

If high performance working delivers productivity gains, why isn't common sense common practice amongst UK firms?

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High Performance Work Systems (HPWS) can be one solution to the UK productivity problem. HPWS involve a transformation in the management of human resources. However few UK firms have HPWS. This briefing note outlines the evidence for HPWS and suggests why adoption of HPWS is low amongst UK firms. It notes that meta-studies find a strong and positive relationship between HPWS and firm productivity, and proponents offer lists of relevant human resource practices. However, barriers to the adoption of HPWS exist. First, there is no consensus on which bundle of practices is indicative of high-performance working. Second, it is not clear when any of these bundles constitute the necessary 'system'. Third, the measures used are often very blunt and don't always capture the necessary practices. Fourth, research doesn't always cover all of the practices and so how they work to deliver productivity gains. Fifth, managers might not be willing and able to introduce HPWS. To overcome these problems, a consensus needs to be generated about what constitutes HPWS and more research to better understanding of how these systems work. Managers also need to be educated in the benefits of HPWS and supported in introducing them.

Background

Productivity in the UK is a problem. It lags that of the other major advanced economies and improving it is a cornerstone of the UK Government's Industrial Strategy (HM Government 2017). Unfortunately, delivering improved productivity is proving elusive and new solutions are being sought, particularly ones centred on management practices (ESRC 2018). In this respect, one oft-suggested solution is high performance work systems (HPWS). These HPWS are offered as a transformation in the management of human resources that boosts productivity to the benefit of employers and employees.

The problem is that the proportion of firms in the UK that can be loosely classified as having HPWS is low, around 28 per cent (OECD 2016), with little change over time

(cf. UKCES 2008). Thus, despite, indications that HPWS deliver productivity gains, common sense stubbornly refuses to translate into common practice. This briefing note unpacks this problem. It outlines the evidence for HPWS and offers reasons as to why take-up of HPWS is low amongst UK firms.

Evidence

HPWS are defined as ‘a general approach to managing organisations that aims to stimulate more effective employee involvement and commitment to achieve high levels of performance’ (Belt and Giles 2009: 17). A significant volume of research exists that debates the nature and efficacy of HPWS. Most research and policy interest in HPWS refers to the highly influential US-focused studies of Kochan and Osterman (1994) and Appelbaum et al. (2000). The premise is that HPWS create advantage through an optimal system that fosters a skilled, committed, involved workforce that provides discretionary effort. The suggestion is that through a particular management of human resources, some firms can take a ‘high road’ to increased productivity and profits, the benefits of which are also shared with employees. As Ramsay et al. (2000: 503) explain: ‘the associations reflect a causal link which flows from practices through people to performance’.

The evidence seems compelling. Meta-studies have found a strong and positive relationship between HPWS and firm productivity (e.g. Combs et al. 2006; Jiang et al. 2012). Illustratively, in their Australian survey, Boedker et al. found that firms with HPWS out-performed firms classified as being low performance workplaces. Those firms classified as HPWS:

- had 12% higher productivity, meaning that for every \$1 of investment, they made 12 cents more revenue;
- had higher profits, with margins being three times higher, and they were more likely to meet their financial targets;
- were more innovative, with product innovation being 25% higher and process innovations being 30% higher;
- offered better employee experiences, resulting in lower turnover, higher job satisfaction, and more employee learning and development;
- had an average gain per firm of \$40,000 per employee.

The lesson for firms that want to escape the ‘low road’ and have better organisational performance is clear say Boedker et al.: improve the management of human resources. Appelbaum et al. (2000) identified three specific features of effective HPWS: employees having the ability, opportunity and motivation to provide discretionary effort – the so-called ‘AMO’ framework (see Table 1 below).

Table 1: The AMO framework

Component	Definition
Ability	Having an appropriately skilled workforce through recruitment and training. These skills include general as well as occupation- and firm-specific skills and being multi-skilled.
Motivation/ Incentives	Three types: <ul style="list-style-type: none"> • extrinsic/financial, meaning ‘gainsharing’ reward systems, distilled down to performance-related pay; • intrinsic, meaning workers being challenged in work, thereby inducing greater job satisfaction and commitment;

	<ul style="list-style-type: none"> induced through an organisational 'climate of trust' and workers having a long-term stake in the organisation.
Opportunity	<p>Workers having substantive participation in work, with:</p> <ul style="list-style-type: none"> responsibility and authority to problem solve; greater autonomy and control over decisions; capacity to coordinate and communicate their decisions to the wider organisation.

Adapted from: Appelbaum et al. (2000).

Proponents of HPWS provide a checklist of relevant human resource practices that support AMO. Bundles of these practices generate the gains because their sum is greater than the parts. This bundling makes the difference and quickly morphed into a 'system'¹ which became known as 'high performance' (Harley 2005).

