



Maximising employee potential and business performance: the role of High Performance Working

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Foreword

EEF and CIPD have worked together to provide this briefing on a topic that we both see as fundamental to improving productivity in UK manufacturing and other sectors. This brief is unique in that it pulls together all the research that has been conducted on High Performance Working (HPW), which makes a compelling case for its introduction. In addition, it provides valuable information on implementation, maximising its impact and avoiding common pitfalls.

The evidence base suggests that the use of HPW is limited in UK manufacturing and we hope that this document will encourage more firms to go down the HPW route. Effective human resource management is critical to maximising the returns from investment in capital equipment, skills and innovation.

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Summary

The global and competitive nature of modern manufacturing has increased the drive for higher productivity in the UK. While there are many facets to achieving higher productivity, an important factor can be ensuring that lessons are learnt from pioneering companies and that best practice is applied across the manufacturing process. This brief focuses particularly on a key aspect of effective human resources (HR) practice; High Performance Working (HPW). It aims to illustrate what HPW entails and how it can help to maximise the potential of employees and improve company performance.

If you are considering going down the HPW route, the key findings of the research on the topic (covered in the main sections of this brief) and the implications for your company are summarised below and form a set of broad guidelines. In particular, it helps to identify for you what HPW involves, what drives its take-up, whether and how it improves company performance, why the take-up has been limited and how to go about introducing HPW.

What is High Performance Working?

- While HPW clearly involves using HR practices and policies to boost company performance, there is not a definitive list of practices that it involves. However, HPW practices tend to focus on employee autonomy and involvement in decision making, support for employee performance, rewards for performance and the sharing of knowledge and information. Part of HPW's strength derives from its flexibility to incorporate different practices to meet the varying needs of individual organisations. The specific types of practices that HPW can involve are:
 - appropriate selection and recruitment processes;
 - comprehensive induction programmes;
 - sophisticated and wide coverage of training;
 - coherent performance management systems with wide coverage;
 - flexibility of workforce skills;
 - job variety and responsibility;
 - teamworking;
 - frequent and comprehensive communication to employees;

- use of quality improvement teams;
 - harmonised terms and conditions;
 - market competitive pay;
 - use of rewards related to individual and/or group performance; and
 - policies to achieve an appropriate work-life balance.
- Although there is no definitive list of practices, existing research shows that the practices that make up HPW tend to have four dimensions:
 - employee autonomy and involvement in decision making;
 - support for employee performance;
 - rewards for performance; and
 - the sharing of information and knowledge.

What drives the take-up of HPW?

- The driving forces for firms introducing HPW have tended to be 'problems in the market', competition or foreign ownership. However, the benefits can be captured by any firm in any circumstances and HPW should be viewed as a route to improved performance for your company. The challenge now is to ensure

widespread take-up of HPW as a method for improving performance for companies in all types of circumstances. Case Study 1 (page 8) shows how INA Bearing Company Limited has used HPW to meet the challenge from increased competition from Eastern Europe.

Does HPW improve business performance?

- The majority of evidence suggests that HPW can improve the performance of your organisation. A significant body of research has looked into the link between HPW and company performance both within manufacturing and in other sectors. Research from the US and EEF's and CIPD's own findings show that companies that use HPW tend to have higher productivity.
- Some of the more striking findings for manufacturing come from a CIPD study by the Institute of Work Psychology at Sheffield University. It shows that in a sample of 100 manufacturing companies based in the UK, HPW practices accounted for around a fifth of the variation in profitability and productivity between firms. In addition, studies across the globe have shown that investment in these practices and the skills associated with them impacts on the bottom line.

- There is an opportunity to learn from the experience of the UK aerospace sector. HPW has slowly but steadily diffused through the UK aerospace industry and there is evidence of a clear link between HPW and sales and value-added per employee. Aerospace firms with a greater number of HPW practices also had more lean production systems in place and a higher training spend. If you are looking to maximise productivity gains for your organisation, a potent cocktail is the combined use of HPW, lean manufacturing and training.
- The introduction of HPW can bring benefits for your employees in terms of increased job satisfaction and motivation. The environment of trust and intrinsic rewards that HPW creates also brings higher organisational commitment, as well as increased job satisfaction. Where such practices lead to higher productivity and higher skills levels they can also generate higher earnings for employees.

How does HPW improve performance?

- A major study for the CIPD, carried out by researchers at Bath University, has been pioneering in its examination of the process by which HPW leads to improved company performance – looking 'inside the black box'. Its findings are critical if you intend to implement HPW

successfully and maximise its benefits. The main points to bear in mind are:

- Managing performance through people means finding ways to induce or encourage employees to contribute more effectively by triggering discretionary behaviour that makes the difference in a job being done well. This happens when people find their job satisfying, they feel motivated and they are committed to their employer.
- The most successful organisations with higher than average levels of organisational commitment and performance are those with a clear vision and a set of integrated values – encapsulated by a 'Big Idea'.
- HR policies and practices must fit with and be tailored to the business strategy, while at the same time being flexible enough to help organisations adapt to changing circumstances. Enduring values play an important part in achieving this.
- In some cases, lower levels of commitment are explained more by dissatisfaction with the way policies and practices are implemented and put into action, rather than the lack of a particular policy.
- Implementing and enacting policies is the task of line managers and their role is therefore critical.

- There is clear evidence of a link between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment and operational performance.

- Successful firms are able to meet people's needs both for a good job and to work in 'a great place'. They create good work and a conducive working environment thereby becoming both 'an employer of choice' and high performing.

- The conclusions from this research point to five specific HR policies that in a majority of situations can help to maximise the benefits of HPW:

1. **Careers and training** remain vitally important in influencing employee attitudes and helping to create positive discretionary behaviour.

2. **Job design** is very influential. Where people have some influence over how they do their job, and where they find their job interesting and challenging, they are much more likely to have job satisfaction, be motivated and more committed to the organisation.

3. Designing and managing **involvement and communication** systems are a major part of successful HR policy and practice.

4. **Appraisal** is valued, and broadening coverage and the scope for discussion have positive outcomes.

5. **Work-life balance** can be instrumental in making employee attitudes more positive.

Why has take-up been limited?

- There are still many companies that have not implemented HPW and this can present the opportunity to steal a march on your competitors. The conclusions from *Catching up with Uncle Sam* that the take-up of HPW practices in UK manufacturing is limited is backed up by other evidence which shows low use in UK manufacturing and other sectors of the economy. In addition, new mechanisms of rewarding staff that can be an integral part of HPW are also not used widely.
- Experience tells us that there are barriers to overcome if you want to achieve successful implementation of HPW and maximise the gains it can bring. Namely:
 - More widespread uptake of HPW is being hindered by resistance to change within organisations where the existing culture has become inflexible.
 - Existence of mistrust between management and employees can mean it is difficult to introduce HPW and the main barrier seen by firms to the introduction of HPW is the attitude of management and employees.

