisation's success.'

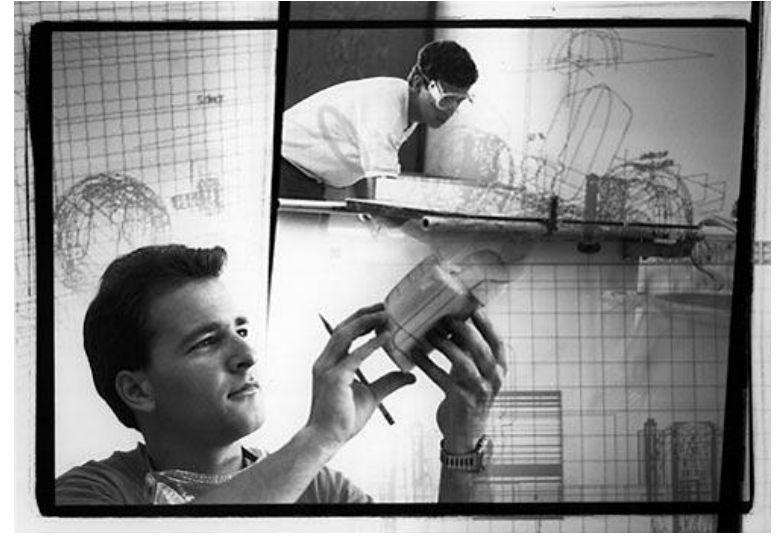
Kingsmill

'How the firm manages (motivates and aligns) its human capital.'

Source of the human capital view

- Resource based view of the firm
- Core competency/capabilities
- Intellectual capital
- Employee engagement
- HR measurement: frameworks, lists, indices and models
- ...colliding with the competitive agenda!

What kind of work?



High performance what is it?

- The human capital view ‘The knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being’ *OECD*
- The skills utilisation view ‘ensuring the most effective application of skills in the workplace’ *Scottish Government*
- The employee engagement view ‘Engaged employees have a sense of personal attachment to their work and organisation; they are motivated and able to give of their best to help it succeed - and from that flows a series of tangible benefits for organisation and individual alike’ *MacLeod review*
- The HPW view ‘...a general approach to managing organisations that aims to stimulate more effective employee involvement and commitment to achieve high levels of performance’ *UKCES*

Do people make a difference at work?

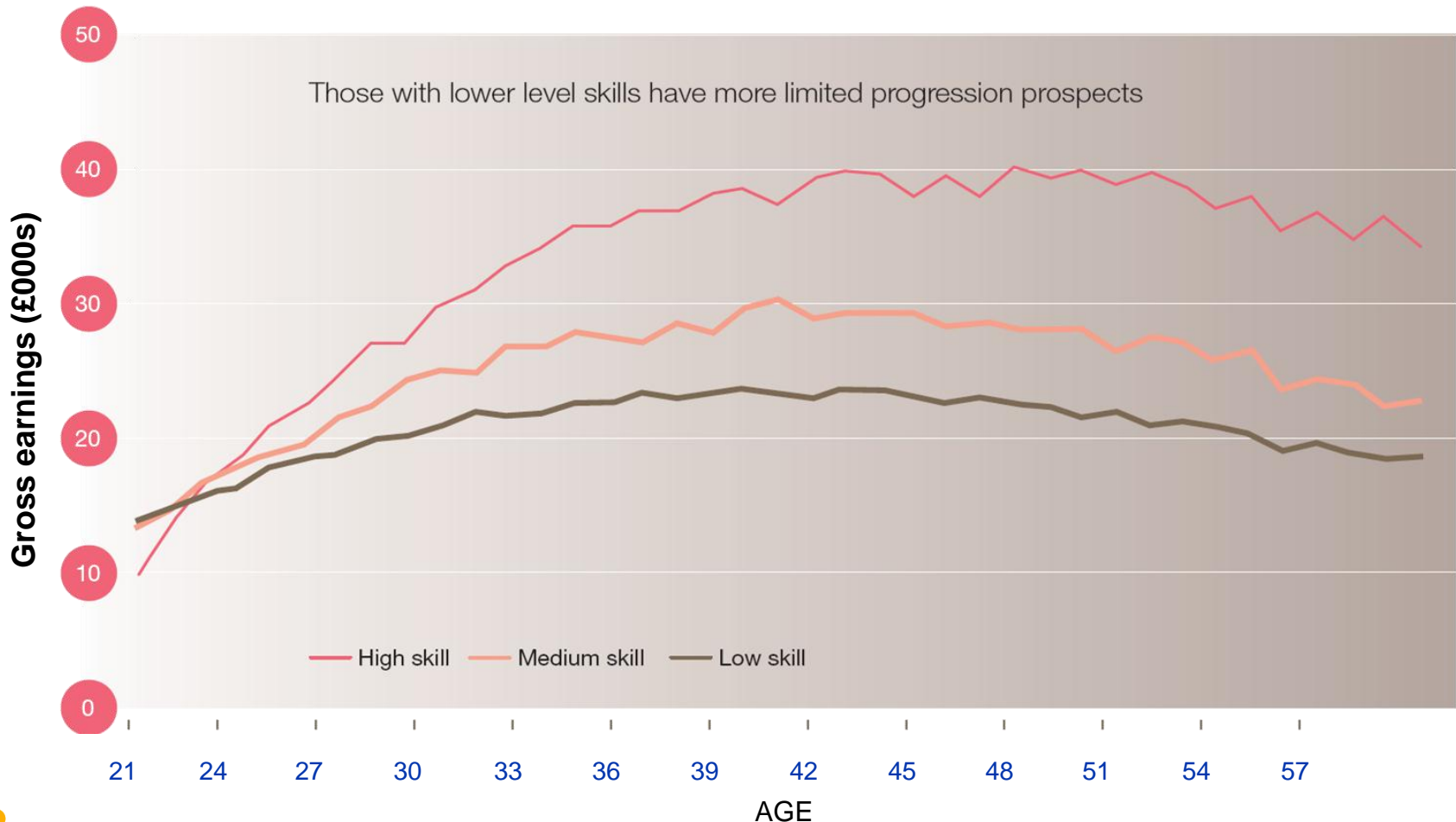
If there is a link between the people resource and performance then:

- Those who are most skilled should be more valued and do better in the labour market
- Firms with more skilled/engaged workers should do better
- Those organisations which are better managed should do better
- A firm/individual which increases their HC investment should subsequently have improved performance

Skills and reward...

