

Investors in People



The Impact of Investors in People on People Management Practices and Firm Performance

Executive Summary

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■ Introduction

This document reports on an extensive study into the impact of the Investors in People Standard on business performance. We started by reviewing what is already known about the Standard's impact on business performance, before building a framework of the expected benefits of IIP from the Strategic Human Resource Management literature. This framework was tested using case studies, a survey and financial analysis to create a body of knowledge that improves our understanding of *how* the Investors in People Standard improves business performance.

■ Background

The Investors in People (IIP) Standard is a UK quality standard introduced in 1991. Currently about 31% of the workforce are employed either by organisations that are recognised as Investors in People employers or organisations working towards achieving recognition status. IIPUK's Delivery Partners currently work with almost 40,000 organisations employing over 7.5 million people and engage with new organisations on a daily basis, which highlights its potential impact on the UK economy. The Standard's main objective is to improve organisational performance through the management and development of people.

The Standard has been the subject of research since its inception. Much of the previous research found that the IIP Standard has a positive impact on business performance although the conclusions were not unanimous. In addition, the Standard is reviewed and revised every three to five years, so past findings cannot always be related to the current Standard.

■ Objective of the Research

The purpose of this study was two fold: -

- (1) to investigate whether the IIP Standard affects organisational performance positively or not;
- (2) to examine the key factors that explain how the IIP Standard affects organisational performance.

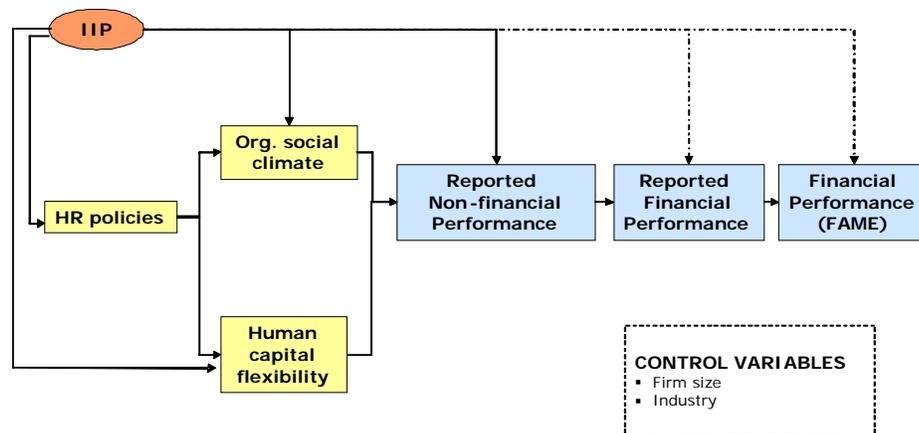
■ Methodology

The research involved reviewing the existing literature, building a framework, undertaking case studies, conducting a survey, matching survey results with published accounting information and detailed statistical analysis of the data.

The study framework

Although the previous literature on the impact of IIP on performance was broadly positive, the mechanisms by which the Standard affected performance were not always clear. Our approach was to build a framework based on the Strategic Human Resources Management literature that demonstrated the expected relationship between the IIP Standard and business performance. The framework is shown in figure A with the expected relationships shown with a solid line and the possible relationships shown with a dotted line.

Figure A. The impact of IIP on organisational performance



The original framework, detailed in Chapter 3, was built on an emerging body of research that finds that companies implementing commitment based HR practices perform better than companies implementing transaction based HR practices. The former emphasise the long-term relationships between employer and employee with people development practices that encourage team working and the development of firm specific knowledge. The latter emphasise the short-term economic exchange of work for money. As commitment based practices are those which collectively demonstrate a long-term investment in employees - a philosophy which is at the heart of the IIP Standard - this approach integrates well into the study framework.

The case studies

In order to understand these types of policies and how these were used in practice, we conducted ten in depth case studies in small, medium and large companies. We investigated companies who were not recognised, companies that had just achieved recognition, had been recognised for over two years and a group of IIP champions (recognised as exemplars by IIP). The case studies involved interviewing both HR and line management. The research team interviewed over 60 individuals and the data collected was subjected to qualitative data analysis.

The survey

An on-line survey was built on the study framework, asking companies to report on their IIP status, IIP implementation philosophy, their HR policies, organisational social climate, human capital flexibility, non-financial and financial performance. 233 organisations responded in total, 196 of which were profit making companies. As our research was focused on the impact on business performance, our subsequent analysis focused on these 196 profit making companies.

The financial analysis

In order to further validate our findings, we linked the individual survey responses with published financial reports from Companies House held in the FAME database.