- If the benefits and nature of HPW are communicated well and better understood by managers and employees within your company then one of the key barriers to HPW can be removed, or at least substantially reduced.

How to introduce HPW

- When considering what changes to make and practices to use, it is important to bear in mind that there is no 'one size fits all' approach and that maximum benefit from HPW can best be achieved by finding the best fit for your organisation, that is, the combination of practices that are best suited to the environment and strategy of your firm. In most instances the best results can also be achieved by introducing practices in self-reinforcing bundles rather than isolated single initiatives. These points are just as important for policymakers as they are for businesses, as they clearly point away from prescriptive centralised policy in this area.
- To overcome the obstacles to implementation of HPW it is essential to tackle the following issues:
 - Win the **trust** of your employees and be prepared to let your employees be more directly involved in decision making. Employee participation is critical.

- Ensure **extensive training** for your managers and employees to ensure they have the range of skills required for their new roles. This includes your HR staff (or the person with HR responsibilities) as they must have the required skills to be closely involved at the strategic level.
- Use **benchmarking** where possible, for example with lead plants, to facilitate the uptake of HPW.
- Put in place extensive **recruitment and selection** procedures to ensure that your future managers and employees can support a culture of HPW.
- The chances of success of HPW can hinge on the following factors:
 - a strong and active commitment from senior management;
 - commitment from your employees to the organisation's objectives;
 - the opportunity for your managers and employees to apply their own discretion in their work; and
 - the pursuit of continuous improvement throughout your company.
- There may be costs for your firm if you decide to go down the HPW route. Implementation can incur costs, not least in terms of the time and effort of the people you involve. There can be additional costs from the required increase in coordination and the acquisition of new skills. The

design of team-based reward and recognition systems can also be difficult and have implementation costs. There is, however, substantial evidence to suggest that the gains from HPW far outweigh these costs and that they should not deter you from going ahead with HPW.

The evidence that backs up these important findings for companies looking to introduce HPW is discussed in more detail in the following sections of this brief.

Maximising employee potential and business performance: the role of High Performance Working

Introduction

Boosting UK productivity is critical for the success of UK manufacturing in the global economy. There are many facets to higher productivity including more investment in capital equipment, higher skills levels, greater innovation, increased flexibility and improved infrastructure. However, these factors must be underpinned by wide dissemination of best practice in areas such as lean manufacturing and human resource management to ensure that productivity gains are maximised. This brief focuses on a key aspect of effective human resource management - High Performance Working (HPW).

There is now a wealth of literature on HPW and how it contributes to company performance. This brief looks in detail at what this research shows and more importantly at what HPW involves, whether it delivers results and what aspects are relevant for manufacturing. It illustrates exactly what HPW entails, how it can help to maximise the potential of employees and improve company performance. By drawing on existing research the aim is to help firms benefit from the experience of companies that have already implemented HPW.

1. What is High Performance Working?

One of the problems with understanding HPW and what it entails is that there is no universally accepted definition. In fact, there is no single agreed definition of what makes up the bundle of HPW practices that deliver results. Much of the research covered in the following sections uses different terminology to describe the set of practices that it considers – for example they could be called Human Resource Management Practices or High Involvement Practices. However, the research is bound together by the basic principles of investigating HR practices that boost company performance through channels such as greater employee involvement and increased teamworking. So for simplicity and the purposes of this brief it has been decided to group research on HR practices that link to company performance under the HPW heading.

That said, it is possible to consider what the literature suggests HPW involves and from that generate the key characteristics of HPW. From the outset it is vital to recognise that part of HPW's strength derives from its flexibility to incorporate different practices to meet the different demands of individual organisations.

Patterson et al set out the key aspects of HPW and their views tie in with much of the literature. The common characteristics of HPW are seen to be:

- appropriate selection and recruitment processes;
- comprehensive induction programmes;
- sophisticated and wide coverage of training;
- coherent performance management systems;
- flexibility of workforce skills;
- job variety and responsibility;
- teamworking;
- frequent and comprehensive communication to employees;
- use of quality improvement teams;
- harmonised terms and conditions;
- market competitive pay;
- use of rewards related to individual and/or group performance; and
- policies to achieve an appropriate work-life balance.

These practices are considered to improve company performance through the three causal routes of: increasing employee skills and abilities; promoting positive attitudes/increasing motivation;

and providing employees with expanded responsibilities so that they can make full use of their skills and abilities.

Ashton and Sung in their book for the International Labour Organisation (ILO) look in detail at new ways of organising work, rewarding performance and involving employees in the decision process in the workplace. They regard HPW as involving concern on the part of employers with developing their labour force and making use of practices such as teamworking, job redesign, employee involvement in decision making, extensive communication and performance related pay to enhance organisational performance. Ashton and Sung follow Guest, who in his research study for the CIPD outlines the 18 HPW practices listed in table 1.

It is recognised that other research has extended this list to more than 30 practices, but also that there is no definitive list of practices. Rather, all the practices can be categorised into four dimensions:

- employee autonomy and involvement in decision making;
- training, development and support for employee performance;
- rewards for performance; and
- the sharing of information and knowledge.

1.	Realistic job previews
2.	Psychometric tests for selection
3.	Well-developed induction training
4.	Provision of extensive training for experienced employees
5.	Regular appraisals
6.	Regular feedback on performance from many sources
7.	Individual performance-related pay
8.	Profit-related bonuses
9.	Flexible job descriptions
10.	Multi-skilling
11.	Presence of work improvement teams
12.	Presence of problem-solving groups
13.	Information provided on the firm's business plan
14.	Information provided on the firm's performance targets
15.	No compulsory redundancies
16.	Avoidance of voluntary redundancies
17.	Commitment to single status
18.	Harmonised holiday entitlement

Source: Guest

These underlying dimensions are achieved by introducing sets or bundles of practices, rather than one particular practice on its own. The end result is a new way of organising production that breaks with the tradition of 'command and control'. The High Performance Workplace encourages the development of workers' skills and taps into their

emotional capital and tacit knowledge in order to enhance organisational performance. In addition to developing technical skills and multi-skilling, the need for ongoing problem solving, communication and teamworking requires the continuous exercise of discretion and day-to-day learning by employees. This environment of self-confidence, flexibility and continuous learning is at the heart of the performance impact of the HPW approach.