Skills: the route to prosperity

Gross median annual earnings (£) by age for men, disaggregated by skill level, 1994–2006



The highly skilled earn more

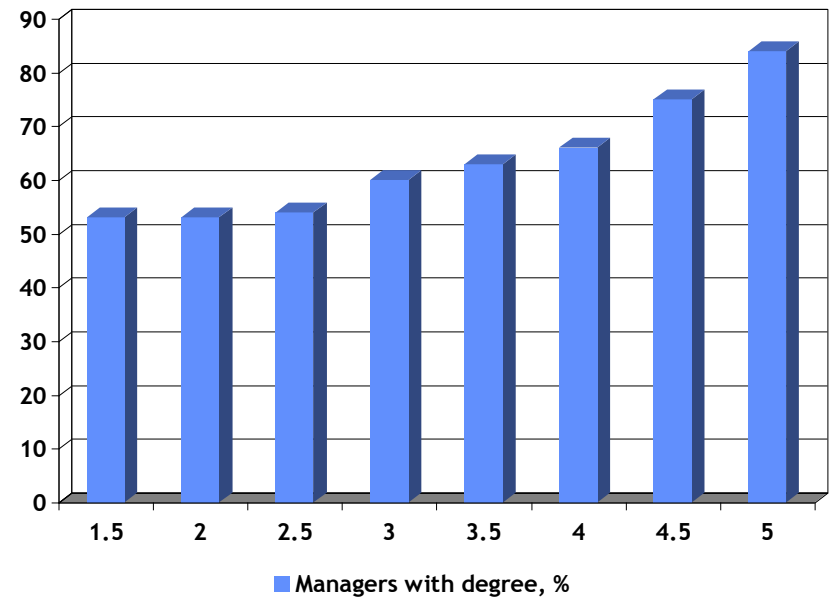
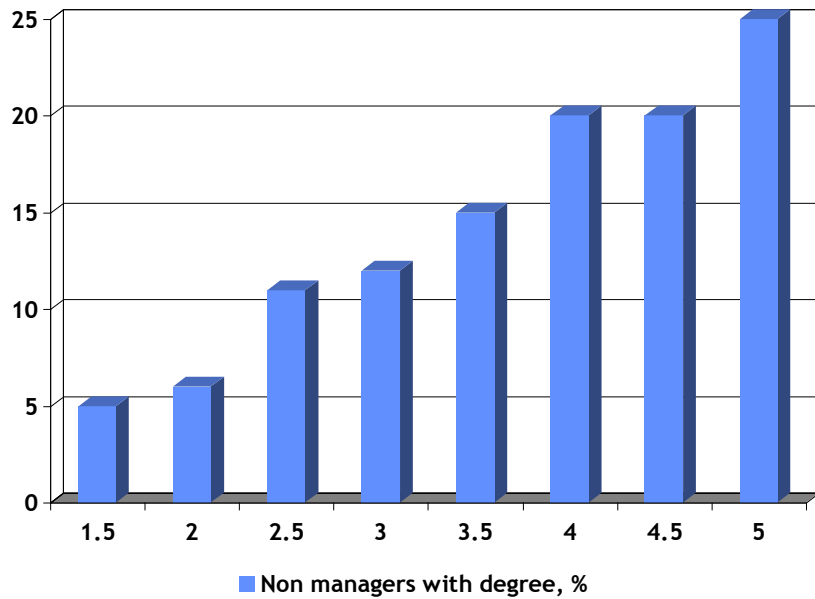
- Relationship between education, qualifications and salary/risk of unemployment (Greenhalgh & Stewart, 1987; Booth, 1991; Galinda-Rueda & Haskel; 2005, Vignoles *et al.*, 2008)
- Improvements in skills affect outcomes (Machin *et al.*, 2001; Bynner *et al.*, 2001)

Skills and performance...

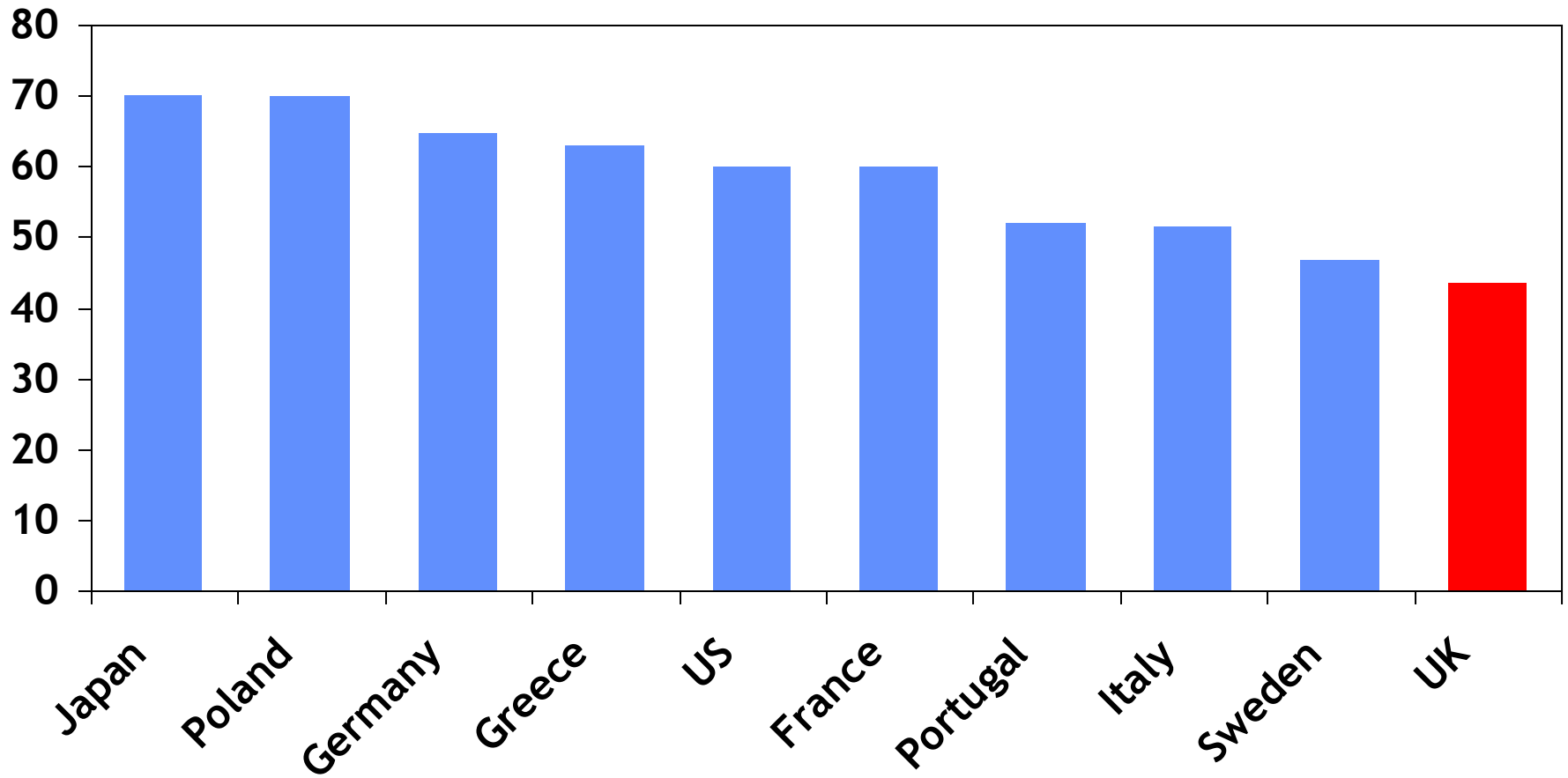
Skills make a difference...

