BIS | Department for Business Innovation & Skills

PROMOTING HIGH PERFORMANCE WORKING

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Contents

Tables

1 Executive Summary

Business growth through higher productivity and enhanced competitiveness is of critical importance to the UK's economic recovery and future prosperity in general. There is a considerable body of evidence showing that wider adoption of High Performance Work Practices (HPWPs) would improve firm performance and contribute to growth. This evidence shows that whilst adopting more practices is in itself beneficial, the greatest impacts stem from of the use of High Performance Work Systems (HPWS) which involve a 'coherent bundle' of such practices.

HPW is defined by the UK Commission for Employment and Skills as '*a general approach to managing organisations that aims to stimulate more effective employee involvement and commitment in order to achieve high levels of performance. [They are] designed to enhance the discretionary effort employees put into their work, and to fully utilise ... the skills that they possess' (Belt and Giles, 2009).* A 'system' comprised of a coherent bundle of high performance work practices creates a synergetic effect whereby the impacts of the system exceed those resulting directly from the individual practices being used. The presence of a HPWS is associated with increased profits, sales and profitability; employees report higher job satisfaction, motivation, involvement and commitment and greater opportunities for innovation and creativity, alongside lower staff turnover.

This research project, jointly commissioned byBIS and the UK Commission, examines the drivers, facilitators and barriers to the adoption of HPWS and assesses how higher levels of adoption might be promoted amongst English SMEs. The findings are based on a telephone survey of 500 SMEs from across England, and follow-up in-depth interviews with 40 of the respondents to that survey.

The research concludes that there is a rationale for policy development which is worthy of careful consideration. There are a number of policy options, most of which, if properly designed, would be relatively low cost and capable of having positive impacts on SME performance.

Issues affecting adoption

- Currently, both awareness of HPWPs and their adoption are low in the English SME sector.

- Most English SMEs are unfamiliar with the ideas and practice behind HPW, rather than simply being ignorant of the term. They are not aware of the potential benefits that employing HPWPs can bring to the business. The evidence shows clear information failures and an associated sub-optimal level of demand.

- Where HPWPs are used, this typically reflects the incidental adoption of relevant practices rather any deliberate adoption a HPWS *per se*.

- The adoption of HPWPs is associated with firm size; larger SMEs are much more likely to utilise these practices than smaller ones.

- Businesses with strategic growth ambitions and a quality-led business plan are more likely than others to adopt a coherent high performance system.

- Training and support in this area is available and effective for the minority which access it.

- The adoption of HPWPs and their deepening into a coherent system often requires a trigger, in many cases simply of becoming aware of the practices in the first place.

- This research shows that whilst few English businesses use a HPWS involving a complete 'bundle' of HPWPs, a high proportion employ at least some of the practices involved in such a system.

- The research shows that key influences on adoption are the size of the business, the degree of autonomy in operations and business positioning with respect to entrepreneurialism, risk and growth ambitions.

- There is a widespread desire among businesses to be a 'good employer', in order to motivate the workforce to perform well, impress customers, and gain the respect of their peer group. HPWSs are generally regarded as being consistent with notions of what constitutes a 'good employer'.

Rationale for government intervention

- There is a clear market failure associated with a lack of awareness of HPWS amongst the majority of English SMEs. The majority of English SMEs are unaware of this concept and the benefits it can bring.

- The use of HPWPs in English SMEs is low in both absolute terms and in relation to those found competitor countries such Germany and Sweden.

- The evidence from this and other research suggests that the wider adoption of HPWS could produce potentially extensive and significant performance gains and growth.

- Despite the low levels of awareness of HPWS, many businesses currently employ at least some of the practices involved in such systems. Accordingly, in these businesses relatively modest changes could potentially produce disproportionate benefits.

- Many businesses, including non-adopters, are sympathetic to the concepts and practices involved in HPWS.

- HPWPs are actively promoted in a number of countries including Canada, Australia and Ireland.

Overarching issues

- **Targeting** policy on businesses where gains would be achieved easily and rapidly is important (i.e. SMEs which have already adopted a number of HPWPs, but in an unsystematised manner). This will also aid in the demonstration of impacts. In some businesses, management and leadership skills and growth ambitions may have to be enhanced to make them more receptive to promotion of HPWS.

- **Thresholds** are highly important indicators of where a business may be more receptive to a HPWS being adopted or deepened. The two key thresholds in this context are when a business reaches approximately 25 employees (when the owner must cede some management responsibility) and subsequently 50-75 employees (when specific HR management becomes likely). Targeting such businesses is likely to prove an efficient and effective means of promoting take-up of both individual practices and, more importantly, coherent HPW systems.

- **Terminology** is an important element of any HPW promotion. The most appropriate language and slogans with which to frame any such strategy is best decided by businesses themselves, in conjunction with marketing experts.

Policy options

- **Mandatory policies relating to HPWPs**. Several northern European economies, including Germany and Sweden, have legislation requiring employee involvement in the business, including, for example, through works councils. Such an approach is worth studying given the success of such economies. Statutory approaches are associated with higher take-up of practices related to involvement and training, although it is unclear how they are connected to the implementation of coherent systems. However, a statutory approach does not fit with existing UK policy frameworks and mechanisms, and there is little appetite for it among businesses.

- **Encouragement within voluntarist frameworks** for HPW is likely to be more practical, including the use of ideas from behavioural economics to 'nudge' businesses. This can be done to foster either those management characteristics associated with the adoption of HPWPs and HPWS; or to promote the adoption of specific HPWPs, which may act as catalysts for

- **Promotional and awareness-raising activity**. An effective method for encouraging businesses to adopt HPW is using case studies of exemplar businesses. These can demonstrate both the processes and benefits from implementation. This can be accomplished through networking, business awards, or, as in Australia, can be the outcome of grant-funding a small number of leading businesses to serve as exemplars. This involves a relatively small amount of funding, but is inevitably longer-term in its impacts.