2. What drives take-up of HPW?

According to Ashton and Sung, a number of factors are contributing to the take-up of HPW, notably globalisation, the spread of new technologies and the intensification of competition. The opening up and growth of new markets has been accompanied by the growth of multinationals, which has helped to spread new forms of management. The Japanese experience in the 1980s, with its emphasis on quality, responses to downsizing and focus on quality of working, has contributed to the drive towards HPW. The main trigger for the introduction of HPW at the level of the firm is a 'problem in the market'. This can take the form of a threat to the continued viability of the organisation, although the exact nature varies from company to company. Some of the early pioneers introduced HPW in response to increased competition, for example, from

Japan. The introduction of teamworking is often driven by pressures from the market. This can come through the desire to be market leaders, improve customer focus, the need to cut costs and improve industrial relations. Foreign ownership can lead to the introduction of HPW, as has been the case in the automotive industry. Firms are more likely to increase their use of HPW when they have already implemented a variety

of complementary HR practices. In many cases there is not a conscious effort to introduce HPW, rather just an accrual of the practices to improve company performance through the use of good management. The resultant ad-hoc and incremental growth of HPW explains why there is no universally accepted definition of what it constitutes or a specific model for action. To improve the take-up of HPW in UK

manufacturing, it must be seen as a method of improving company performance, rather than just a response to difficult times. This requires making the case that HPW boosts company performance and showing how it does so. The case study in Box 1 on INA Bearing Company Limited shows how they have used HPW to meet the challenge of increased competition from Eastern Europe.

Box 1

Moving to HPW case study: INA Bearing Company Limited

Background

INA Bearing Company Limited is a subsidiary of a German privately owned mechanical engineering group. Some 360 employees at Llanelli, West Wales, manufacture high precision components for the automotive industry (mainly tappets and tension pulleys). Two thirds of these staff are hourly paid, spread across four grades including team leaders. The remaining Llanelli employees are involved in quality, maintenance, engineering, production scheduling and a range of support functions. A further 80 staff are based in the West Midlands where activities are concentrated on sales, distribution and applications engineering. The business has faced a particularly challenging time. In the 1990s it experienced rapid growth. Over

the last three years, however, new low cost competition has emerged as group production capacity has been placed in Eastern Europe (Slovakia and Romania) where wages are lower.

INA Bearing Company Limited has responded by seeking to compete through developing the capability to deliver higher value added products. There has been a planned and sustained focus on continuous improvement, cost reduction and, as an integral component of the process, a sustained attempt to upskill the workforce. As Personnel Manager Adrian Roberts puts it: "Previously the investment has been in machinery, now the investment is in people. You never know what the next product will be, so you need to update the skills and knowledge so that people have technique and ability to cope with whatever comes their way."

The change process began with a management offsite strategy day held in

March 2001. The culture change programme developed there identified 'production location of choice' as the vision for the Llanelli factory. 'Integrity, Innovation, Respect, Commitment and Passion' were identified as values. A series of initiatives were put in place on a planned timetable.

The culture change programme involved continuous improvement, training and flexibility; significantly they were linked and supported by the statement "the rate of learning must be greater than the rate of change" ($L > C$).

As the guidance for communication states: "To achieve this vision a "learning culture" must be at the core of our activities, so that we are practising a culture of continuous improvement and consequently whatever "change" is necessary in the future we have the requisite skills, knowledge and experience to adapt and achieve our targets. This will mean the training and development of all

people in the organisation to improve our skills and knowledge. We will be assessing and appraising everyone within the organisation to ensure that we have a suitably trained and experienced team.”

Following the strategic away-day the ten serving managers were allocated responsibilities for undertaking one-to-one discussions with employees to explain the initiative and its significance for the company. All employees were included. To achieve the requisite interviews by the deadline, one of the management team was obliged to work until 4.00am to outline the initiative to individual employees who were on the night shift. This was found to be a most effective attitude survey and revealed all sorts of issues. The Trade Union has also been actively involved and is supporting management.

New initiatives

Currently the company is undertaking a number of related initiatives. It has nearly completed a team leadership programme linked to the NVQ level 3 in Management, and is three quarters of the way through a supervisory programme linked to NVQ level 3 in Business Improvement Techniques. INA has also completed a 5S workplace organisation initiative that involved all employees and was used as the catalyst to get everyone involved in continuous improvement and the development of a learning organisation. INA is about to embark on a further continuous

improvement programme ('Kaizen'), again for all employees, and has also embraced techniques such as Six Sigma.

In addition, an extensive programme of NVQs is underway. All operators are working towards NVQ level 2 Performing Manufacturing Operations. NVQs receive support at INA Bearing Company Limited, in part because there is no readily recognised qualification for manufacturing operations.

Developing a learning culture

A shift from training to learning is recognised as desirable and is taking place. According to Adrian Roberts INA Bearing Company Limited is trying to develop a learning culture: “We need to remove any barriers that prevent people learning. Many of our staff left it behind at school. We want to get them back into learning. We want to create a culture of self development where people take charge of their own learning.”

Such changes are taking place, but not as fast as the company would wish. One initiative currently underway is the establishment of a learndirect e-learning centre in the site offices. This initiative has been developed with the local learning hub Coleg Sir Gar (Carmarthenshire).

All senior managers (the team currently stands at eight) are required to report regularly using a standard four-section scorecard. Important measures reflect performance priority, particularly business

operating statistics, with one element of reporting specifically designed to reflect progress in achieving L>C.

One specific priority in managing the change from training to learning includes training for line managers. First, there is a significant on-going programme to develop skills relevant to team leaders and supervisors. Achievement of NVQs is an essential component, so too is a training programme to acquire the skills and knowledge. These are delivered for both team leaders and supervisors on a one-day a month modular basis. Tutors/facilitators are drawn from the Coleg, a consultancy group, and individuals from senior management group at INA. The senior management team play a key role in not only demonstrating their commitment to learning, but also to contextualise the theory to enable it to be transferred to the workplace.

Looking ahead it is intended to move to the next stage of the culture change programme and move forward on continuous improvement (Kaizen). In this stage there will be collaborative learning, as work groups will be meeting on a regular basis to improve practices – and to learn from each other. In addition, the team leaders and supervisory programme will be completed soon. This should result in progress in creating a learning culture and feed into the continuous improvement initiative.

3. Does HPW improve performance?

Whatever the background drivers, potential take-up will to a considerable extent also depend on the degree to which HPW can be shown to improve business performance. While HPW seems to be particularly relevant to manufacturing, evidence also shows that it has been a success in other sectors and can therefore apply to most environments.