- Meta-analysis suggests small and significant effect between HC and success. Moderators inc. developed knowledge and skills, young businesses and in relation to size (Unger *et al.*, 2009). Slightly larger effect on improvement of product/process than global measures (Crook *et al.*, 2011)
- Skills both in management and among the workforce in general = important difference between better managed firms and the rest
- 84 percent of managers and 25 percent of non management workforce educated to degree level or higher
- Among lowest scoring firms, 54 percent of managers and 5 percent of wider workforce had degrees

Management skills



Managers with degree by country



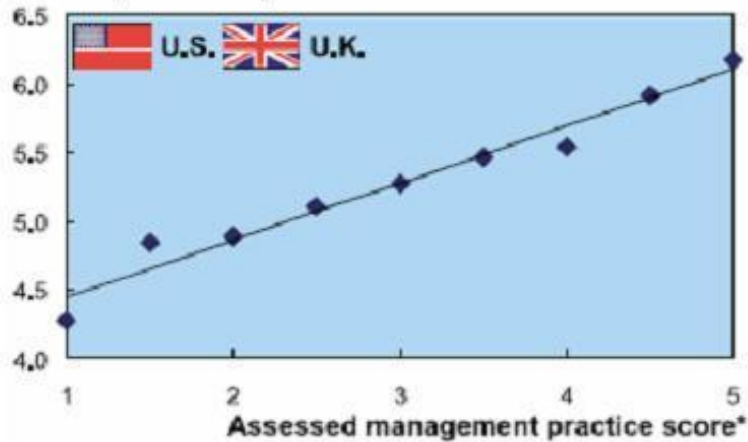
Better managed firms do better...

Correlation between HPWP and outcomes

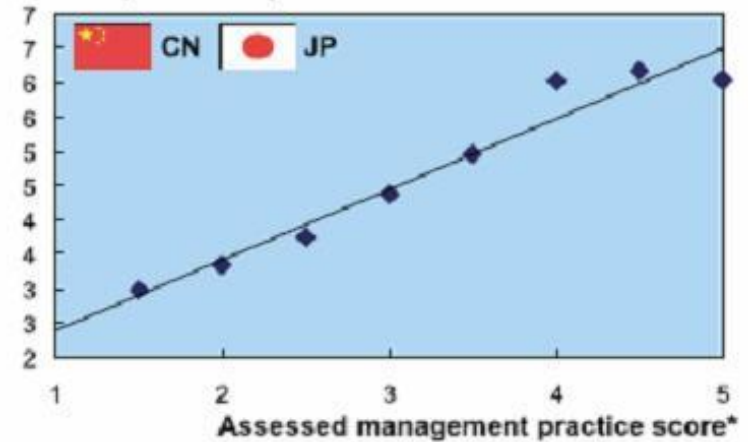
● Employee involvement	.39
● Delivery T&D	.37
● Motivating staff	.36
● Managing change	.36
● Career opportunities	.35
● Teamwork	.33
● Ensuring job satisfaction	.32
● Effective communication	.31
● Leadership	.31
● IR	.28