- **Developing partnerships and networks** between businesses, possibly including other stakeholders (training providers, universities, umbrella organisations, trade unions and other social partners) can be effective in developing workplace skills and practices. Such an industry-led approach was found in the Canadian Workplace Skills Initiative, which operated through the equivalent of our Sector Skills Councils, and which fits well with the current Employer Ownership pilots and the Growth and Innovation Fund. This requires relatively little upfront funding for pilots and can be phased to allow progression of learning, consolidation of achievements and dissemination of ideas. There is international evidence from network-based initiatives that working practices continue after funding, and that practices are transferred to other organisations.

- **Existing support** could be augmented to incorporate elements of HPW, or where HPW is already an element of training courses, delivery could be enhanced through applying behavioural economics principles to its design. This might apply to schemes such as mentorsme.co.uk (e.g. mentors could be given information and training in HPW), and MAS and Growth Accelerator, which could recommend HPW where appropriate. HPW could also be linked to innovation support, on the basis that they are mutually reinforcing. In Finland and Germany, for example, there is an emphasis on novel, research-led approaches to workplace organisation, creating learning spaces for networks and use of external consultants. Ireland and Sweden have adopted a related approach, with an emphasis on workplace innovation.

2 Introduction

The purpose of this project is to develop an evidence-based rationale and possible options for the promotion of High Performance Working (HPW) among UK SMEs.

Business growth through higher productivity and enhanced competitiveness is of critical importance to the UK's economic recovery and future prosperity in general. There is a considerable body of evidence showing that wider adoption of High Performance Work Practices (HPWPs) and, more particularly High Performance Work *Systems* (HPWS) can provide improved productivity and growth in the SME sector. HPW is defined by the UK Commission as '*a general approach to managing organisations that aim to stimulate more effective employee involvement and commitment in order to achieve high levels of performance. They are designed to enhance the discretionary effort employees put into their work, and to fully utilise the skills that they possess' (Belt and Giles, 2010).*

Previous work, including the UK Commission's High Performance Working research programme has revealed the limited extent of adoption of HPW among UK SMEs, relative to those in competitor countries. It also demonstrates that productivity improvement is not achieved simply through raising skills, but also via the effective *utilisation* of those skills within organisations.

2.1   Background

Previous research by UK Commission has demonstrated the value of HPWPs in raising business performance, but also their complexity, and the need to conceptualise HPW as a context-specific system. In their synthesis of the key evidence relating to HPW, Belt and Giles (2009)[1] report that there appears to be no 'off-the-shelf' solution. Rather, the most meaningful way to implement HPW is via a contingent approach, tailoring a bundle of practices to the needs of the individual organisation, in order to enhance employees' discretionary effort and fully utilise and develop their skills. In this report, we refer to the deliberate adoption of such bundles of practice as a High Performance Work System (HPWS).

Once that system is in place (as opposed to simply a number of individual practices), a substantial body of literature points to a highly important link between HPW, business performance and employee well-being. The presence of a HPWS is positively associated with profits, sales and profitability, while employees report higher job satisfaction, motivation, involvement and commitment and greater opportunities for innovation and creativity, alongside lower staff turnover. For example, Patterson et al (1998)[2] report that almost a fifth of the variance in productivity and profitability between firms could be attributed to HRM practices,

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[1] Belt V and Giles L (2009) *High Performance Working: A Synthesis of Key Literature*, Evidence Report 4, UKCES

[2] Patterson M, West MA, Lawthom R and Nickell S (1998), *Impact of People Management Practices on Business Performance*, Institute of Personnel and Development, London

while Birdi et al (2008)[3] found empowerment represented a gain of nearly seven per cent in value added per employee, and that there was a gain of over six per cent for extensive training. Thompson (2000)[4] found that firms increasing their use of HPW practices between 1997 and 1999 recorded increases in value added per employee between 20-34 per cent.

There are important caveats, namely that a HPWS must be implemented to a high standard and appropriately for the context (otherwise, it risks lowering job satisfaction and productivity), and benefits are likely to be only realised in the longer term – HPW is not a short-term panacea. The models of HPW cited highlight four key characteristics of the system:

- A holistic and balanced approach as to how practices integrate in context.

- The crucial role for managerial skills and commitment from senior to line management level as well as those responsible for human resources.

- The pivotal importance of employee commitment and achieving a partnership between managers and their employees.

- The need for a clear vision and ethos, underpinned by strong values and culture.

Operationally, this translates typically into: selecting and promoting the right people; developing employee skills by ensuring they have the opportunity to acquire new skills and knowledge via appropriate training and job design; linking pay to performance; and ensuring a good fit between these HR practices and the broader business strategy. This puts strategic employee behaviour, discretionary effort, and increased quality of employee decision-making at the heart of the business.

The 2010 report *High Performance Working: A Policy Review*[5] noted that growing attention has been paid to HPW and to its component parts: more effective skills utilisation; moving up the value chain and taking a more strategic outlook; reorganising work practices etc. However, the report notes that this agenda is not generally explicitly reflected in policy in most of the UK (with Scotland an exception). It recommended enhancing the analysis and understanding of HPW and its challenges and formulating a more holistic approach, through the integration of the skills and enterprise elements that make up a comprehensive HPW approach.

High Performance Working: A Policy Review stresses the need for '*information* and *insight* to highlight and illustrate "real-life" practice of what works on the ground for different employers, what barriers have been faced and overcome, and to provide

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[3] Birdi K, Clegg C, Patterson M, Robinson A, Stride CB, Wall TD, and Wood SJ (2008) 'The impact of human resource and operational management practices on company productivity: a longitudinal study', *Personnel Psychology*, 61, pp467-501

[4] Thompson M (2000) *The Competitiveness Challenge: The Bottom Line Benefits of Strategic Human Resources*, DTI, London.

[5] UK Commission for Employment and Skills (2010) *High Performance Working: A Policy Review, Evidence Report 18*, report for UK Commission for Employment and Skills

examples of best practice for brokers to use and share amongst each other, which can inspire more businesses to act' (from the Executive Summary, p10).

