Explaining the link between HRM and organisational performance

By the end of this worksession you will be able to:

- set out the findings of the 'black box studies' into the nature of the link between HRM and superior business performance
- explain the significance of the recent Gallup Studies into employee engagement.

Resources

Business-unit-level relationship between employee satisfaction, employee engagement and business outcomes: A meta-analysis

Understanding the People and Performance Link: Unlocking the black box
Introduction

In worksession 3 we introduced and summarised the most significant and influential research that has been carried out in recent years to establish a clear link between HR activity and sustained organisational performance.

In this worksession we are going to move on to look at research studies which have looked at the nature of that link. These are concerned with establishing **how exactly** HR activity can have a positive influence on an organisation’s performance.

The ‘black box’ studies

In 2003 the first results from what have become known as the ‘black box’ studies were published by CIPD. Further results were subsequently published by the team that had carried out this research in scholarly journals and in chapters contributed to books. This research has proved to be hugely influential in shaping thinking about HRM and HRD over the past decade.

The ‘black box’ studies get their name from the motivation behind the research which was to look inside and seek to understand the detail of the relationship between an organisation’s approach to people management and business outcomes. Getting to grips with this relationship is sometimes seen as being a ‘problem’ or, perhaps as a ‘mystery’ needing to be solved.

Scientists and engineers have long used the metaphor of ‘the black box’ to describe devices which translate readily understood ‘inputs’ into readily understood ‘outputs’, but which is not itself fully understood. Getting inside a black box thus means working out how the device works.

The black box studies into HRM were funded by CIPD and carried out by a team of researchers based at the Work and Employment Research Centre at the University of Bath. They took over six years to complete. The team was led by Professor John Purcell.

The methodology the team adopted was similar in some respects that used by Jeffery Pfeffer in his research into HRM that we looked at in worksession 3, except in this case the criteria for selecting the participating organisations was different. Whereas Pfeffer looked for companies which had an outstanding financial performance and then looked at what made them different, Purcell’s team started by identifying organisations that were either already well known for having sophisticated HR policies and practices in place or had recently embarked on a strategy of doing so. Twelve UK-based organisations from a mix of industrial sectors finally participated.

The team then undertook a very extensive series of interviews over two and a half years with employees and managers in specific areas of these businesses. They revisited several times so as to be able to record reaction to new initiatives as they were introduced.

There were three major findings:

1. **When an organisation has in place a bundle of what are often called ‘progressive’ or ‘high performance’ HR policies and practices there is a positive response from employees (expressed in terms of job satisfaction, motivation or organisational commitment’ which leads them to work harder and to strive to improve their performance. In such circumstances ‘discretionary effort’ results, meaning that employees tend to work beyond contract, going the extra mile without having to be coerced into doing so.**

2. **A characteristic shared by the most successful organisations is some form of ‘big idea’ that underpins what their mission is and what values that mission is based on. Moreover, this big idea and these values become embedded in the organisations policies and practices, helping to glue the organisation together. Employees tend to buy in to the idea and respond by working with enthusiasm, some pride and effort.**

3. **Having the right HR policies and practices in place was not enough. These have to be ‘brought to life’ by the line managers with whom staff interact on a day to day basis. Effective line management is thus a crucial component of the ‘black box’. Unless employees respect and are motivated positively by their immediate supervisors, the positive impact that ‘progressive’ HR policies have will not be realised. Indeed one finding was that poor implementation of policies and practices by line managers who have not bought into them is often worse for the organisation than not having any policies at all.**
The black box studies therefore found good evidence that the right approach to HR, implemented effectively, will bring about superior organisational performance (i.e. the output). This happens because the HR policies (the inputs) have the effect of giving staff in their own roles:

- the ability to perform well
- the motivation to perform well
- the opportunity to perform well.

Superior individual performance then translates into superior collective performance and hence sustained organisational success.

The HR practices that the researchers found to have a particularly positive impact were the following:

- giving people career development opportunities
- giving people influence over their own area of work
- making jobs challenging and interesting
- providing good training
- appraising people regularly on their individual performance
- team-working
- involving employees in decision-making
- providing a good work-life balance
- employing line managers ‘who are good at leadership and who show respect’.

Central to the findings of the black box studies is the idea that the extent and nature of ‘discretionary effort’ on the part of employees is a big difference between organisations that are performing really well and those that are not. In their report the researchers stress that discretionary effort can be exhibited by employees either consciously or unconsciously, and importantly, that it can be withdrawn very easily if trust breaks down or when people believe that their employer ‘no longer cares about me, my future or my opinions’.