Management practices and performance

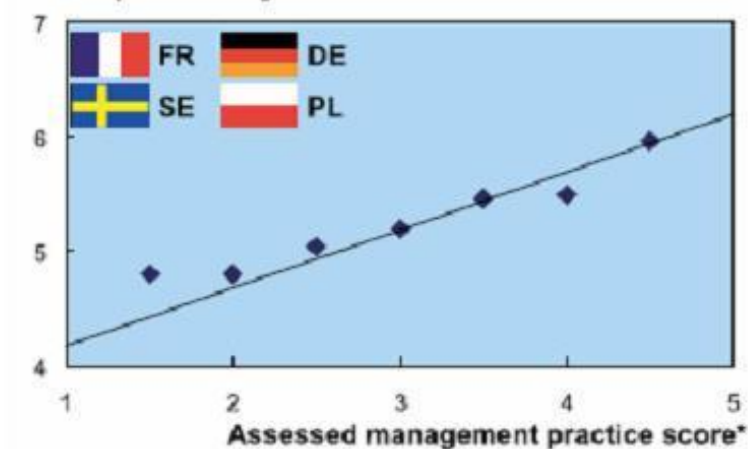
Labour productivity



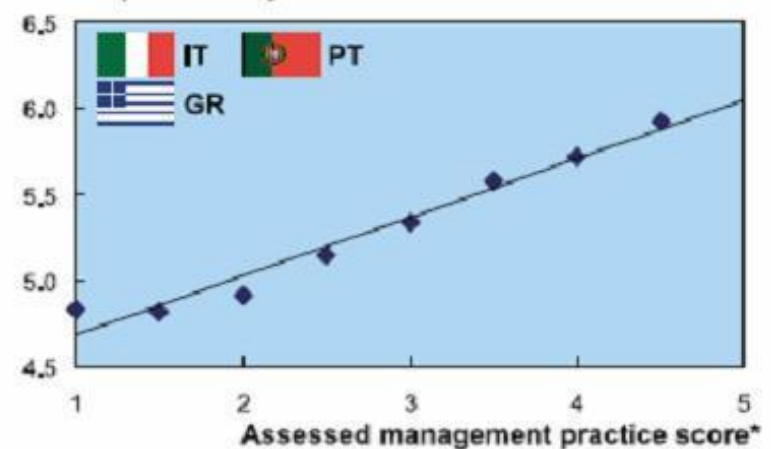
Labour productivity



Labour productivity

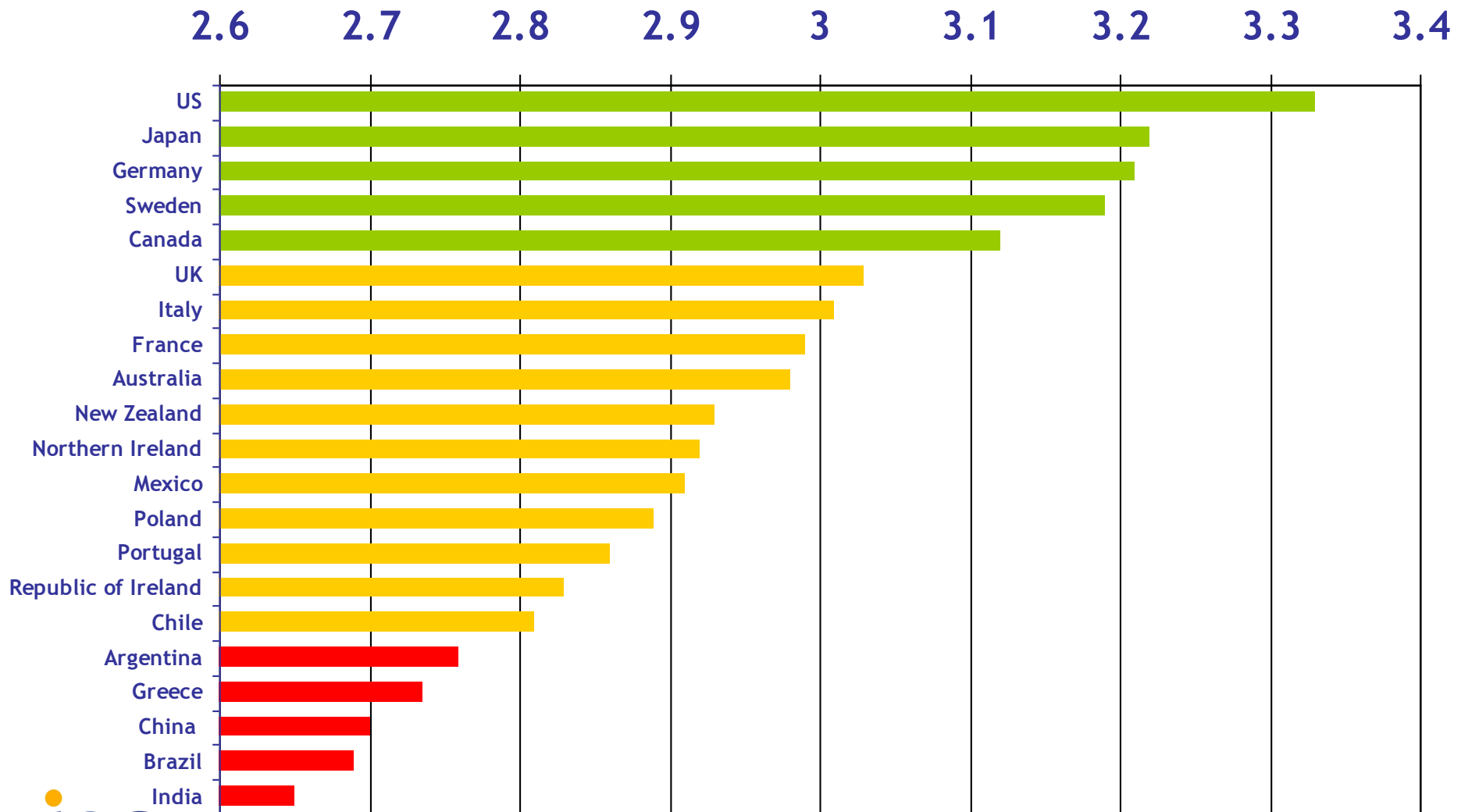


Labour productivity



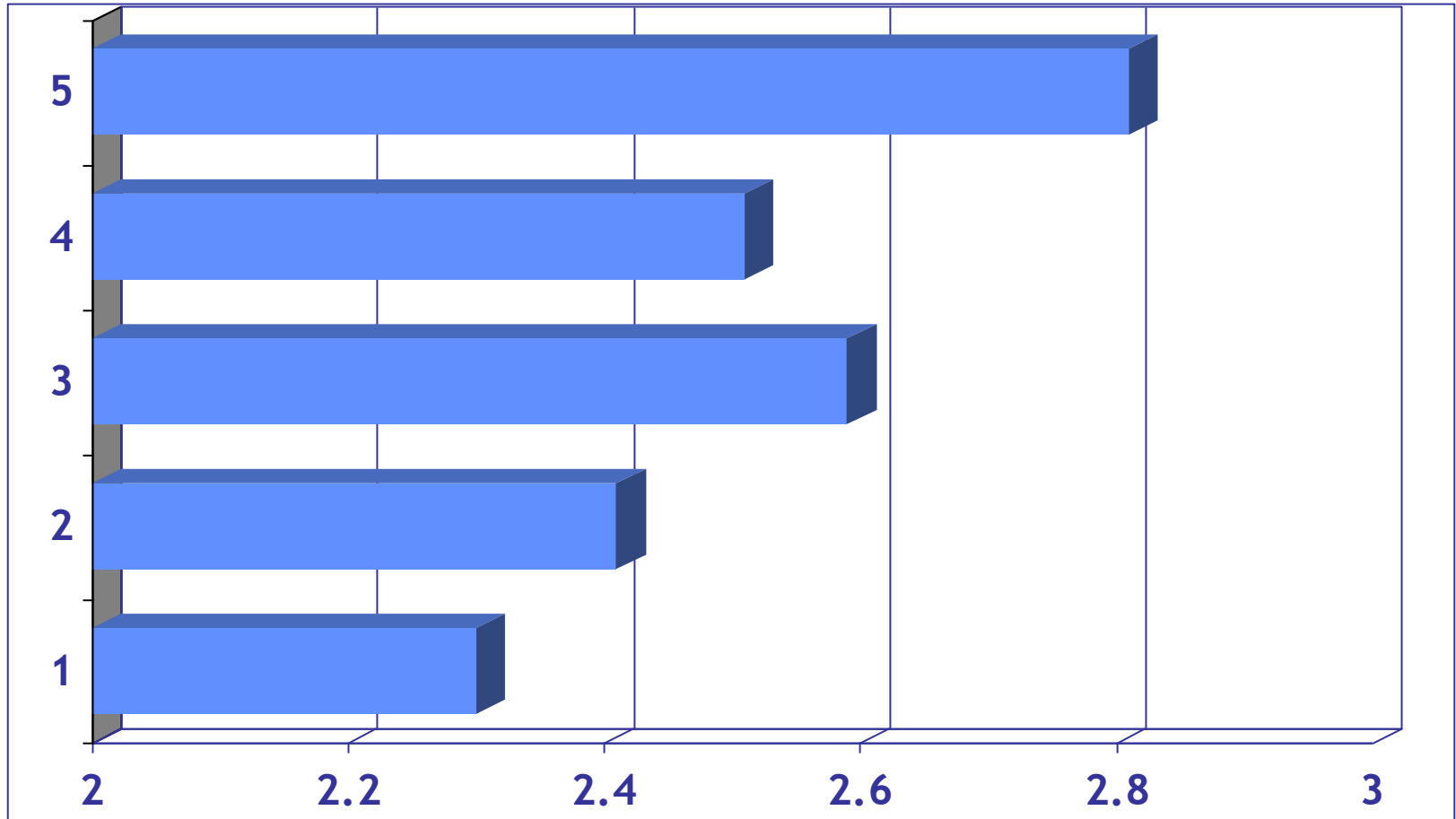
* Firms are grouped in 0.5 increments of assessed management score