A subsequent review of approaches to HPW internationally[6] revealed a split between countries which have legislation which, albeit implicitly, mandates the widespread operation of HPW (e,g, Germany, Sweden) and those (such as New Zealand, Canada and Australia) where there are more voluntarist approaches, which are in keeping with current UK policy frameworks. In most countries studied, skills utilisation figured more highly than skills development, necessitating a focus on leadership, management and workplace culture, and there was an emphasis on partnerships – presenting HPW as a 'win-win' for both employees and employers, in order to achieve buy-in and engagement to devise individual workplace solutions.

In the absence of developed social partnerships in the UK, the report notes that (i) joint working between public sector organisations would be recommended, and (ii) employers should be encouraged to take a lead in policy development, working alongside unions and other stakeholders. In many countries, the HPW programme was explicitly linked to innovation promotion programmes, and to the development of learning networks, connecting businesses to each other and sources of external expertise.

Given the evidence on how programmes are designed – and the limited resources available – it is unsurprising that many countries focus their HPW interventions on SMEs with growth potential and which emphasise quality and innovation, since they are both strategically important and most likely to adopt HPW, while larger businesses tend to be more self-sufficient in this area. Actual interventions tend to focus on awareness-raising, provision of information and diagnostic tools, and a small amount of funding for specific interventions. Case studies of successful HPW adoption are heavily used as a promotional tool. This research project tests some of these policy ideas with interviewees, to consider their transferability to a UK context.

Research in the UK has also highlighted the need to engage employees more fully in order to improve productivity and competitiveness.[7] MacLeod and Clarke's report reiterates several points made in the UK Commission HPW literature, including evidence that 'mechanistic' engagement strategies involving manipulation of employees' commitment are unlikely to succeed, whereas full and committed engagement will increase discretionary activity as an integral part of employees' work routine. The report distinguishes between employees' attitude (e.g. pride or loyalty to the business) and the resulting behaviour (e.g. enhanced service) and outcome (e.g. higher productivity or innovation). Crucially, it notes that 'engaged organisations have strong and authentic values, with clear evidence of trust and fairness based on mutual respect, where two-way promises and commitments – between employers and staff – are understood, and are fulfilled' (p9). Thus, while engagement encompasses job satisfaction, it also covers commitment, involvement and empowerment of staff.

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[6] Stone I (2011) *International Approaches to High Performance Working*, UKCES Evidence Report 37, September

[7] MacLeod D and Clarke N (2009) *Engaging for Success: enhancing performance through employee engagement*, report for BIS

The report concludes that engagement requires: (i) leadership and the development of a strong vision for the organisation and how the individual fits within it; (ii) more developed and engaging management skills, in particular people management, the design of work and reward practices, and providing clear communication and respect to workers; (iii) encouraging employee voice through seeking out, listening to and acting on employee views; and (iv) integrity, ensuring that business-wide behaviour accords with stated values.

For SMEs in particular, the report finds that there was wariness about employee engagement as 'management-speak', the potential costs and effort involved, lack of awareness of HPW methods and the need to cede some control of operations to employees and concentrate more on strategy. However, more successful and growth-oriented SMEs acknowledge the necessity of this, with important thresholds of approximately 20 employees for the initial implementation of engagement practices and around 50 employees, when a middle management layer is forming. At these points, the report notes, the SME manager may need support to move from personal relationship-based engagement to more formal methods linked to strategy, while remaining a visible and effective leader. Importantly, it notes that businesses which do not have a comprehensive engagement strategy – i.e. a High Performance Working *System* – and instead see HPWPs as merely an 'add-on' checklist of activities and targets will see some benefits, but not the full potential value.

Finally, the report suggests that HPWS development should fit with the principles underlying the 'Employer Ownership' paradigm. This is explained more thoroughly in a recent UK Commission paper[8], which sets out that employers should 'own the skills agenda' i.e. to take the lead on skills and training issues, in partnership with employees, trade unions and training providers. This will involve changing how funding flows through the system, with both responsibility and reward for investment in skills resting more fully with employers than previously. In the context of HPWPs, this means encouraging employers who lead in this area to collaborate with each other, including their workforces and other key partners, and develop their own solutions using the most effective means to reach other businesses which as yet have not implemented HPWPs as fully as possible.

2.1.1   Behavioural economics

This report also examines issues through the prism of behavioural economics and social psychology, developing ideas for relatively low cost policy tools which could influence managers towards adopting HPW. To this end, it makes use of the MINDSPACE framework.[9] As the MINDSPACE report notes, these techniques 'can lead to low cost, low pain ways of "nudging" citizens - or ourselves - into new ways of acting by going with the grain of how we think and act. This is an important idea at any time, but is especially relevant in a period of fiscal constraint' (p7). The acronym captures nine robust, non-coercive influences on behaviour, which can be used as a checklist when designing policy:

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[8] UKCES (2011) *Employer ownership of skills: securing a sustainable partnership for the long term*

[9] Dolan P, Hallsworth M, Halpern D, King D and Vlaev I (2010) *MINDSPACE: Influencing behaviour through public policy*, report for Cabinet Office and institute for Government

- **Messenger**: who communicates information

- **Incentives**: responses to incentives are shaped by predictable mental shortcuts such as strongly avoiding losses

- **Norms**: the strong influence from what others do

- **Defaults**: the tendency to 'go with the flow' by choosing pre-set options

- **Salience**: the tendency to be drawn to what is novel and seems relevant

- **Priming**: the influence of sub-conscious cues on actions

- **Affect**: emotional associations can powerfully shape our actions

- **Commitments**: seeking to be consistent with our public actions

- **Ego**: acting in ways that make us feel better about ourselves

2.2 Objectives

The specific objectives of this project are:

(a) *To determine adoption rates.* In common with other countries, there is a lack of information relating to HPWS adoption rates in the UK, partly a reflection of lack of agreement about how 'adoption' is measured. Data on this topic are collected through the UK Commission's Employer Skills Survey. This research aims to better document the prevalence of HPWS in UK SMEs in general, and more specifically by sector, size and firm type.

(b) *To understand why and how firms adopt HPWS.* This is crucial to policy formulation and requires a nuanced approach, distinguishing the adoption of individual practices from the adoption of a system which, according to the literature, is substantially more effective.