The analysis

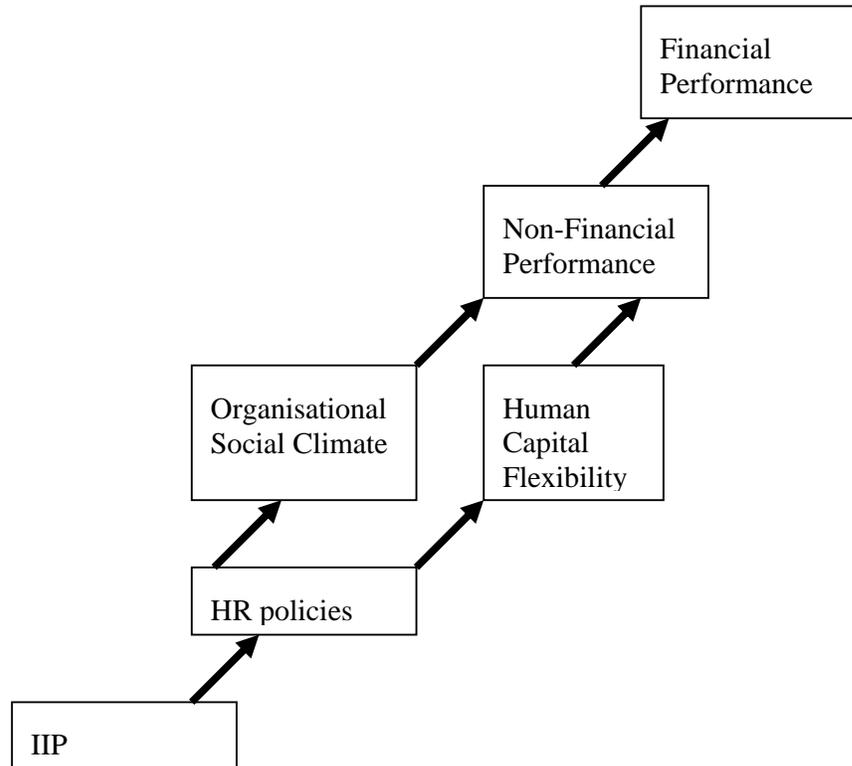
The data analysis used descriptive statistics, basic statistical tests, correlation and regression analysis. The final analysis of the framework was undertaken using structural equation modelling, an approach that allows us to understand the causal links between the variables and create a final model linking the IIP Standard with business performance.

■ **The findings**

This study has found a body of evidence that clearly shows the link between the adoption of the IIP Standard and business performance together with the mechanisms of how the Standard creates a better return on investment.

Figure B overleaf represents how the IIP Standard affects performance.

Figure B: How the IIP Standard affects business performance



Our research finds that adopting IIP sets up a chain of impact ending in better financial performance. Organisations that adopt the practices embedded in the IIP Standard adapt their HR policies. These changes in policy have an impact on two important aspects of the company. Firstly, the HR policies create a positive Organisational Social Climate, creating higher levels of trust, cooperation and people engagement. Secondly, the HR policies increase Human Capital Flexibility - the skills and behaviours needed for the organisation to change. The changes in human capital flexibility and organisational social climate have an impact on non-financial performance. Companies that have better non-financial performance also reported in the survey better financial performance and delivered higher returns on their assets as shown in their published annual reports.

The case study research demonstrated how IIP was delivered in practice across a range of organisations. In the case study companies, we identified a prevalence of direction setting practices specifically designed to cascade strategic goals right down to individual targets and objectives. We also identified a number of HR practices that developed employee engagement and commitment. Our conclusion is that organisations perform better when employees have clear goals and supportive HR practices.

Other findings from the survey include:

- IIP recognised organisations are more likely to have commitment-based HR policies.
- Those organisations that are IIP recognised are more likely to have high levels of trust, commitment and cooperation among their employees.
- The IIP Standard has a positive impact on the degree of human capital flexibility (i.e. employees' behaviour, skills and HR practices flexibility). Those organisations that are IIP recognised are more likely to have high levels of human capital flexibility.
- The IIP Standard has a positive impact on the perception that employees' have of the company's non-financial performance (assessed by the quality of the company's product and services, customer satisfaction, attraction and retention of employees, and employees' relationships).
- The IIP Standard has a positive impact on innovation. Those organisations that are IIP recognised are more likely to have high levels of products and service innovation.
- The IIP Standard has a positive impact on the degree of achievement of company's strategic goals. Those companies that are IIP recognised are more likely to meet their strategic objectives.
- The data supports an indirect impact of the IIP Standard on return on assets. This relationship is explained as follows: IIP recognised companies are more likely to perceive benefits in their non-financial performance. Employees' perception of good non-financial performance has a positive effect on employees' perception of good financial performance, which in turn has a positive effect on return on assets (see table 7).
- An additional analysis was conducted looking at the effect of the IIP Standard on effective communication practices as it was found that these types of practices have a positive effect on profitability –assessed by the profit margin and profit per employee figures that appear on the company annual accounting report (see Appendix F). It was found that the IIP Standard has a positive effect on effective communication practices and therefore an indirect effect on company's profitability.

■ Implications for Practice

Our research finds that implementing the Investors in People Standard should improve the financial performance of your business. However, we also conclude that the more your organisation embraces the Standard, the better the impact will be. There are very good reasons for that.

1. Investing in people is a commitment based HR policy and our study builds on a growing wealth of evidence from the literature that commitment based policies deliver better business performance
2. Commitment based policies create an organisational climate in which employees collaborate and perform, generating immediate benefits in business performance.
3. Commitment based policies increase human resource flexibility, which our study shows has a positive effect on performance. Furthermore, human resource flexibility is crucial in our current volatile business environment for the longer-term survival of organisations, so pursuing this goal is important for the longer term as well.
4. Focusing people's effort and directing them towards achieving the goals of the organisation is shown to improve performance.

Investors in People is often seen as a mechanism for improving the skill base of the workforce. This study demonstrates that this is true, but a recurring theme is that IIP also creates the organisational climate that delivers performance. Engaging the workforce is one of the biggest levers you can pull to improve the performance of your business. Cascading the vision and direction can help build the right organisational social climate by giving employees a sense of purpose. It also has the advantage of channelling people's effort to achieving the goals of the business. Linking business goals to employee objectives is key to improving business performance.