Average management scores



Management in health sector

Healthcare Commission Rating



Management practices & hospital performance

- Higher scores related to better clinical outcomes (lower mortality), shorter waiting times, better financial performance and higher staff satisfaction
- 1SD improvement in management associated with reduction in death rates from heart attacks of 16 to 17 percent
- Healthcare commission ratings rise with better management
- Borrill and West 2003: sophistication of people management correlated with mortality

Improving practices...

People and the bottom line (1)

- If a business increases its investment by the equivalent of increasing its combined index score by one (around 10 percent), this would equate to:
 - an increase in gross profits per employee of between £1,083 and £1,568
 - an increase in operating profit per employee of between £1,139 and £1,284
 - an increase in profit margins per employee of between 1.19 per cent and 3.66 per cent (*ie* the ratio of profit over sales)
 - a 0.09 per cent increase in sales growth per employee
 - a 3.1 per cent increase in the probability of achieving sales from new technology

People and the bottom line (2)

‘...if factors such as size, sector, previous performance and the strategic objectives of the firm are held constant - then better scores on the index (and therefore greater investment in people) are associated with better financial performance.’

Innovating work organisation...

How do innovations affect employee behaviours?

- Lean management, team working, employee wellbeing and employee involvement practices increase number of suggestions
- Job rotation and multi-skilling lead to flexibility and job enrichment raises understanding of organisational goals
- HPWPs encourage workers to share information, share and solve problems together
- Lean production and job enrichment increase organisational commitment

How do innovations affect employee wellbeing & working conditions?

- Job enrichment, variety, job security, new skill development, increased trust and support, opportunities for challenge → **job satisfaction**
- Better working conditions/quality of working life through improved work organisation and health promotion initiatives
- Lean production, job enrichment and team cooperation → **organisational commitment**
- Some evidence of increased job strain - effects of lean management practices

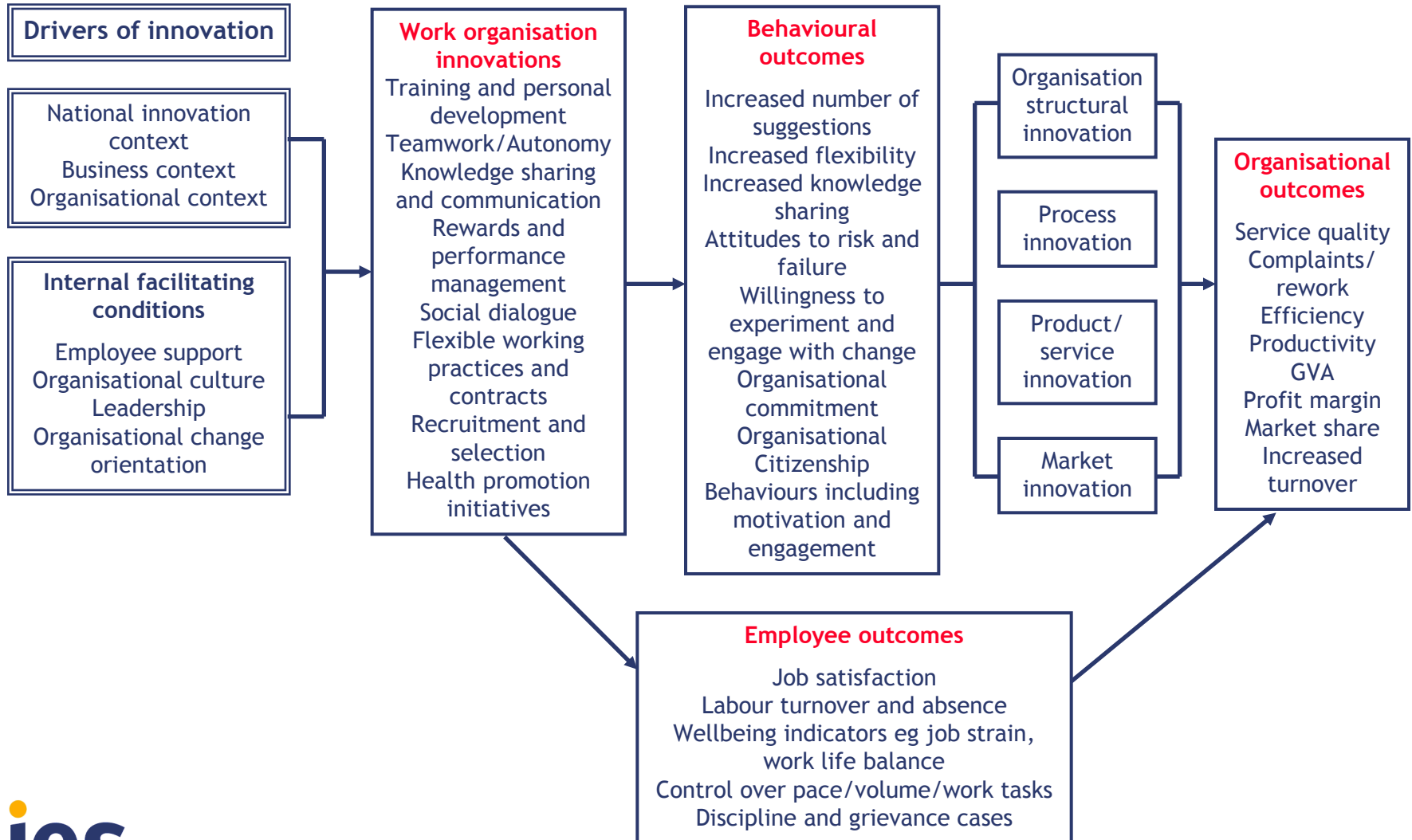
How do innovations affect organisational performance?