(c) *To develop a rationale for intervention.* An evidence based discussion of the possible case for promoting HPWS, providing evidence of market failures is a prime consideration in this regard.

(d) *To identify and assess a range of potential policy options.* Suggested actions will be achievable and realistic, and relate to Best Market Solutions policy levers developed over recent years, particularly in light of the current climate. Different packages of solutions will be identified for encouraging the adoption of HPWS in ways that suit individual sectors or targeted firm-types.

2.3 Methodology

The project consisted of three main phases.

Phase 1 involved the analysis of contextual information on HPWP adoption from the UK Commission's Employer Skills Survey 2011 (UKCESS11), which was used to identify issues to be explored in more depth in Phases 2-3.

Phase 2 consisted of a telephone survey, achieving interviews with 500 SMEs, both to gather information and to identify potential recruits with whom to undertake detailed qualitative interviews in Phase 3. The sample was drawn from UKCESS11 respondents who agreed to be re-contacted. The sample structure was based on the analysis of UKCESS11 data undertaken in Phase 1. UKCESS11 elicited information about 14 specific HPWPs (described in Section 3). Using this data, businesses were divided into three categories of adoption: high (adoption of 9+ practices), medium (4-8 practices) and low (0-3 practices). Since this project is looking for methods to boost adoption, the sample was purposively skewed towards high adopters, with a quota of 234 completed telephone interviews for this category, and 133 in each of the other two categories. Within these three categories, the sample was stratified according to broad sector and size of business (by number of employees). Drawing on UKCESS11 respondents for the telephone survey also allowed the incorporation of UKCESS11 data into the analysis, allowing the current survey to concentrate on issues connected to HPWS rather than on contextual information about the business.

Phase 3 consisted of in-depth face-to-face interviews with businesses drawn from the ranks of respondents to the Phase 2 telephone survey. The sample quotas roughly followed the quotas for Phase 2 i.e. oversampling the high adopters, in order to gain information about their journey and the manner in which they had come to adopt these practices. The key issues addressed by the interviews with high adopters included:

- their conceptualisation of a High Performance Work System

- the nature/characteristics of adopted HPWPs, and the way they operate *as a system* within the organisation (and, indeed, if they do operate in this manner)

- the process by which the system had been discovered and adopted (e.g. planned/deliberate vs. *ad hoc* and based upon learning by doing)

- the role of top-down leadership

- how the system has been customised to the organisation, and how it has evolved over time

- obstacles to successful adoption and how they have been overcome, including any on-going challenges

- the nature and value of support for introduction

- impact upon business performance

- lessons derived from the process

Interviews with non-adopters and low adopters focused on the perceived reasons for adopting this position. They explored understanding on the part of the key actors of the HPWS concept, and perceived benefits and problems arising in their specific context. This involved establishing the source of information on HPWS; the nature of any piloting or experiments conducted; and exploring perceived barriers (internal and external). Ultimately, interviews identified factors that interviewees considered to affect adoption, and the extent to which such factors were amenable to policy action.

Findings from the different sets of interviews were set in terms of the characteristics

of the firms and owner/managers and their business objectives, to explore whether there were meaningful differences between adopters and non-adopters (i.e. at a more defined level than can be identified simply from an analysis of existing survey data). This facilitated the drawing out of evidence for the targeting actions.

3 Telephone survey findings

This section examines responses to the telephone survey of 500 SMEs. The sample for the telephone survey was drawn from the respondents to the UK Commission's Employer Skills Survey 2011 (UKCESS11). Thus, although all data in this section relates only to the 500 respondents to the telephone survey, their responses to that survey can be linked to data previously gathered in UKCESS11.

There were 14 HPWPs covered in UKCESS11, which can be divided into three broad categories:

High Involvement

- Processes to consult employees (e.g. staff association) or recognition of a trade union

- Create teams of people who don't usually work together to work on specific projects

- Hold any ISO9000 quality standard

- Investors in People accreditation

Human Resource practices

- Arrange or fund any on- or off-the-job training

- Existence of a training plan

- Existence of a training budget

- Annual performance reviews for employees

- Encourage staff development through supervision, work shadowing or staff working beyond strict job roles

- Formal assessment of employees' performance after training

Reward and Commitment

- Award performance-related bonuses to employees

- Individual performance related pay

- Flexible benefits (the option to use some pre-tax pay for extra benefits such as pensions, childcare vouchers, life assurance etc).

- Existence of a business plan

The sample for the current survey was partly constructed so as to boost the number of respondents who identified themselves as high adopters in UKCESS i.e. undertaking at least nine of the 14 practices listed in that survey. As such, an initial quota of 234 was set for high adopters (more than nine of the 14 specified practices adopted), with a quota of 133 of each of medium and low adopters (4-8 and three or fewer practices, respectively), using the responses from UKCESS. Within these quotas, the sample was stratified by broad sector and size of business as per the

proportions in UKCESS. Businesses with nine or fewer employees were excluded, as were those that were part of a larger organisation with 250 or more employees in total. Note that the categorisation for low, medium and high adoption in the analysis below is based on the answers given in the current survey, *not* UKCESS11, and therefore does not conform to the quotas noted above, due to differences in responses between the two surveys.

3.1 Telephone survey results[10]

3.1.1 Profile of respondents

Table 3.1 shows the profile of the respondents to the telephone survey by broad sector and sizeband.

Table 3.1 Sample by sector and number of employees

	10-24	25-49	50-99	100-249	All	
Primary and utilities	1.8%	0.4%	0.6%	0.0%	**14**	*2.8%*
Manufacturing	7.2%	4.4%	1.8%	1.0%	**72**	*14.4%*
Construction	6.6%	2.4%	1.0%	0.4%	**52**	*10.4%*
Distribution & transport	20.2%	6.6%	2.6%	1.2%	**153**	*30.6%*
Financial/business svces	14.6%	6.0%	3.2%	1.4%	**126**	*25.2%*
Other services	10.0%	4.4%	1.4%	0.8%	**83**	*16.6%*
All	**302**	**121**	**53**	**24**	**500**	
	60.4%	*24.2%*	*10.6%*	*4.8%*		

Source: telephone survey

3.1.2 Adoption of practices by size of business

Table 3.2 shows the rate of adoption of each of the fourteen HPWPs by size of business among telephone survey respondents. Only one per cent of businesses had adopted none of the practices at all. The most common practices across the sample as a whole were arranging training for employees (88 per cent of respondents), work shadowing, stretching or supervision (84 per cent) and a business plan (82 per cent). The least common was Investors in People standards (14 per cent).