The US experience

Research into the US experience in the 1990s (Huselid, Black and Lynch) provides convincing evidence that HPW has contributed to US productivity growth. It shows that it is not the adoption of any single practice that appears to be crucial but the combination of a number of them and the involvement of employees in decision-making.

EEF survey evidence shows that over 80% of manufacturing firms implementing these workplace initiatives found them successful at achieving their goals of raising productivity/profitability and increasing employee participation and satisfaction. Those firms that had implemented HPW were more likely to have higher productivity and profitability.

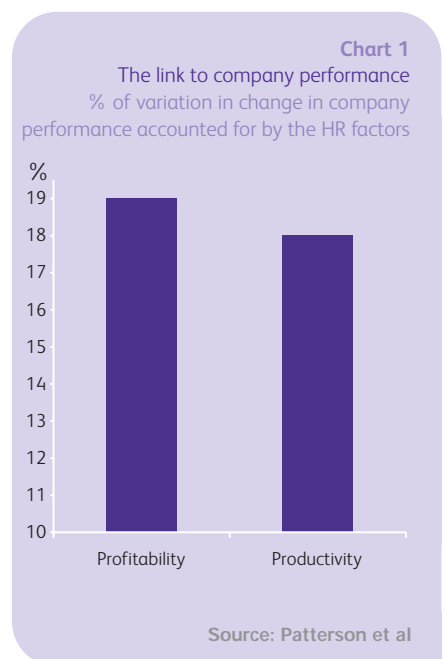
Success in UK manufacturing

A CIPD research study led by Patterson at the Institute of Work Psychology in

Sheffield conducted interviews with 100 manufacturing companies over a ten year period. The aim was to determine what factors principally influenced company performance. They focused on four questions: Do employee attitudes predict company performance? Does organisational culture significantly predict variation between companies in their performance? Do human resource management practices explain variations between companies in profit and productivity? Which managerial practices are most important in predicting company performance?

The results show that employee attitudes can influence company performance and that organisational commitment is also important. The more satisfied employees are with their jobs, the better the company is likely to perform. The measure of satisfaction covered many aspects of working life, from pay and conditions through to softer issues such as recognition for good work, attention paid to suggestions and relationships with team members and supervisors. The results suggest that good people management goes beyond traditional HR practices such as recruitment, appraisal and training. It is important to take account of many aspects of employee satisfaction including their needs for growth and development, their sense of security, relationships with colleagues/supervisors and the balance between home and work.

Organisational culture is interpreted as the aggregate of employees' perceptions of the quality of communication, support for innovation, level of supervisory support etc. Cultural factors were found to have a significant impact on company performance, with the variable that most explained change in performance being concern for employee welfare.



The results shown in chart 1 indicate that HRM practices taken together accounted for around a fifth of the variation in profitability (19%) and productivity (18%) between companies. Acquisition and development of skills (selection, training and appraisal) and job design (job variety and responsibility, skill flexibility and teamworking) are

significant predictors of change both in profitability and productivity. In addition, HRM practices are seen as far more powerful predictors of change in company performance than R&D, technology, quality and strategy. The authors suggest that the reason managers are so slow to implement such practices is that managing people is more ambiguous than other business goals and this makes it more daunting.

HPW is working across the globe

Ashton and Sung consider the wealth of evidence on whether HPW can deliver results in terms of higher productivity and profitability. They find evidence of a robust link between HPW and company performance and that 'put plainly, investment in these practices and the skills associated with them pays off on the bottom line'.

Studies have been conducted across the globe from the US, to UK, Canada, Taiwan, China and New Zealand, with all the results pointing in the same direction (see in addition the detailed study of HPW in UK aerospace conducted by Marc Thomson of Templeton College Oxford, Box 2). These practices are evident in organisations across the globe and are producing similar results. Not only were the results coming from different countries but from varying methodologies, adding to the robustness of the findings. The results also show that the performance improvements only

come from the implementation of bundles of practices that are self-reinforcing, rather than single initiatives.

Benefits for employees

Although the outcomes for employees have not been investigated as thoroughly as the impact on performance, the evidence base points to HPW leading to higher job satisfaction. In addition, autonomy over task-level decision making, membership of self-directed teams and communication with people outside the work group are associated with workers trusting managers and experiencing intrinsic rewards. Trust and intrinsic rewards in turn feed into a strong positive impact on organisational commitment and job satisfaction.

Given that HPW can lead to higher productivity, it is not surprising that employees can also benefit from higher earnings under it. Higher earnings must also be linked to one of the other benefits of HPW for employees - higher levels of skills. The higher level of training that can underpin HPW tends to produce higher levels of skills. Research in the UK points to these new skills being concentrated in IT, problem solving, communication and teamwork.

Box 2

The UK aerospace experience

There are some very relevant and interesting conclusions from a study of the UK aerospace industry (Thompson) that takes a unique approach by using longitudinal panel data on establishments which allows an exploration of performance effects of HPW. It paints a picture of slow but steady diffusion of HPW in the aerospace industry and there is further evidence that HPW is related to company performance.

The study looks at the relationship between an HPW index and company performance. The index looks at use of three distinct but related groups of practices:

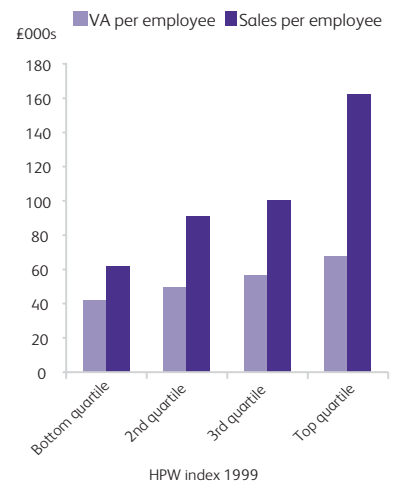
1. **High involvement practices**, which create greater opportunities for employee involvement such as: semi-autonomous team working, continuous improvement teams, responsibility for own work quality, job rotation, information sharing programmes and briefing groups.
2. **Human resource practices**, which help build skills levels, motivation and ability such as: appraisal, personal development plans, performance based rewards, high levels of on and off-the-job training, sophisticated recruitment techniques and broad job grading structures.

3. **Employee relations practices**, which can help build trust, loyalty and identity with the organisation and include: harmonised terms and conditions of employment, formal grievance procedures, induction programmes, joint consultative committees, regular social gatherings, same canteen and eating arrangements.