- Lean management, flex working, team working, employee involvement → quality, efficiency and productivity
- Team working, lean work systems, flexible working, employee involvement and work redesign → service quality improvement
- Mixed impact on employment levels - some positive effects in difficult economic context
- Team working, lean work systems and flexible working → lower operational costs
- Limited evidence of impact on profit margins - challenge of measurement

What factors help make innovations successful?

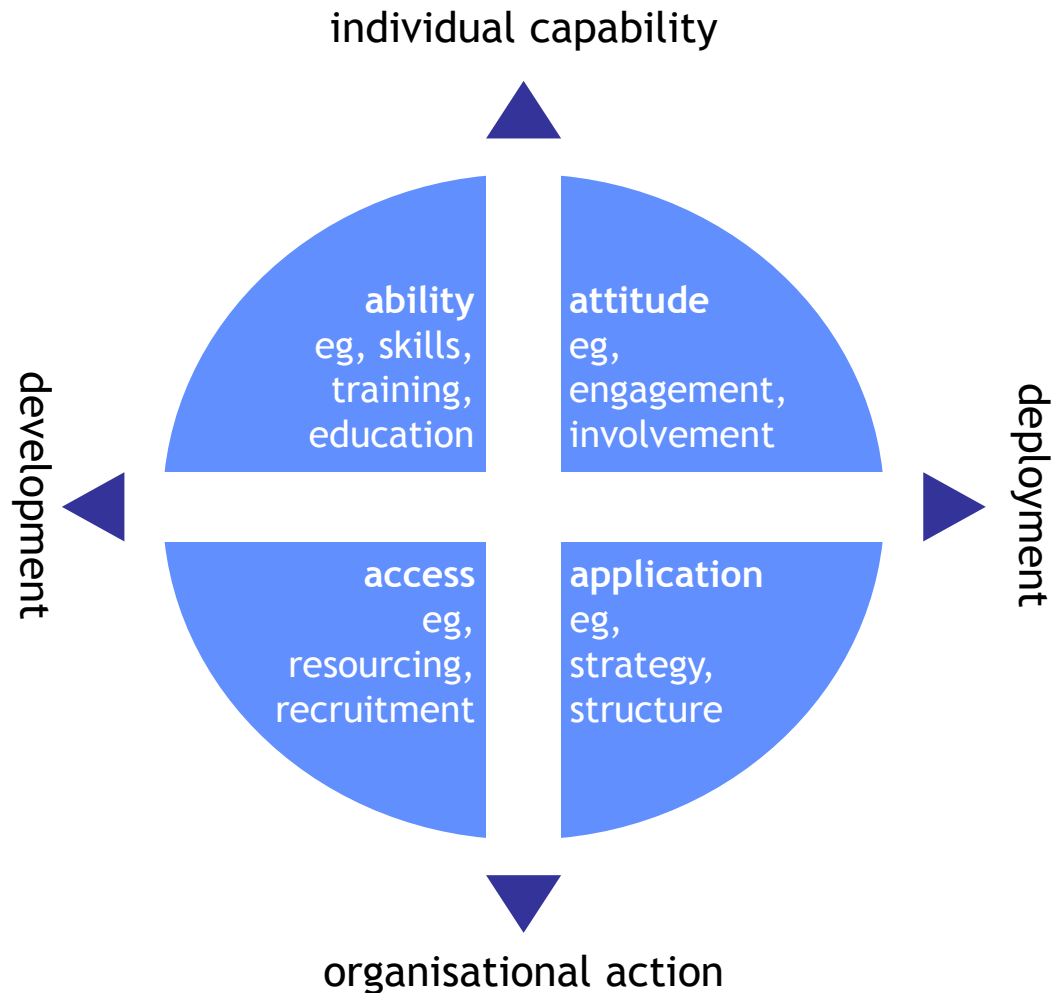
- **Employee support:** training focussed on skills AND attitudes
- **Senior management commitment:**
 - with corporate support in larger firms
- **Organisational culture:**
 - focus of change on managing culture
- **Social partner involvement** and intensive communication