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[10] Figures quoted in this section are weighted to be representative of the broader population of businesses, and percentages are derived from these weighted figures rather than unweighted counts. Where UKCESS linked data is used, eight businesses are omitted from the total sample of 500, as providing the data would have breached data protection rules due to the risk of being able to identify individual businesses. Where statistical significance is quoted, it is at the 95 per cent level.

Table 3.2 HPWPs adopted by number of employees

	10-24 (n=302)	25-49 (n=121)	50-99 (n=53)	100-249 (n-24)	All (n=500)
Arrange or fund any on- or off-the-job training	87.7%	86.7%	94.0%	92.3%	**88.4%**
Work shadowing/ stretching/supervision	82.2%	88.8%	80.0%	88.5%	**83.6%**
A business plan	77.3%	87.8%	86.0%	92.3%	**81.0%**
Annual performance reviews	79.4%	71.4%	84.0%	80.8%	**78.4%**
A training plan	67.2%	60.2%	68.0%	65.4%	**65.8%**
Formal assessment of performance after training	59.2%	48.0%	56.0%	57.7%	**56.6%**
Award performance related bonuses to employees	51.8%	58.2%	46.0%	53.8%	**52.6%**
A training budget	37.1%	39.8%	60.0%	57.7%	**41.0%**
Individual performance related pay	39.0%	45.9%	42.0%	42.3%	**40.8%**
Flexible benefits	34.4%	40.8%	60.0%	46.2%	**38.8%**
Creates teams	32.8%	48.0%	46.0%	50.0%	**38.0%**
Hold any ISO9000 quality standard	19.3%	29.6%	42.0%	42.3%	**24.8%**
Employee consultation/recognise trade union	17.8%	20.4%	30.0%	34.6%	**20.4%**
Accreditation with Investors in People standard	12.0%	13.3%	20.0%	30.8%	**14.0%**
None of the above	0.9%	1.0%	0.0%	0.0%	**0.8%**

Source: telephone survey

However, there are clear differences in adoption rates between size-bands. In general, smaller businesses are less likely to have adopted a given HPWP than larger ones. This particularly applies to the adoption of IIP and ISO standards, employee consultation and the use of a dedicated training budget. However, the overall difference in the number of practices adopted is relatively small, varying between seven and eight (Table 3.3). Only the difference between the 10-24 and 50-99 size-bands (7.0 and 8.1, respectively) is large enough to be statistically significant.

Table 3.3 Mean number of HPWPs adopted by sizeband

	10-24	25-49	50-99	100-249	All
Mean no.	*7.0*	*7.5*	*8.1*	*8.0*	**7.3**

Source: telephone survey

3.1.3 Adoption of practices by sector

Disaggregating adoption by sector, there are also some clear differences in both number and nature of the practices adopted, although the pattern is not as consistent as for size-band. The three sectors with the highest absolute adoption rates, and some way ahead of the other sectors, are financial and business services (8.0), construction (7.9) and other services (7.8) (Table 3.4), although the differences are largely not statistically significant.

Table 3.4 Mean number of HPWPs adopted by sector

Sector	Mean
Primary and utilities (n=14)	6.6
Manufacturing (n=72)	6.7
Construction (n=52)	7.9
Distribution and transport (n=153)	6.4
Financial and business services (n=126)	8.0
Other services (n=83)	7.8
All (n=500)	**7.3**

Source: telephone survey

However, there are also clear indications that some HPWPs are more relevant to particular sectors than others (Table 3.5). These include:

- ISO9000 standards, which are substantially less common among service sector businesses than others.

- The existence of a training plan, which is substantially more common among construction and other services businesses than other sectors, possibly because of regulatory requirements relating to training.

- Annual performance reviews are more common among businesses in financial and business services and other services sectors.

- The existence of a dedicated training budget is less common among businesses in manufacturing and distribution & transport, possibly because of an emphasis on on-the-job and informal training rather than the use of external qualifications.

These issues and potential explanations were all tested further in the interview stage.

Table 3.5 HPWPs adopted by sector

	Primary & utilities	Manuf.	Const	Dist. & transport	Financial/ business services	Other services
Award performance related bonuses	33.3%	48.5%	54.3%	60.2%	61.2%	31.0%
Individual performance related pay	45.2%	38.7%	38.5%	43.9%	43.7%	32.9%
Flexible benefits	25.0%	32.3%	24.3%	35.9%	46.6%	48.6%
Arrange or fund any on- or off-the-job training	92.9%	81.5%	96.0%	81.5%	92.4%	96.3%
A training plan	53.6%	55.3%	88.2%	53.9%	67.3%	82.5%
A training budget	32.1%	23.5%	54.3%	28.2%	53.3%	53.9%
Annual performance reviews	59.5%	63.7%	74.9%	70.5%	91.3%	90.7%
Work shadowing/ stretching/supervision	85.7%	77.0%	79.7%	78.6%	91.5%	88.8%
Formal assessment of performance after training	61.9%	55.0%	49.3%	50.3%	54.0%	77.9%
Accreditation with Investors in People	4.8%	14.6%	19.6%	9.0%	15.5%	19.2%
Hold any ISO9000 quality standard	51.2%	44.9%	37.0%	17.6%	28.3%	3.4%
Employee consultation /recognise trade union	15.5%	16.7%	27.7%	10.9%	24.3%	31.0%
Creates teams	26.2%	36.8%	63.3%	39.5%	35.2%	28.2%
A business plan	76.2%	81.0%	78.2%	66.6%	92.3%	93.6%

Source: telephone survey

3.1.4   Other influences on adoption rates

There is some indication that recognition of a trade union is associated with a higher mean number of practices adopted. However, this may be because some sectors are more likely to be unionised than others; where possible, this issue was explored further in interviews.