Over the 1997 – 2002 period a strong and positive relationship was found between the HPW index and sales and value-added per employee. Those scoring high on HPW in 1997 had average sales in 2002 of £133,000 per employee, compared with £67,000 for those scoring low on the index. The pattern between 1999 and 2002 is even more marked and is summarised in chart A. It shows that those establishments in the top quartile on the HPW index in 1999 recorded sales per employee in 2002 of £162,000, compared to £62,000 for those in the bottom quartile – a difference of 161%.

Further analysis that looked at the role of individual practices found that giving people a stake in the business was particularly effective at boosting performance. Use of profit sharing and share ownership schemes in 1997 correlated with higher sales per employee and higher value-added per employee in 2002. It was also found that greater provision of information to employees – e.g. briefing groups – was associated with higher levels of profit per employee. Staff turnover was lower where firms gave

Chart A
HPW and business performance in aerospace
How companies scored on HPW in 1999 & VA/Sales per employee in 2002



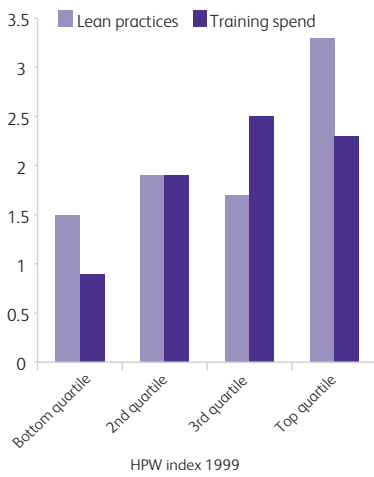
Source: Thompson

employees more responsibility for the quality of their own work. The author makes it clear that while these individual practices are important, they should be seen as a part of a wider, more integrated set of practices that constitute HPW.

The results also show a link between the use of HPW and lean manufacturing. Chart B shows that those firms with a greater number of high performance practices in 1999 also had more lean systems in place in 2002. In 2002 those high on the index used 3.3 lean systems whereas those low on the index used 1.5. Companies with a greater number of

Chart B

The link between HPW and lean/training
Number of lean practices in place 2002 and
off-the-job training spend as % of non-
management wage bill 2002



Source: Thompson

practices such as semi-autonomous team-working, provision of information to front-line workers and job rotation within and between teams, tended to have more lean practices. These types of high performance working align closely with and potentially reinforce lean systems, producing a powerful drive for higher performance.

HPW, through such practices as team working, multi-skilling and information sharing means that the workplace becomes an important place of learning. The research shows that the distinction between on and off-the-job training is blurring and that an increasing amount of off-the-job training is actually carried out in the workplace. Chart B shows that those companies using a greater number of HPW practices are also investing more in off-the-job training. There is also clear evidence that a worrying gap in investment in training is opening up between companies according to the extent to which they use HPW. Those establishments high on the HPW index in 2002 devoted 2.6 times more of their total wage bill to training than the rest.

These findings support the contention that an important factor in HPW is the provision of training and development.

In summary the experience from the aerospace sector tells us that:

- HPW and workforce development have a direct bearing on company performance, with the benefits of such practices outweighing any costs.
- HPW plays an important role in supporting the development of lean manufacturing.
- HPW helps learning to occur in the workplace, with those organisations using such practices investing significantly more in off-the-job training.

Firms that seek to improve the effectiveness of their employees and thereby of their need to introduce work practices that increase employee participation, provide opportunities and incentives for workers to improve and also deploy their knowledge, skills and abilities.

4. How does HPW improve performance?

Getting inside the ‘black box’

With a significant body of research showing a strong relationship between the way people are managed and company performance, Professor John Purcell at the University of Bath has gone further in a CIPD research study and investigated what is actually happening in companies that get success from introducing HPW – looking inside the ‘black box’. The research focuses on case studies in twelve organisations (covering more than 1,000 employees), ranging from an NHS trust, to a management consultancy, retailers, manufacturers and financial firms. In particular Purcell looks at the importance of discretionary behaviour by employees and managers and the effect of variations in this behaviour on business performance.

Discretionary behaviour is crucial

To attempt to understand how the various practices are implemented by line managers and how they are perceived by employees, the CIPD study explores the links between discretionary behaviour, employee attitudes and business performance. The research attempts to build on Appelbaum et al (2000) which investigated the links between high performance work systems and performance in 44 manufacturing sites in the US. It found that discretionary behaviour is one of the keys to

understanding the links between HR practices and organisational performance. In more detail, every job contains both prescribed and discretionary elements, with the discretionary elements very dependent on the occupant of the role and their judgement and feel. The key link with performance is to get employees not just to do their job but act beyond contract and do more than they are formally required. This depends on improvements in job satisfaction and organisational commitment and motivation. It is also strongly influenced by the way managers exercise their own discretion and how they put HR practices into operation.

These links between employee attitudes, discretionary behaviour, and performance outcomes are the core of the CIPD research model that links HPW to performance. The research demonstrates that performance is a function of three factors (AMO) listed below:

- **Ability** – skills, experience, knowledge;
- **Motivation** – to apply abilities – both financial and intrinsic; and
- **Opportunity** – to engage in discretionary behaviour.

Ability refers to the fact that people will want to apply for jobs in an organisation, have their attributes recognised and be willing to learn new skills. For Motivation the assumption is that people are

