

## **People and the Bottom Line: the research in summary**

*People and the Bottom Line* is a research project exploring the link between the way employees are managed and organisational performance. The two-year study suggests that organisations with a comprehensive approach to people management perform better than those without, indicated by higher profits per employee, higher profit margins and higher productivity. The report also identifies the 12 core measures that are most effective in helping employers track the impact of their people management practices on business performance.

This document provides a guide to the research and its outcomes, highlighting the opportunities for employers of all types and sizes. For more information, please contact the Investors in People press office on 0207 544 3118.

### **The research**

*People and the Bottom Line* has been produced by the Work Foundation and the Institute for Employment Studies (IES) and is supported by the Department for Innovation, Universities and Skills (DIUS), the Department for Business Enterprise & Regulatory Reform (BERR), Investors in People UK, the Sector Skills Development Agency (SSDA) and the University for Industry (UFI). The project was undertaken in three parts:

- an extensive review of previous studies and research which explored the relationship between skills investment, employee commitment and high performance workplaces
- development of a model to encompass the core areas on which organisations can focus people management effort, populated with a range of measures from the literature review
- testing of those measures with a broad cross-section of employers and analysis of both the link with performance and the core measures that organisations can use to track effectiveness.

### **The theory**

The researchers' initial literature review identified four key areas in which organisations can focus people management effort, as summarised below:

- *Access* (e.g. resourcing plans and recruitment practices: how an organisation fills its roles)
- *Ability* (e.g. skills, training, education – the quality of an organisation's people and development of their skills)
- *Attitude* (e.g. engagement, involvement, motivation: how organisations seek to communicate with employees and unlock additional effort)
- *Application* (e.g. business strategy, working environment, job design – the systems/structures that shape an employee's opportunity to contribute).

The researchers drew these areas together into a '4A model'. They then filled each area with people management practices drawn from previous studies, established practice and some additional measures that practitioners suggested as important. The researchers identified 76 measures in total; each one had to meet a set of criteria, including:

- relevance to employers' activities (there was little point picking a theoretical measure with little relation to day-to-day practice)
- whether it could be rigorously applied by an employer that wished to adopt it
- whether inputs, outputs and performance could be tracked over time.

### **The testing**

This third phase of activity was designed to assess the link between these measures and organisational performance. To achieve this, the researchers conducted a telephone survey with a broad cross-section of employers, using a questionnaire covering the 76 measures. The survey was conducted in 2905 organisations, of which 2,500 were private sector organisations and 405 public sector.

The results of this questionnaire were then used to distil the 76 practices within the original model to a list of core measures that are most effective in helping employers track the impact of their people management practices on business performance.

To distil this list, the researchers looked at the response rates for each measure to see if employers recognised and were able to provide data on it. When a large proportion of respondents could not respond to the question on a particular item, it indicated that the item might not be particularly relevant, or that it might be difficult to collect the data required. These items were removed from the subsequent analysis.

Secondly, the researchers looked for differences between organisations in the responses that they gave. This 'variability' was important because a particular investment may have a high relationship to performance but if all firms invest exactly the same amount it will not offer competitive advantage. The best items are those where responses are widely spread, so the impact of the different levels of input on performance can be measured.

The remaining 37 measures<sup>1</sup> created an index, and the responses received through the telephone survey allowed a score to be created for each measure. In each case, a firm's performance was translated into a scale of approximately four levels, where higher scores on the index meant that more processes were in place, a greater proportion of employees were affected, or a process was being carried out more often.

### **The results**

When the researchers looked at the combined index for each organisation (i.e. scores for all the four areas of the model added together), they found that high scores were associated with a wide range of business performance measures, including higher profits per employee (FTE) (expressed as gross profit or operating profit) and higher profit margins. The effects were shown to be substantial, and there was no sign of 'levelling

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<sup>1</sup> A list of the 37 measures can be provided if of interest

off'; even where companies were already investing in their workforce, there was evidence of the benefits of doing more.

The results of the research suggest that if a business increases its investment by the equivalent of increasing its combined index score by one (around 10 per cent), 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 and 3.66 (i.e. 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.

Taken together, these results suggest that - if factors such as size, sector, previous performance and the strategic objectives of the firm are held constant - organisations that adopt a greater range of people management practices - from resourcing to employee engagement, skills development to job design, and do so more intensively, can deliver substantially stronger performance

### **Segmenting organisations**

The researchers were able to compare those organisations that were in the top 25% of index scores (the upper quartile) with those in the lowest 25% of scores (the lowest quartile). The results of this comparison showed that:

- younger firms are significantly less likely to be located in the lowest quartile. This might suggest a degree of inertia in HR strategy development in older firms
- the most consistent differences between the lowest quartile firms and the highest quartile firms are in terms of their innovation strategy and positioning and their overarching strategic objectives
- upper quartile firms are also much more strongly orientated towards creating a great working environment for their employees, meeting the needs of other external stakeholders and being innovation led
- finally, the researchers noted that firms based on several sites were more likely to be located in the upper quartile of the index.

The researchers also explored the impact of Investors in People accreditation (27% of the employers involved in the research were accredited with the Investors in People Standard). They found that accreditation has a positive and significant effect across all index areas, and in each case the scale of this effect was substantial. The data therefore demonstrate that IiP accredited organisations have greater investment in their workforces and more sophisticated processes and practices than non-IiP organisations.

### **The core measures**

All of the 37 measures were found to add value, and relatively sophisticated organisations may look at all of them. However, most organisations would benefit from a smaller set of measures, to encourage them to collect data which appear to make the greatest difference in terms of organisational performance.

To create this smaller set, the researchers identified the measures that accounted for the greatest variation in responses by identifying the effect that each measure had on the reliability of the index for their particular area of the model. If removing the item caused a significant drop in the reliability of the index, then it was identified as a core item for any employer. The researchers derived a list of 12 core indicators through this process, highlighted below.

Area	Measures
<b>Access</b>	1. Proportion of new appointees tested on recruitment. 2. Proportion of new appointments for which there was a person specification 3. Proportion of employees covered by a succession plan.
<b>Ability</b>	1. Proportion of workforce that have a current personal development plan 2. Proportion of the workforce that have a career development plan 3. Proportion of employees qualified to degree level
<b>Attitudes</b>	1. Proportion of managers that left voluntarily over the last twelve months 2. Proportion of staff that receive profit related pay 3. Proportion of staff that have a regular appraisal 4. The frequency with which staff have one-to-ones.
<b>Application</b>	1. Who decides on the pace of work (1 = exclusively managers to 5 = exclusively workers) 2. Who decides on task allocation (1 = exclusively managers to 5 = exclusively workers).

These 12 measures provide a core set for organisations to use to measure their own investment in people within the organisation and which could be used to provide further evidence or the base for tracking research.

### **The conclusion**

The insight and outputs from this work deliver valuable support for employers of all types and sizes. The core measures identified by the study should form a part of any organisation's approach to tracking progress, but employers may also have other measures and areas of data that they can add to create a bespoke system for their business. Whatever the approach they take, the evidence is clear: a systematic, holistic approach to people management can pay significant dividends for any business.

### **Further information**

For more information on the *People and the Bottom Line* research, or any elements of Investors in People's services, please contact the Investors in People press office on 0207 544 3118.