The broad age of the business has little effect on the mean number of HPWPs adopted, less so than either sector or size. Businesses under five years of age have adopted a mean of 6.5 practices, compared to 7.3 for all businesses (not a statistically significant difference). However, age has a greater influence on the specific practices adopted. Younger respondent businesses, established in the previous five years, were less likely to award performance-related bonuses, have flexible benefits, undertake annual reviews or have ISO or IIP accreditation than older businesses. This indicates that there may well be a chronological order in which the practices are adopted by businesses as they grow, although this may well

be more determined by the size of the business than its age *per se*. Again, this was highlighted as an issue to be further explored at the interview stage.

3.1.5   Qualifications of workforce by level of adoption

Table 3.6 shows the profile of respondent businesses by the qualification level of their employees. It is clear that high adopters have a higher proportion of their workforce qualified to at least level 3 than lower adopters. Some 49 per cent of high adopters have more than 80 per cent of their workforce qualified to this level; significantly higher than either medium or low adopters. At the other end of the scale, 43 per cent of low adopters have fewer than 20 per cent of their workforce qualified to at least level 3; significantly higher than the other two categories.

Interestingly, although the difference is not statistically significant, high adopters were more likely to *know* the qualification level of their workforce. Some 11 per cent of high adopters did not know the qualification pattern of their staff, approximately half the proportion of low and medium adopters.

Table 3.6 Proportion of respondents by percentage of staff qualified to at least level 3

Adoption	Fewer than 20%	20% to 80%	More than 80%	Don't know
Low	43.3%	27.0%	9.6%	20.1%
Medium	14.6%	43.0%	21.8%	20.6%
High	10.3%	30.2%	48.8%	10.7%

Source: telephone survey/UKCESS11

Table 3.7 shows even more pronounced results when level 4 qualifications are examined. In this case, 22 per cent of high adopters have more than 80 per cent of their workforce qualified to this level, approximately four times as high as in the other two categories, which is a statistically significant difference. Some 71 per cent of low adopters have fewer than 20 per cent of their workforce qualified to level 4, significantly higher than among medium adopters (43 per cent) which in turn is significantly higher than high adopters (25 per cent).

Table 3.8 shows the analysis for degree-level or higher qualifications, which follows a similar pattern. In particular, there are extremely low proportions of low and medium adopters with high numbers of staff qualified to this level, with high adopters seven times more likely to have more than 80 per cent of staff holding a degree or higher qualification.

Table 3.7 Proportion of respondents by percentage of staff qualified to at least level 4

Adoption	Fewer than 20%	20% to 80%	More than 80%	Don't know
Low	70.9%	13.6%	4.2%	11.3%
Medium	42.9%	41.9%	5.7%	9.4%
High	25.0%	44.3%	22.0%	8.7%

Source: telephone survey/UKCESS11

Table 3.8 Proportion of respondents by percentage of staff qualified to at least degree or equivalent level

Adoption	Fewer than 20%	20% to 80%	More than 80%	Don't know
Low	81.1%	14.1%	1.8%	3.1%
Medium	60.0%	36.2%	2.2%	1.6%
High	43.2%	39.8%	14.4%	2.6%

Source: telephone survey/UKCESS11

3.1.6 Deficiencies in workforce skills by level of adoption

UKCESS asks whether all employees are fully proficient at their job roles; if not, the business can be said to have an internal skills gap. There is little correlation between skill gaps in respondent businesses and the extent of their adoption of HPWPs, with the differences between groups not significant. Approximately one-third of respondents in all groups indicate that some of their workforce have a skills gap.

Those which reported a skills gap were asked what impact this had on the business – major, minor or none. Although there is a difference in the reported impact, with low adopters more likely to report a major impact than medium or high adopters, the differences are not statistically significant due to low numbers. Similarly, there is no significant difference between groups in whether they have already or are planning to respond if they have a skills gap.

High adopters are significantly more likely to increase recruitment activity and performance reviews as methods to rectify internal skill gaps. They are also more likely to increase training activity and supervision of staff, and less likely to reallocate work or do nothing at all, but again these differences between groups are not significant.

UKCESS11 data relating to the 500 telephone survey respondents also allows us to examine the reverse of skill gaps, namely the proportion of staff with skills/qualifications more advanced for their current job role. In all three groups by extent of adoption, the majority of businesses (between 54 and 64 per cent) report that fewer than one in ten of their workforce are overqualified. The most striking difference is that seven per cent of high adopters consider that *all* their staff are overqualified for their job roles, compared to 0.6 per cent of medium adopters and no low adopters.

3.1.7 Training by level of adoption

Low adopters are significantly less likely to provide training to their workforce, with 61 per cent of this group not providing training compared with ten per cent of medium adopters and five per cent of high adopters. High adopters are significantly more likely to train *both* on and off the job (81 per cent of this group) than medium adopters (56 per cent).

Table 3.9 shows the type of developmental support provided by the level of adoption. Low adopters were significantly less likely to provide any of the listed forms of developmental support than either high or medium adopters. High adopters are the

most likely to perform each of the three types of developmental support, a little way ahead of medium adopters. In particular, high adopters are significantly more likely than medium to allow staff members to go beyond their job role (84 per cent and 66 per cent, respectively).

Table 3.9 Proportion of respondents by type of developmental support in the past twelve months

Adoption	Supervision to ensure that employees are guided through their job role over time	Provided opportunities for staff to spend time learning through watching others perform their job	Allowed staff to perform tasks that go beyond their strict job role	None of these	Don't know
Low	43.3%	41.4%	48.5%	28.3%	0.6%
Medium	77.5%	78.2%	66.3%	6.6%	0.8%
High	85.4%	89.8%	83.8%	2.1%	-

Source: telephone survey/UKCESS11

Similarly, high adopters provide more days training per employee (nine in the past twelve months), on average, than either medium (6 days) or low adopters (4 days), although the differences are not significant.