Overall conceptual framework

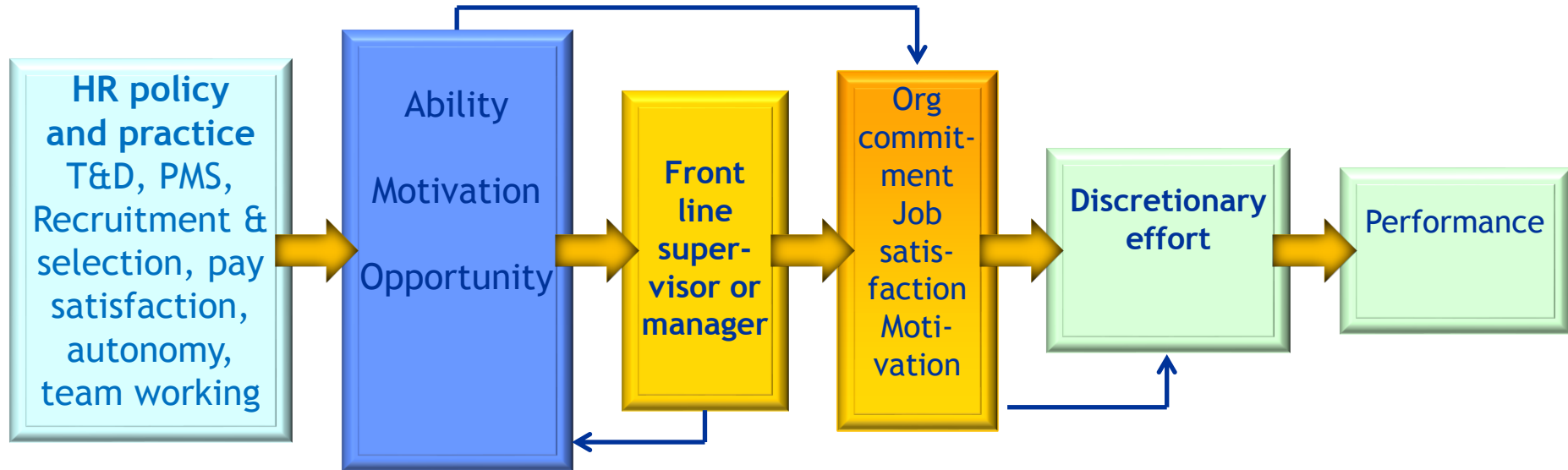


Other frameworks...

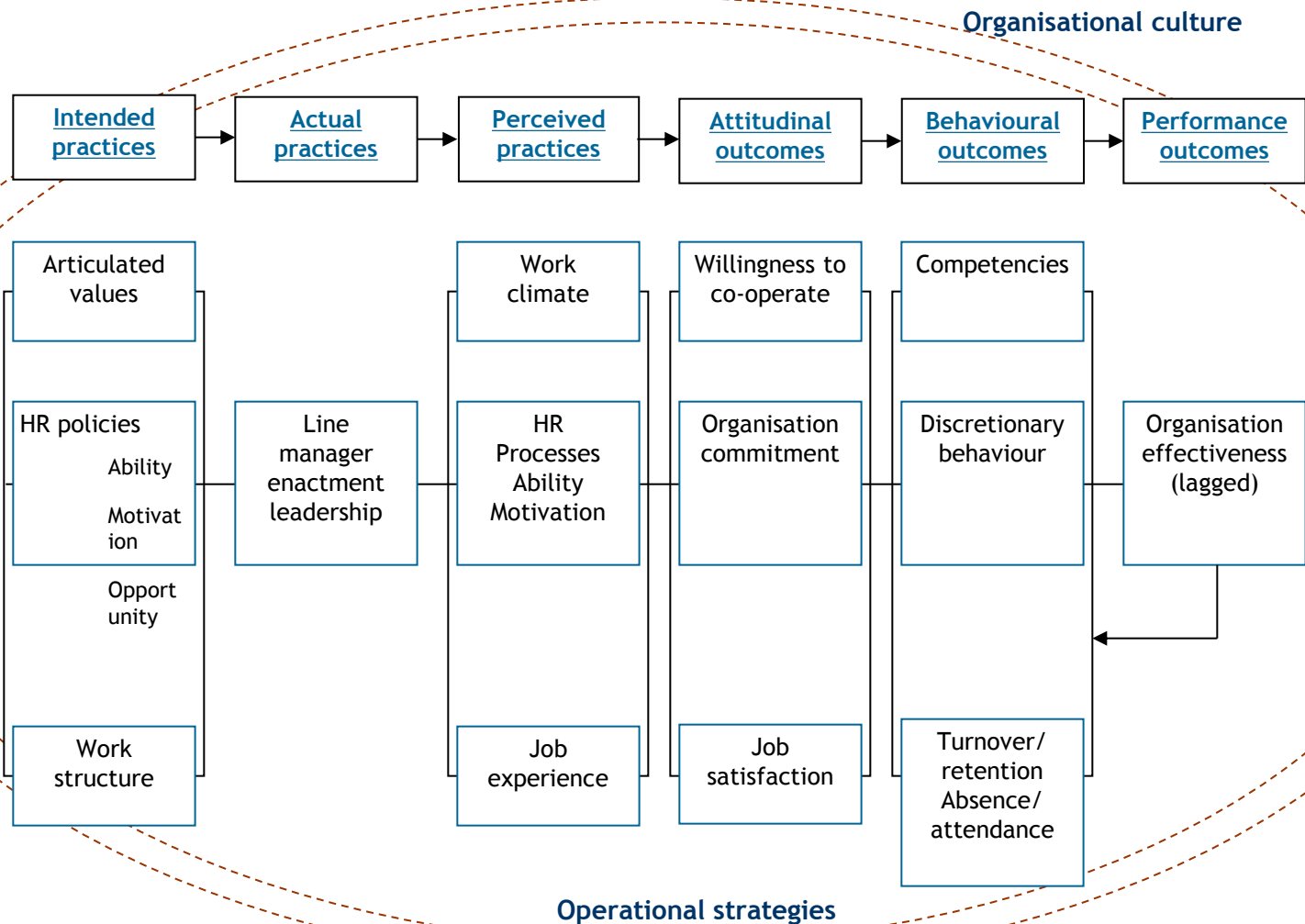
The 4 A Model (Tamkin *et al.*)