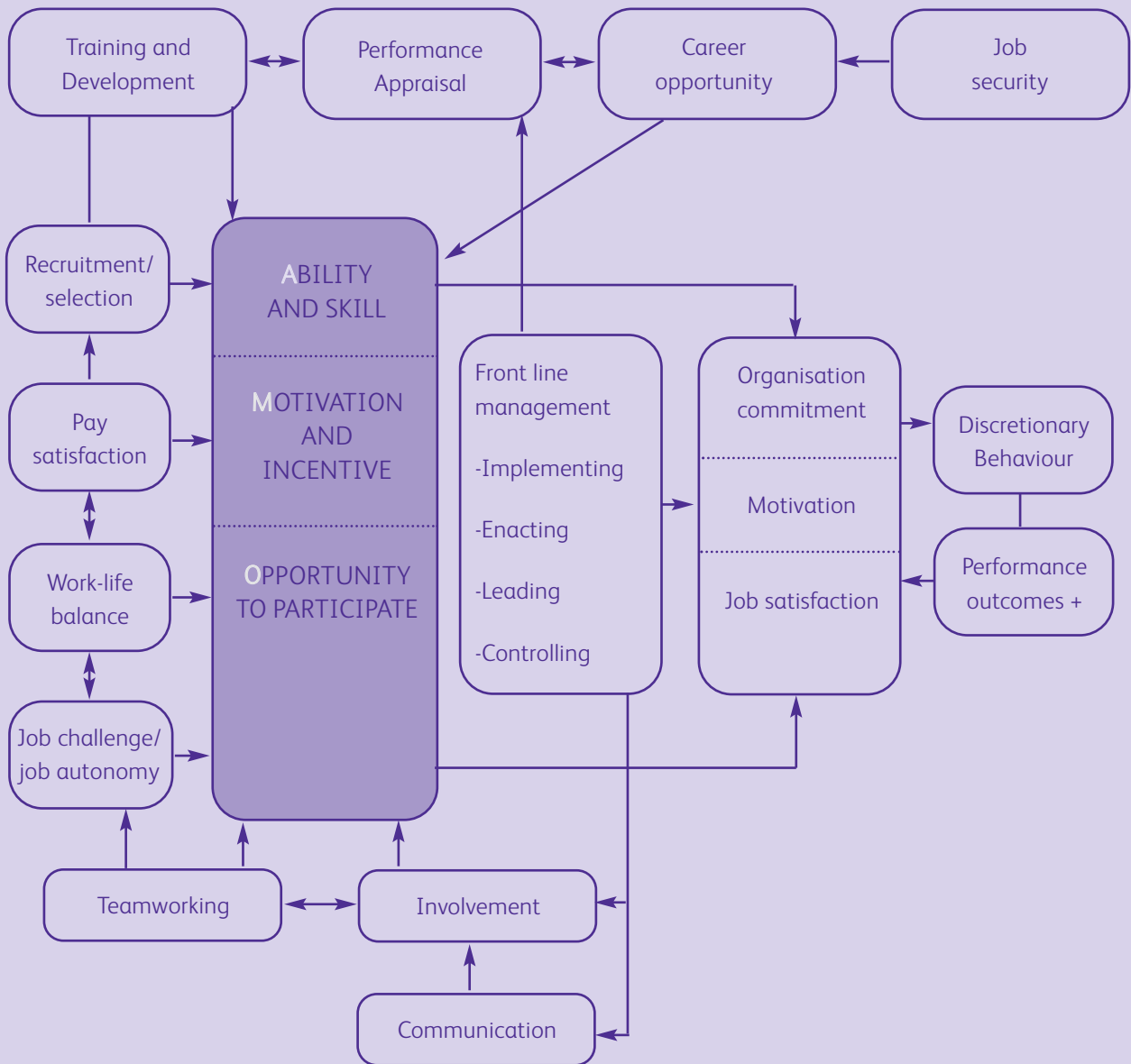
motivated to use their ability in a productive manner because they respond to various rewards and stimuli. And in order for people to provide high quality work (beyond the satisfactory level) and wish to engage in extra activities such as problem solving, they need to be given the Opportunity to do so.

The full model is illustrated in chart 2. The central assertion is that AMO feeds directly into the three elements of organisational commitment, motivation and job satisfaction. There are three further keys aspects to the model.

1. The outside ring of eleven policy or practice areas (seen to be the most universal and most likely to be of importance) in human resources management are identified to feed into and give practical meaning to AMO and are themselves interrelated with one another.
2. Another crucial feature is front-line management, which is at the centre of the model, emphasising the importance of their role in bringing HR policies to life.
3. Finally, performance outcomes feed back into the attributes box, showing how the experience of working for a successful organisation and the experience of success feeds back to help reinforce attitudes.

Chart 2

The people and performance model



Source: Purcell

The 'Big Idea'

A notable feature of the organisations studied is the existence of a 'Big Idea'. This is a clear sense of mission, underpinned by values and culture, expressing what the firm is and its relationship with its customers and employees. For example, in Jaguar the 'Big Idea' is quality – it is not just an outcome seen in product reliability, design and build but also about processes and routines. It drives down costs by reducing reworking, eliminating the need for a large number of quality inspectors and minimising accidents and injuries. The 'Big Idea' is seen as one of the keys to the HR-performance link as it creates the organisational values necessary for the particular policies to work effectively and helps to secure discretionary effort and commitment.

Line managers crucial

As already mentioned, the role of line managers is also critical. The way HR policies are implemented is related to the interplay between managerial and employee discretion. Managers play a vital role in making involvement happen, in communicating, in being open to allow employee concerns to be raised and discussed, in allowing people space to influence how they do their job, and in coaching, guiding and recognising performance and providing help for the future. Deliberate action to strengthen the skills of line-managers had beneficial effects in a number of the organisations considered.

This emphasis on the role of managers brings its own issues about how to develop managers. The CIPD look at these in another research study "Developing Managers for Business Performance" and identifies three key and mutually reinforcing requirements for connecting business challenges and management development. Firstly, making the case for developing managers by convincing key stakeholders of the significance of management to business performance. Secondly, making the connection between business strategies, organisation and management development. Finally, managing the learning – getting the implementation right. The CIPD briefing provides a checklist to assess performance and prioritise action to develop management capability.

Those organisations with the 'Big Idea' that were values-led and managed, were much better able to sustain their performance over the long-term. It means that not only are the HR policies themselves important but that the way they are put into operation also contributes to the 'HR advantage'. There was evidence that employees who work in a high-performing organisation are more likely to engage in positive discretionary behaviour and that the direction of causation goes from performance to attitudes via discretionary behaviour (shown in the AMO model by the feedback loop). A key conclusion therefore is the need to keep

the sense of success going and that the 'halo' effect of positive feedback can help sustain performance during tougher times.

To summarise, the important issues raised by the CIPD's People and Performance research are:

- Managing performance through people means finding ways to encourage employees to work more effectively by triggering discretionary behaviour that can make the difference in a job being done well. This happens when people are appropriately trained, find their job satisfying, feel motivated and have the opportunity through involvement and consultation to contribute, thereby making them committed to their employer.
- Important HR policies and practices that were apparent from the research are those that create opportunities for:
 - career advancement;
 - doing a challenging job;
 - having some influence on how the job is done;
 - training;
 - having a say in decisions that affect the job;
 - working in teams;
 - working for a firm that assists people to balance life at work and home;

- being able to raise matters of concern;
- having a boss who shows respect; and
- having managers that are good at leadership.
- The most successful organisations with higher than average levels of organisational commitment were those with a clear vision and a set of integrated values – a ‘Big Idea’.
- HR policies and practices must ‘fit’ with and be appropriate for the business strategy, while at the same time being flexible enough to help an organisation adapt to changing circumstances. Enduring values played an important part in achieving this.
- In some cases, lower levels of commitment were explained more by dissatisfaction with the way policies and practices were implemented and put into action, rather than the lack of a particular policy.
- Implementing and enacting policies is the task of line managers and their role is therefore critical.
- There is clear evidence of a link between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment, views of the effectiveness of management and operational performance.