Approximately seven in ten of both medium and high adopters have trained some staff towards a nationally recognised qualification in the past year. Very few low adopters have, although the number undertaking training is too low to make generalisations from this disaggregation. Training is most commonly towards level 3 (52 per cent of high adopters, 35 per cent of medium).

3.1.8 Strategic direction of business by level of adoption

Taking the data presented in Tables 3.10-3.13 together, it is clear that high adopters are more likely to pursue a strategy based on product/service differentiation, innovation and quality than the other groups, although it is less clear how price-dependent this group is. In particular, high adopters make use of product differentiation and regard their business as 'often leading the way' in terms of developing new products, services and/or processes. This is clearly an important point in terms of the businesses likely to be most receptive to the promotion of HPWS.

Table 3.10 Proportion of respondents by customisation of goods/services

Adoption	Standard range of goods or services	Minor differences according to customer requirements	Substantial differences according to customer requirements	Don't know
Low	46.0%	16.5%	28.8%	8.7%
Medium	21.9%	38.9%	37.9%	1.3%
High	14.8%	34.1%	49.4%	1.7%

Source: telephone survey/UKCESS11

Table 3.11 Proportion of respondents by type of competition

Adoption	1 Wholly price dependent	2	3	4	5 Not at all price-dependent	Don't know
Low	18.6%	16.3%	27.0%	8.0%	22.9%	7.2%
Medium	10.0%	29.5%	35.7%	15.0%	6.0%	3.8%
High	9.6%	13.4%	34.5%	27.6%	13.4%	1.6%

Source: telephone survey/UKCESS11

Table 3.12 Proportion of respondents by development of new products, services and techniques

Adoption	1 Very rarely lead the way	2	3	4	5 Often lead the way	Don't know
Low	19.4%	21.0%	30.5%	14.9%	10.1%	4.1%
Medium	11.1%	10.5%	33.5%	26.6%	13.5%	4.9%
High	3.4%	8.5%	24.3%	26.2%	35.9%	1.7%

Source: telephone survey/UKCESS11

Table 3.13 Proportion of respondents by quality of products/services

Adoption	1 Standard or basic	2	3	4	5 Premium quality	Don't know
Low	12.1%	12.9%	21.2%	30.8%	19.3%	3.9%
Medium	6.7%	5.7%	22.5%	22.9%	40.6%	1.5%
High	0.5%	3.8%	20.1%	37.9%	36.4%	1.3%

Source: telephone survey/UKCESS11

UKCESS11 integrates the four measures above into a single index, the Product Market Strategy Composite Measure shown in Table 3.14, which confirms the above conclusions. High adopters are clustered in the 'high' and 'very high' categories.

Table 3.14 Proportion of respondents by Product Market Strategy Composite Measure

Adoption	Very low	Low	Medium	High	Very high	Don't know
Low	12.3%	18.9%	22.5%	26.5%	6.9%	12.9%
Medium	1.7%	12.8%	34.5%	33.2%	9.1%	8.8%
High	.0%	6.8%	25.8%	42.2%	21.2%	3.9%

Source: telephone survey/UKCESS11

Adding skills to this measure emphasises the conclusions, with one quarter of high adopters being High PMS/High Skills and virtually none being Low PMS/Low Skills. Nonetheless, the majority – approximately 75-80 per cent – of each group fits neither of these categories. This implies that an exemplar group is the quarter of high adopters that fit the High PMS/High Skills profile i.e. those businesses that use a wide range of HPWPs, have a highly skilled workforce and a strategy based on quality and innovation. However, it also implies that the bulk of businesses, regardless of the adoption rate of HPWPs, remain 'in the middle'; thus, there is substantial scope to 'nudge' many businesses forward in terms of the level of skilling and strategic orientation. Equally, this may imply that medium and high adopters of

HPWPs may not be making optimum use of these practices, i.e. they are not fully embedded or do not work together as effectively as they could.

Table 3.15 Proportion of respondents by Product Market Strategy Composite Measure and skill level

Adoption	High PMS High Skills	Low PMS Low Skills	Neither
Low	.0%	21.3%	78.7%
Medium	11.8%	4.7%	83.6%
High	24.9%	.8%	74.3%

Source: telephone survey/UKCESS11

3.1.9   HPWP Systems

There is only sparse awareness of the specific term High Performance Work Practices among the 500 respondent businesses: just 11 per cent were familiar with it. Awareness is highest among manufacturing and finance/business services businesses (19 per cent and 18 per cent, respectively).

The term 'High Performance Work System' (HPWS) was then defined to all respondents, who were asked if they considered that they operated such an approach. Some 38 per cent of respondents indicated that they did; two-thirds of these respondents operated the system throughout their business, the remainder only in specific departments or sites (Table 3.16). The existence of an HPWS was highest among financial and business services (48 per cent) and other services (43 per cent).

Whether they operate a system is closely tied to the number of HPWPs adopted, as would be expected. Those with a system throughout the business have adopted a mean of 8.6 practices; those with a partial system, 8.2 practices. Both these figures are significantly higher than the mean adoption rate for respondent businesses with no self-defined system in place (6.5 practices).

It is notable that 44 per cent of those respondents with nine or more HPWPs still do not consider that they operate a High Performance Work *System*. This indicates that large number of businesses may have implemented individual practices without necessarily considering how these practices might work together to aid business performance, suggesting a somewhat unplanned and/or evolutionary approach to implementation. This was seen as a key issue to be explored further in the interview stage.

Table 3.16 Number of HPWPs and operation of HPWP system

No of HPWPs	System through the business	System in parts of the business	Previously had such a system	No system
0-3	6.8%	3.4%	0.0%	89.8%
4-8	21.2%	10.7%	0.7%	67.4%
9+	40.3%	15.8%	0.4%	43.5%
All respondents	**26.1%**	**11.7%**	**0.6%**	**61.6%**
Mean no of HPWPs	**8.6**	**8.2**	**7.6**	**6.5**

Of the 311 respondents with no High Performance Work System, only 40 (13 per cent) had considered adopting a HPW system in the past; the larger the business, the more likely they were to have considered it.