Think about your own experience of work as an employee rather than in any management capacity.

Can you identify examples of individuals or teams who display ‘discretionary effort’ in their work?
Having identified an example think about what generated this high level of performance?
Can you also think of an example of discretionary effort being withdrawn? What caused that to happen?

Most have us at some time are sufficiently enthused by a job, a project or by the experience of working in an organisation to demonstrate discretionary effort. Some people are more inclined to look for such opportunities than others, but most at some stage will experience this phenomenon.

I can think of two periods in my career when I was enthused in this way. Looking back I think it was a combination of finding the job itself interesting and working in a team who were all contributing and pulling in the same direction that led me to want to go the extra mile in the way that the black box studies describe.

I can also recall occasions on which I have quite consciously made the decision to withdraw discretionary effort. These occurred when decisions were taken which I felt were deeply unfair and where I felt unappreciated for the efforts that I was putting in.
The Gallup studies

Another rather different, but equally influential piece of research from the last few years also sheds a great deal of light on the link between good people management practices and organisational performance. But this used a quantitative methodology and was much larger in its scope. It was also international. The research was derived from data collected over a number of years by the Gallup organisation, a consultancy which has long carried out employee satisfaction surveys on behalf of organisations. This research is thus often referred to as comprising ‘the Gallup Studies.’

These draw on data collected internationally by the Gallup Organisation using a simple twelve-question instrument which has been administered to 198,514 people in 7,939 business units operating in all manner of industries over a thirty year period.

The twelve questions simply comprise statements such as:

‘I know what is expected of me at work’

and

‘In the last seven days, I have received recognition or praise for doing good work’.

Respondents are then asked to say whether they strongly agree, agree, disagree, strongly disagree or neither agree nor disagree, and scores then being generated for a unit’s employee’s level of engagement. The sheer size of this dataset gives the analysis credibility.

What is more, it enables statistically significant correlations to be sought between the extent of employees’ emotional and cognitive engagement and other variables such as profitability, productivity, customer satisfaction and employee turnover rates.

Some of the key findings are as follows:

1 There is greater variation in terms of the level of employee engagement between different business units within the same organisation than there is between organisations. This is significant because it implies that the variability in levels is not related to the type of industry or characteristics of employees - but is in most cases due to the quality of line management.

2 Impressive correlations were found to exist between relative levels of employee engagement in a business unit and the success of business units. Business units with the highest rates of employee engagement are doubly successful than those with the lowest when measured against indicators such as productivity, customer responses and profitability.

3 A particularly strong relationship was found between levels of employee involvement and rates of staff turnover. The size of the dataset allows separate analysis of high turnover industries and low turnover industries.

In high turnover business units (above 60 per cent turnover rate), staff turnover was, on average, 29 per cent lower in units which scored in the upper quartile for employee engagement, than in the lower one. The variation, however, ranged between 14 to 51 percentage points. In low turnover units the average difference was 10 per cent (ranging from 4 to 19 percentage points) between upper and lower quartiles.

The message from the Gallup studies is thus strikingly similar in many respects from that of the Black Box studies. HR policies and practices help to generate superior business performance because they help to motivate employees positively to perform well in their individual roles. The Black Box studies use the term ‘discretionary effort’ to describe this. The Gallup studies use the term ‘engagement’.

The language differs as does the methodology adopted by the two teams of researchers. But their overall conclusion is broadly the same. Create a well-motivated and satisfied workforce, who know what is expected of them and who have the capacity to deliver superior performance. This will then lead to improved collective performance. Importantly, both studies also stress the importance of the role played by line managers in giving effect to the HR policies and practices. Getting the quality of line management right is thus a pre-requisite for long-term, sustainable high performance.
**Strengths-based performance management**

Marcus Buckingham was a leading figure in the Gallup Organisation towards the end of the period in which the data that was used in their study was being collected. He has also written several books and articles derived in part from analysing that data.

Some of this has been used very effectively by Marcus Buckingham to develop thinking in the area of ‘strengths-based’ performance management, an approach which he has played a leading role in developing and popularising.

Organisations typically encourage employees to reflect on their achievements self-critically and to take steps to improve in areas of weakness, for example by taking on roles which broaden their experience or working on projects ‘outside their comfort-zones’.