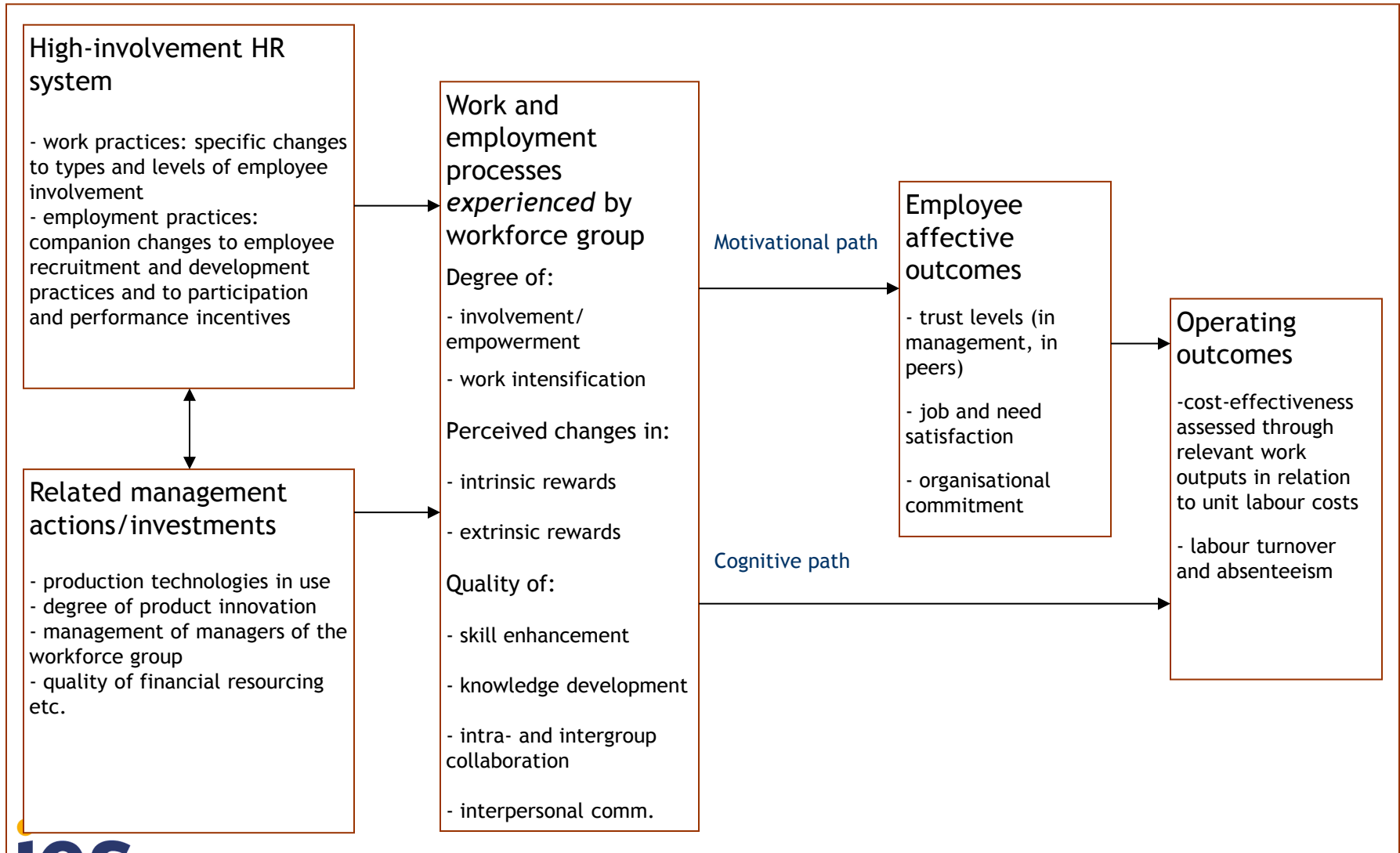
People and Performance (Purcell *et al.*)



People management, organisational effectiveness (Purcell & Kinnie, 2007)



High-involvement work systems (Boxall & Macky, 2009)



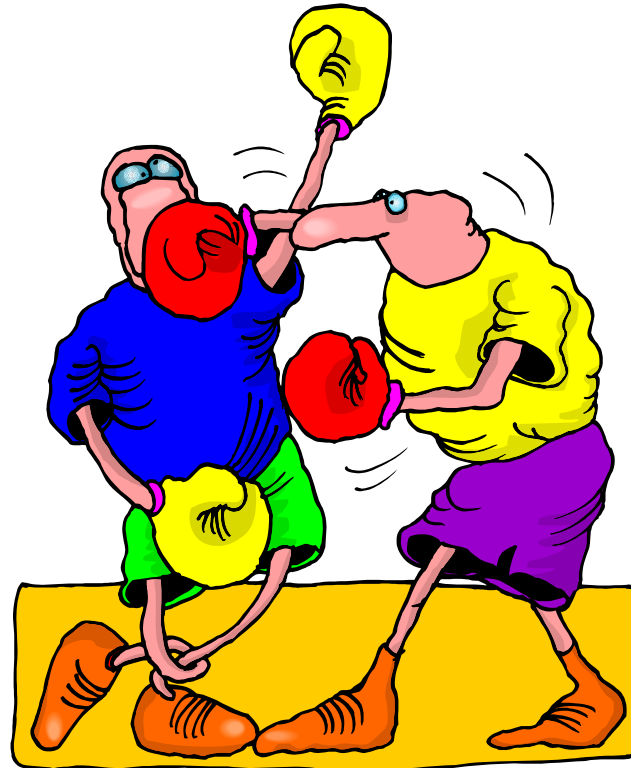
Shifting understanding

- Skills and training are strongly correlated with performance
- HR practices are strongly correlated with performance
- Employee engagement:
 - role of interpretation by employees
 - non-negative practices eg fairness
- Importance of the leader and line manager
- A 'Big Idea' Purcell *et al.*, 2003

A key choice for measurement

Bespoke
measures
for the
organisation

We concluded that there is no single set of HCM practices widely accepted as 'best practice' applicable to all organisations, nor agreement on a set of universally relevant indicators



Core measures
for aggregate
data &
benchmarking

However, there is a reasonable consensus on the range of practices that might be relevant dependent on the particular circumstances of the organisation and the business strategy it is following

Denise Kingsmill said...

- Communication of people strategy and assessment of impact
- the size and composition of the workforce; trends, profile, full and part time, use of external labour
- retention and motivation of employees; level of turnover by group, view on appropriateness, indicators of engagement
- the skills and competencies necessary for business success, and training to achieve these; information on training and the fit between skills and business needs is central to helping stakeholders understand how well placed the organisation is in terms of the skills it needs to support its strategy
- remuneration and fair employment practices; structure and differentials, impact on performance, balance between individual and team rewards, equality issues
- leadership and succession planning; Information on leadership and succession enables stakeholders to assess the sustainability of performance and likelihood of successful implementation of strategy

The top measures...

- Proportion of new appointees tested on appointment.
- Proportion of new appointments for which there was a person specification
- Proportion of employees covered by a succession plan
- Proportion of non-managerial employees given time off for training
- Proportion of workforce that have a current personal development plan
- Proportion of the workforce that have a career development plan
- Proportion of employees qualified to degree level.
- Proportion of managers that left voluntarily over the last 12 months
- Proportion of staff that receive profit related pay
- Proportion of staff that have a regular appraisal
- How often do staff have one-to-ones
- Who decides on the pace of work (1 = exclusively managers to 5 = exclusively workers)
- Who decides on task allocation (1 = exclusively managers to 5 = exclusively workers).

...thank you