- Successful firms are able to meet people’s needs both for a good job and to work in ‘a great place’. They create good work and a conducive working environment and become ‘an employer of choice’.

The CIPD research concludes that “Organisations seeking to optimise the contribution that people management can make must develop policies and practices that meet the needs of individuals and create ‘a great place to work’. However, this does not mean just copying best practice. Organisations must create and transmit values and culture which are unique to themselves, which bind the organisation together, and which can be measured and managed. HR management must not be a stand alone function but be fully integrated into the management process”. The conclusions for HR policies that contribute to high performance focus are five-fold:

- **Careers and training** remain vitally important in influencing employee attitudes and helping to create positive discretionary behaviour.
- **Job design is very influential.** Where people have some influence over how they do their job, and where they find their job demanding and challenging, they are much more likely to have job satisfaction, be motivated and more committed to the organisation.

- Designing and managing **involvement and communication** systems are a major part of successful HR policy and practice.
- **Appraisal** is valued, and broadening coverage and the scope for discussion have positive outcomes.
- **Work-life balance** can be instrumental in making employee attitudes more positive.

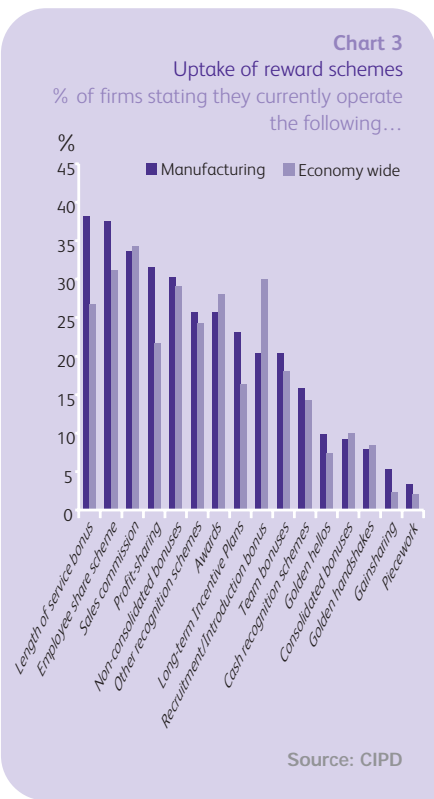
5. Why has take-up been limited?

Most of the evidence suggests that there is room for improvement in the take-up of HPW in the UK. Professor Michael Porter concluded in his review of UK competitiveness that “UK companies adopt modern management techniques.....later and less often than their competitors”. EEF’s own survey evidence in *Catching up with Uncle Sam* looked at the use of workplace initiatives which encapsulates some forms of HPW. The results showed that while UK manufacturers are embracing some aspects of HPW, over half of firms say they have done so moderately, minimally or not at all. The majority of firms use basic practices such as output monitoring and individual performance appraisal. Take-up of some of the more imaginative initiatives such as employee involvement, team/individual incentives and profit-based pay was significantly lower.

In addition, EEF results show a difference in take-up and performance between foreign and domestically-owned companies in the UK. US-owned firms in the UK are making greater use of all forms of workplace initiatives than their UK-owned counterparts and at the same time are enjoying higher productivity and increased profitability.

There is further evidence suggesting that the take up of HPW is limited. A CIPD study by Guest et al (2000) uses the 1998 Workplace Employment Relations Survey (WERS) to examine the UK's existing HR practices across both the public and private sectors. The study does so by looking at the eighteen progressive practices outlined in table 1 which range across such areas as recruitment, training, appraisal, job design, quality and communication. The results show that the take-up of such practices is low and that while some firms have a human resources strategy and manage their people well, there is a long tail of poor performers that do neither. Only 1% of companies use three quarters or more of the practices extensively, while 25% have fewer than a quarter of the practices in place. The results show a clear link between the use of more human resource practices and greater employee involvement, positive employee satisfaction and commitment, higher productivity and better financial performance.

Thus, despite the wealth of evidence, these studies indicate a surprisingly low take-up of HPW practices. This suggests that there is considerable scope to further improve levels of profitability and productivity in the UK.



Use of associated reward schemes also limited

New mechanisms of rewarding staff can be a component of HPW, although they are by no means sufficient and on their own can fail to deliver significant results. The annual CIPD Reward Management Survey provides information on the

uptake of various reward schemes. The results are broken down by sector and chart 3 shows that of the various reward mechanisms listed none were used by more than 40% of firms. Although employee share schemes and profit sharing were used by roughly a third of firms, team bonuses were only used by a fifth of manufacturers.

The Survey also asks firms how effective they feel their reward package is on a whole host of criteria. Manufacturers find their current reward schemes are most effective at recruitment, retention and rewarding staff fairly – a reflection of firms' priorities of retention and reward. Manufacturers see their current reward systems as less suited to motivating employees, improving company performance, improving links to employee performance and improving productivity. These aspects have a much higher priority in HPW and suggests that manufacturing still has some way to go before HPW is considered widespread and effective. Current reward schemes in manufacturing seem to reflect more traditional priorities of retention and fairness, with considerable use of service-related rewards still evident.

Factors behind the limited take-up

If there are clear benefits from introducing HPW, it begs the question as to why more firms are not doing so. A variety of different reasons can be put forward to explain the lack of take up.

Other strategies are open to a firm wishing to enhance its profits in the short-term – increased outsourcing, use of new technology to reduce staffing levels, improved recruitment and training and mergers and acquisitions. Some of these options may be viewed as cheaper and better able to deliver results in the short-term.