Barriers

Discouraging firms taking the low road would help the UK close the productivity gap with its European competitors such as German and France (Innes 2018). Encouraging more firms to take the high road is therefore important and there is clear evidence that HPWS positively impact productivity.² Introducing more HPWS into UK firms thus makes common sense (see also Guest 2006). However, there are a number of related barriers to common sense translating into common practice.

First, there is no consensus on which bundle of human resource practices is indicative of high-performance working. Researchers adopt different approaches, with large differences in the number of practices suggested. For example, Delery and Doty (1996) suggest seven practices. Boedker et al. (2011) used 18 performance measures to create their HPW Index. Ramsay et al. (2000) suggest 24 practices and Sung and Ashton (2005) 35 practices. Whilst there is overlap amongst these lists, they are not the same.

Second, with such variation, the tipping point at which a system can be said to exist rather than merely constitute a collection of piecemeal human resource practices is not clear. When these practices coherence into a step-change system is hard to judge. In the UK, some individual human resources practices are widespread but there are variations by sector and industry (Martin and Healy 2009). Examining 18 human resource practices in 237 UK firms, Guest (2000) found that only 1% used all of them, 25% used more than half and 20% used fewer than a quarter.

Third, the measures used are often very blunt. For example, Huselid (1995) includes formal skill development through training but not skill utilisation; the assumption is that the latter follows the former. However whilst through training employees gain ability, if opportunity to use their new skills is lacking, that skill acquisition will be wasted and not translated into productivity gains. Skill under-utilisation is a significant problem in the UK (Warhurst and Luchinskaya 2018).

Fourth, research tends to focus more on workers having the 'A' than the 'M' or 'O'. Emphasis is placed on the supply of ability through recruitment or training. There is

¹ Sometimes also called High Performance Work Organisation (HPWO) in the US.

² Whilst he accepts that the link to productivity is clear, Osterman (2018) notes that translation from productivity to profits is not straightforward but can be mediated by other factors.

little examination of whether, and if so how, this ability is levered through management practices that facilitate employees having the motivation and opportunity to use their ability (Warhurst and Luchinskaya 2018).

Fifth, advocacy of HPWS rests on two assumptions: that, shown the evidence, managers would be willing and able to introduce HPWS. However, whilst it might be unwise to assume a neat fit between business strategies and human resource practices (cf. Thompson 2003), the will to invest in human resources is undermined by business models that promote outsourcing and gig-working. At the same time, managers' ability has received too little attention, particularly their knowledge and skills about how to get the best out of their human resources. Indeed, the management of human resources continues to slip down the pedagogical pecking order within UK business and management schools.

Thus, whilst individual research may appear convincing, the body of research is fragmented and limited (see also Harley 2005). If research can't say what comprises a HPWS or how such systems work to generate productivity gains, it is hard to convince firms to adopt HPWS. Moreover, many firms are happy to continue to travel down the low road.

Next Steps

Currently, adoption of HPWS is opportunistic and ad hoc in the UK. There needs to be a more robust approach to encouraging more HPWS. There is sufficient evidence to suggest that some form of HPWS do make a difference to productivity. However, to achieve the step change, a scientific, policymaker and practitioner consensus about what comprises HPWS and how it can be best measured, at least in the UK context, needs to be generated – as the UK has done recently with job quality (Job Quality Working Group 2018) and for which a scoping exercise was initiated but not developed for HPWS in the 2000s (See Bates et al. 2009).

This consensus can then be used to develop better understanding of why and how some firms adopt HPWS and why some firms choose not to use 'common sense' and instead continue down the low road. As Belt and Giles (2009: 35) recognised, stimulating more HPWS in the UK means 'getting inside the ever-elusive "black box"' of the way firms are managed and organised. It would also provide much needed longitudinal evidence about the causal relationship between HPWS and firm performance (Bates et al. 2009).

A more solid business case for HPWS can then also be established. Given the current quality of management skills in the UK, helping firms transform the management of their human resources requires a rekindling of the kind of job redesign initiatives for which the UK led the world between the 1950s-1970s (Guest 2019f). Doing so means developing a new cadre of action research experts in UK universities and development agencies. Support for this change will need to come from champions of HPWS in BEIS, the LEPs and, in England, Growth Hubs, as well as the Combined Authorities as they develop their own local industrial strategies.

Change will only come, however, if it's recognised that UK firms can choose to abandon the low road. Whilst some argue that human resource practices within firms are locked into human resource practices determined by host country, sector or product market strategy constraints, supportive research is patchy. Within these constraints

managers can make choices. Evidence shows that different human resource practices can exist within UK firms operating in the same sector and same product market strategies (Warhurst and Luchinskaya 2018). Short of blocking off the low road through regulation, one way to encourage managers to choose the high road and introduce appropriate human resource practices is to rethink the education and training of these managers. A starting point would be a review of what is and what isn't taught about HPWS, and human resources and productivity generally within UK business and management schools. Common sense says that the next generation of managers should not be reproducing the same problems that contribute to the current productivity weakness of the UK.

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