According to Marcus Buckingham a more fruitful approach involves downplaying weaknesses and allowing, and even encouraging people to focus more on their strengths. Organisational performance increases when managers match people to tasks at which they excel and allow them to achieve their objectives in ways which they find work best for them. This means giving people more tasks to carry out which they are good at and less of what they are weak at.

The idea is attractive and makes perfect sense once we accept that organisational performance is enhanced when employees are engaged to a high level. As being given work to do which people find interesting and which they are good at is a major determinants of high engagement, it follows that an organisation will perform better if its employees are largely engaged on tasks they are good at.

The trouble is that this is not always easy to achieve in practice. Managers are always faced with the need to divide a range of tasks up among their teams. It would be great if each member of the team had different strengths and liked to spend their time undertaking different sets of complementary tasks, but life is not usually like that. Members of teams will often tend all to be good at the same things because those are the parts of the job that they like. But the less popular things need to be done too and it would be most unfair to give some team members the popular tasks and others just the unpopular ones.

**What is your view of this idea? Why do you think there is such little evidence of strengths-based approaches being adopted widely in organisations?**
One of the case study companies that John Purcell and his colleagues looked at when carrying out their Black Box studies was Tesco. Here they focused on four stores based in similar market towns which they labelled Stores A, B, C & D. One of their most significant findings was derived, in part, from a detailed examination of the relative performance of these four stores over the period of their study.

While all four stores had strengths and weaknesses, on all the key measures they used, they found that Store C performed particularly poorly. The performance indicators used were as follows:

- stock availability on the shelves
- wastage
- shrinkage (i.e. theft and stock errors)
- length of queues at the checkouts
- payroll costs as a percentage of sales
- profit
- turnover.

The researchers made the following observation about the poor performance of Store C vis-à-vis the others:

‘Given the location of the stores in four similar market towns, and the application of common policies, the most credible explanation for the variation in store performance was the difference in the way people are managed.’

This conclusion was further strengthened by the findings from the interviews with employees in the different stores. Store C performed poorly when compared with the others on measures of managerial behaviour, the amount of employee discretion, employee attitudes, opportunities for staff to participate in decision-making and staff performance.

After interviewing staff and section managers in the stores, the researchers reached the conclusion that the main underlying reason for differences between the performance of the four stores was the quality and effectiveness of the store manager:

‘The store manager is particularly influential in setting the tone for the way of managing employees across the store. He or she provides a role model through his or her own way of managing the staff and sets the expectations for achieving certain goals and behaviours that are acceptable when dealing with individual employees.’

Imagine that you have been asked to help Tesco to improve the performance of Store C, the aim being to bring it up to the standards achieved by the other stores when measured against the criteria listed above. In particular you have been asked to advise on:

i  How the company should approach the selection of a new store manager, and

ii  What steps can be taken to maximise the chances that the new manager will be successful in lifting standards of performance.

Set out and briefly justify your ideas.
Conclusion

The key message that emanates from the two major research studies we have looked at in this worksession is that the way people are treated by an organisation has a major influence on their individual performance. It follows that organisations which manage people well are more likely to enjoy success and to grow than those who do not. In the next worksession we will be focusing in greater detail on what types of approach to HR are generally found in the larger, more successful organisations. In other words, having put the case for developing a ‘best practice approach’ we now need to explore what that really means in practice.

Key Learning Points

- Employees help their organisations to achieve superior levels of performance when they have the ability to do so, are motivated to do so and are given the opportunity to do so.
- Organisations can improve their performance if they take steps to raise levels of employee engagement among their staff.

Bibliography

Feedback

Activity 1
Tesco

Store C appears to have suffered from poor leadership for a prolonged period of time and as a result is performing poorly against all key performance measures. The new manager thus not only has to take a different approach to the management of staff, but will also have to lead a culture change programme in order to turn around deeply embedded attitudes.

The need when recruiting a new manager is thus to ensure that whoever is appointed has the capacity to deliver on both objectives. Ideally a manager with a strong existing track record would be most appropriate, preferably someone whose leadership style is participative and positive, but also someone whose record commands respect so as to enable them to change hearts and minds quite quickly.

I would look for someone who is on their way up the management ladder and place them in the role for two or three years, the reward for success being promotion to an area management role.

The new manager will need plenty of support and encouragement. Resources for training staff need to be provided as well as for some rewards in order to help persuade staff that the company is interested in them and notices changes in behaviour and attitudes.

The new manager needs to relax the controlling style of leadership that section managers are used to experiencing, allowing them greater discretion over how they manage their teams. More generally there needs to be more employee participation and more attention paid to performance appraisal as well as career development opportunities.