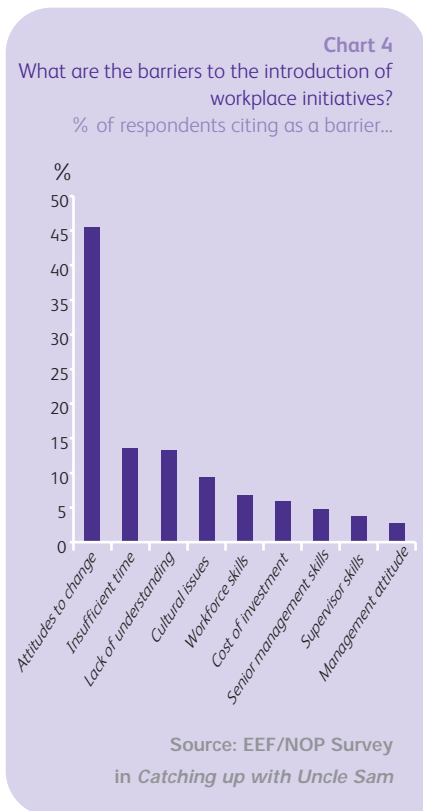
System inertia has also been described as a constraint on the spread of HPW. This refers to where well established organisations experience a resistance to change as organisational practice and culture become embedded. HPW can be easier to introduce where a company is setting up a new establishment and has a clean sheet because there is no prior organisation or tradition. Three reasons are put forward for this inertia: firms get locked into their initial choice of practices; firms experiment with change but when it does not pay off abandon it; and the switch to HPW may also mean adopting new production and distribution technologies that require additional costs.

Mistrust between management and employees can also make it difficult to introduce HPW, for example, following past job cuts or where there have been poor industrial relations. Downsizing on its own does not necessarily prevent HPW, particularly if management have put in place measures to develop trust. Trade Unions are not seen as a

constraint on the introduction of HPW and can facilitate it where they are closely involved in training policy and employee involvement. There is also evidence at the European level that Works Councils and Union representatives can contribute to successful change, although clearly this is not the only way to bring about change.

There are costs to the introduction of these practices, not least in terms of time and effort of the people involved. There could be additional costs from the required increase in coordination and the acquisition of new skills. The design of high-quality team based reward and recognition systems is also difficult and can be hard to implement. Teams also need time to be able to absorb and interpret new information and learn how to solve problems. There is also evidence that HPW practices cannot be implemented overnight, but that it takes considerable time and effort to get them properly understood, operated and effective.

Attitudes to change are an important constraint according to EEF's survey evidence from *Catching up with Uncle Sam*. Chart 4 shows that the most important constraint cited by firms on the uptake of workplace initiatives is "attitudes to change". This represents both employee and employer attitudes and could reflect different issues in different firms, ranging from employee scepticism due to outcomes from past change, to employers' lack of understanding of the issues. Whatever the cause of this inertia within firms the end product is the same – either a failure to implement HPW at all or with the required intensity.



6. How to introduce HPW

No 'one size fits all' approach

Jeffrey Pfeffer of Stanford University is a pioneer in the work on HPW and company performance and trying to assess what approach managers should adopt. He sets out seven HR policies that seem to characterise most of the systems producing 'profits through people':

1. Employment security and mutual commitment;
2. Selective recruitment for cultural fit as well as skill;
3. Investment in training and developing skills/capabilities of employees;
4. Decentralisation of decision making and the delegation of substantial responsibility, often to self-managed teams;
5. Pay and other rewards that are contingent on group and organisational, as well as individual performance;
6. Sharing information broadly with people inside the company (requires strong communication); and
7. Reduced status differentials.

Pfeffer's work focuses very much on a 'best practice' approach although there is obviously considerable choice and flexibility in when and how these policies are adopted. That is the belief that there is a set of superior HR practices that if adopted will lead to better organisational performance. Not

surprisingly, this view that there is universal best practice has been challenged and led to the development of other approaches that seem to tie in more closely with the empirical evidence.

Two other approaches actually focus on the fact that there can be no 'one-size fits all' approach and that more flexibility is required in the implementation of HPW. The 'best fit' approach is based on the belief that there can be no universal prescription for HPW. Rather the right practices for a firm are dependent on the particular situation and environment it faces and its strategic goals. The 'configurational approach' focuses on the 'bundling' of HR practices together in self-reinforcing groups but varies depending on what the firm is trying to achieve and the environment in which it is operating. The practices in the bundle have to be inter-related and internally consistent so that the impact is greater because they are introduced in a group.

Strong commitment from senior managers required

Whatever the chosen approach, however, research from both the US and the UK suggests that a strong and active commitment from senior management is essential if HPW is to be implemented with success. The implementation of these practices is the result of an underlying management philosophy. Successful introduction of HPW also

requires a radical change in the basis of control, with less reliance on 'top-down' management and more on the commitment of employees to the organisation's objectives. Managers and workers no longer respond to command and control but determine their own behaviour in light of the organisation's objectives and values.

Changes are not a one-off activity, can take years to bring in and need continuous improvement. Once they are introduced they require continuous refinement as product market, company ownership and technology changes.

Winning trust

Once a decision has been made to introduce HPW it is essential that managers are able to win the trust of all employees, gaining their commitment to the core values and objectives of the organisation. Effective and sustainable change can only be achieved through dialogue built on trust and cooperation. This requires a shift in the balance of power within the organisation, with employees more directly involved in the decision making process. Where HPW is introduced without securing effective worker participation, it produces dissatisfaction among employees. It is also crucial that the end product is not simply work intensification (more stressful and repetitive work for the employees), with little or no benefit to the employee.

Resistance to change can also come from managers. The shift from command and control organisation usually involves a major redistribution of authority, especially where self-managed teams are introduced, with some authority removed from the manager. It also requires managers (including supervisors) to be able to relate to their employees in a new way, winning consent and support rather than relying on command and authority. This can require extensive training to enable managers to acquire the range of skills appropriate to their new role in coaching, facilitation, feedback and so on.

Critical role for HR managers

Another major impediment can be the capabilities of HR managers. Effective implementation of these practices requires that the HR manager acts with the head of the organisation as a partner in strategic change. They may need to acquire business acumen skills and knowledge of strategy or change management. CEOs and managing directors may be reluctant to do anything about implementing HPW (even if they are convinced of the link to company performance) if they feel their HR personnel do not have the requisite skills. Again, training and upskilling of HR managers can tackle these problems of implementation. The introduction of HPW creates a demand for training and at a number of different levels in the organisation.

Benchmarking

Where companies are not able to learn from the experience of leading international companies – either through being subsidiaries or in direct competition with these firms – then benchmarking exercises can help to identify effective practice. ‘Lead plant’ approaches where efforts are concentrated in creating change in one plant with the lessons learnt being used to implement change in other plants, can have similar results. Benchmarking can help to motivate employees and let them see what the potential benefits are in terms of productivity, job satisfaction, potential income and job security.

Recruitment and selection

HPW does require employees to have a good grasp of key skills and the personality to work with the company culture and the philosophy of the approach. This means that considerable resources may need to be devoted to recruitment and selection, in order to select the people with the values associated with the demands of HPW, as well as training of existing employees.

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