

## People management policies and procedures fact sheet – research evidence, a case study and a ‘how to’ flowchart

### **Research Evidence**

There's a wealth of research evidence on the impact of high performance people management practices on business performance. I summarise a selection of the studies below.

#### **Huselid and Becker**

Mark Huselid of Rutgers University and Brian Becker of the State University of New York surveyed more than 3,200 publicly held U.S. manufacturing and service companies every two years from 1992 to 2004. They used market to book value as their key bottom line measure.

The firms in their sample with the best systems of people management policies and practices dramatically outperformed those with the poorest. Employee turnover was close to half, sales per employee were four times as great, and the ratio of firm market value to book value of assets was more than three times as large.<sup>i</sup>

They found<sup>ii</sup> that firms clustered into types. They compared two of these types:

- *'High performance'* firms use a system of performance enhancing people management policies, well aligned to business objectives and strategy, and with well developed implementation capability. These firms measure and manage the relationships between people management, business strategy and firm performance.
- *'Personnel'* firms are well below average, in terms of both the extent to which they use a high performance 'driving' people management system, and the system's alignment and implementation. They hire and pay people, but appear to make no attempt to develop them and the people management system as a strategic asset.

'High performance' firms had a market to book value 65% better than 'Personnel' firms!

Their findings emphasise the importance of having a cohesive policy system.<sup>iii</sup> They found that having a complementary set of people management policies created a synergy from which the bottom line economic returns for the whole of the people management system added up to more than the sum of the parts. For example their research found that combining above-market pay with comprehensive performance development and review (PDR) had a 50% larger effect on firm performance than the effects of the two policies used in isolation. The researchers argue that this finding reflects the synergy gained by combining a better applicant pool, more talented recruits, and a PDR policy that is able to recognize and reward more talented employees for their superior performance.

#### **Marc Thompson**

Marc Thompson<sup>iv</sup> of the University of Oxford studied 623 establishments in the UK aerospace sector in the 1990s. He found that firms which increased their use of high performance people management policies gained improvements in value added per employee ranging from 20 to 34 percent.

### Combs et al

James Combs and colleagues at the Florida State and Auburn Universities published in 2006 a meta-analysis which pulled together the results of 92 research studies.<sup>v</sup> They looked at 13 policy areas (for instance incentive compensation, training, participation).

They found that taken individually, high performance people management practices enhanced organisational performance to the extent of a correlation of .20. But the effect was significantly larger for people management systems than for individual practices. The size of the effect was greater in manufacturing firms than in service organisations. They estimate that organisations can increase their performance by .20 of a standardised unit for each unit increase in use of performance enhancing people management practices.

### Case study

This case study shows how a coffee bar chain adapted its employer philosophy for front line barristas from Cost Containment to Moderate Investment, as it altered its strategic approach to improve the quality of the customer experience.

### High performance people management practices in a coffee bar chain.<sup>vi</sup>

'Café Express', a major high street coffee bar chain, re-positioned its business strategy and employer philosophy during 2005-07. The chain operates in a competitive market which relies on a quality 'coffee drinking experience' delivered through appropriate décor, ambience, variety in the range of products and, most importantly of all, the *barista* or 'coffee seller'.

By 2005 the chain's quality had deteriorated and its stores were losing market share. The product range was limited and store interiors were looking tired. The chain's employer philosophy was one of Cost Containment, paying the minimum wage with a high proportion of staff on short term contracts. Loss of market share and high employee turnover had led to low morale amongst the remaining staff.

To improve quality and so re-build market share, 'Café Express' worked to improve the customer value proposition with a better product range, better store interiors and by moving the employment approach for front line staff to 'Moderate Investment', with better pay and benefits, improved training and development, more rigorous appraisal, improved internal communications to and from staff, employee involvement, career management, and an annual employee survey. Gradually customer service feedback improved, market share increased, and employee turnover reduced to 25%.

### A framework for action to review the policy system

#### Step 1: Build awareness and support

Ensure that managers and staff representatives understand the importance to business success of people management policies, and build their support for creating, applying and reviewing them.



#### Step 2: Ethos

Define the organisation's ethos and employer philosophy which will underpin all policies.



**Step 3: Review the Foundation policy framework for all staff**

Ensure that all the necessary Foundation policies are in place and that they meet employee needs.



**Step 4: Review the Driving policy areas for each part of the workforce**

Measure and review the Driving policies to ensure that they are aligned with the employer philosophy and with each other, that the necessary variations exist between different parts of the workforce, that they are relatively easy to use, are implemented as intended and have the desired impact on performance. Re-design as necessary.



**Step 5: Implementation**

Implement the necessary changes to the policy system.



**Step 6: Evaluate and review**

Measure and evaluate the impact of the changes against pre-agreed success criteria, and review where necessary.

This process will not be achieved overnight! Becker and his colleagues write that:

*'.. simple changes in an HR practice will not immediately send a firm's stock price soaring. Remember that our HR measure describes an entire human resources system. Changing this system by the magnitude required to enjoy these gains takes time, insight, and considerable effort. It's fair to say that it requires a transformation of the HR function and system.'*<sup>vii</sup>

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<sup>i</sup> Becker and Huselid 2006 pp.906-907; and Becker et al 2001 pp.16-18 and 207-214. The 2004 survey covered 14 people management practices. From 2006 the surveys covered:

- 24 people management practices;
- 16 measures of alignment of the people management system with business objectives and strategy, and of other characteristics which could be expected to facilitate the implementation of a performance enhancing people management system.

For detail of Huselid and Becker's research methodology, see Becker and Huselid 1998 pp. 74 and 79-80, and also: Huselid M. *The Impact of Human Resource Management Practices on Turnover, Productivity and Corporate Financial Performance* Academy of Management Journal 38:3 pp.635-672 (2005).

<sup>ii</sup> Becker et al 2001 pp.3-4 and 211-213.

<sup>iii</sup> Becker et al 1997 p.43

<sup>iv</sup> Baron and Armstrong 2002 p.114 quoting Thompson 1998.

<sup>v</sup> Combs et al 2006

<sup>vi</sup> This is a summary of a case study in Golding 2007, pp.76-77.

<sup>vii</sup> Becker et al 2001 p.39