3.1.10 Reasons for non-adoption

The two most cited reasons for not adopting (more) HPWPs, each reported by just under 30 per cent of respondents overall, were

(a) the business was too small; the vast majority of businesses citing this reason (88 per cent) were – unsurprisingly – in the 10-24 size-band; and

(b) they had simply never considered it; this applied to a quarter of the 10-24 size-band, and approximately one-third of each of the larger size-bands.

The third most cited reason was that a HPW system was not necessary, as their existing systems and staff were as proficient as required (17 per cent of respondents).

Low and non-adopters were also asked what might persuade them to adopt a High Performance Work System. The most popular methods, each cited by approximately 55 per cent of respondents, were: (i) actual examples of the benefits of adoption in practice; and (ii) financial support. Some 40 per cent reported that other advice and (non-financial) support would be useful. It is worth noting that the majority of respondents (85 per cent) had not received any advice or support in areas related to High Performance Work Practices.

Higher rates of adoption would also be driven, according to respondents, by either or both the prospect of better performance and/or an actual realisation of better performance: 46 per cent cited 'a significant increase in orders' and 38 per cent 'an economic upturn' as likely drivers of increased adoption. However, at the same time, a poor economic outlook is not seen as a barrier: only six per cent reported that the current economic climate was a barrier which made it 'too difficult' to introduce HPWPs. This appears to indicate that businesses regard HPWPs as a 'luxury' that can be implemented in a boom time (or even *because* of a boom time) but would do little to improve their bottom line in a recession. It also suggests that the majority of businesses do not consider that the introduction of HPWPs involves a high cost, in terms of either management time or monetary costs.

Another reason for low adoption may simply be organisational inertia or satisficing behaviour: only one per cent were currently considering adopting a system, but only three per cent reported that 'nothing' would persuade them'.

Overall, these results imply that a trigger of some form is likely to be needed to start the process of adoption, or even the process of investigating and considering HPWPs further. This trigger may be related either directly to business growth, or more indirectly, for instance by the example of a successful business having adopted HPWPs to facilitate future increased performance, or the suggestion of HPWPs by a consultant. This 'demonstration effect' has been the basis for HPW policies in other countries (e.g. Australia) and was investigated further in the interviews.

3.1.11 Processes of adoption

Drivers. Very few respondents with medium or high adoption rates (hereafter referred to as 'adopters') implemented their HPWPs all at once, as a package. The approach in the vast majority of adopters (91 per cent) evolved over time. The most common driver amongst adopters was to improve performance (85 per cent) or because it fitted with their management style or ethos (64 per cent). Some 40 per cent of respondents cited external influences or models as an important factor. In the same proportion of cases, there was some employee expectation or pressure involved in the decision.

Support. As would be expected, a higher proportion of adopters than non-adopters had received relevant advice (30 per cent and 15 per cent, respectively). However, this still implies that the overwhelming majority of adopters (70 per cent) did not receive any advice or support relating to HPWPs. The most common source of support was a consultant (used by one-third of those having sought support), while only three respondents had used Business Link for support in this area.

Benefits. The most commonly cited benefit deriving from HPWP adoption was an improved quality of service (90 per cent of adopters), followed by increased productivity (80 per cent) and enhancements to innovation and increased output (both cited 70 per cent).

However, relatively few considered that the adoption of HPWPs had a direct impact on their staff: only 14 per cent reported an increase in staff motivation, and two per cent a reduction in staff turnover. Several possible interpretations of this result are possible. It may be the case, for instance, that those businesses which adopted HPWPs already had good relations with their staff, and that this factor facilitated the introduction of the HPWPs. It is also possible that staff motivation and retention were not an explicit aim of managers when introducing HPWPs (i.e. managers do not care how motivated their staff are as long as they are productive) or are not monitored as effectively as bottom line impacts – despite the fact that HPWPs are fundamentally about motivating employees. These issues were investigated in more depth in the interviews.

Investigating this issue further, using linked UK Commission Employer Skills Survey data, reveals that very few of the sample had any difficulties with recruitment or retention, regardless of the intensity of HPWP use. Only 38 of the 500 interviewed

businesses had any hard-to-fill vacancies (HTFVs), of which 32 had skill shortage vacancies (SSVs), and only 15 had any jobs in which they had difficulties retaining staff. This is somewhat higher than the figures for all businesses in the full UKCESS, where four per cent had HTFVs compared with the figure for our survey of eight per cent. However, it is too small a number to distinguish if the number of HPWPs used has an impact on recruitment and retention. It is also important to note the economic conditions prevailing at the time of the interviews. With a large number of unemployed seeking work, and the prospect of an already employed worker transferring to a new job reduced, it is unsurprising that there are few difficulties with recruitment and retention – a point that many interviewees reiterated when questioned on this topic.

4 Interview findings

Interviews were undertaken with 40 businesses in March-May 2012, with interviewees drawn from the 300 respondents to the telephone survey who had indicated that they were willing to be re-contacted. The sample structure for interviews was based on the size of the business and the number of practices adopted, proportionate to the sample of the telephone survey - i.e. interviews were skewed towards higher adopters, in the same way as the telephone survey. Interviews also contained representation from each of the broad sectors and all regions.

4.1   Use of practices as a system

In fifteen medium and high adopters, interviewees indicated that they considered that all or most of their HPWPs worked together as a coherent system, even if they had not originally been introduced with that degree of forethought. This group with coherent systems represents a good half of the high adopters interviewed and a quarter of the medium adopters. Noticeably, this group often did not refer to their method of operating as a 'system', nor specifically as 'high performance' or 'high involvement'. Several characterised it as 'just the way we do business', or 'doing things as well as we can'. No matter how they characterised it, it was clear that the practices were fully embedded in these businesses, and they shared a culture of striving to improve how they operated, including how they treated their staff. Indeed, when presented with a longer list of (35) practices that could be considered 'high performance', several requested a copy for use in benchmarking their own practices.

An example of such a firm is found in a **plastics manufacturer**. Its management clearly consider that they have adopted a 'system', but not specifically connected with any 'laid-down formula' – more a 'set of connected practices' that fitted the management's philosophy, right from setting up the business a decade ago. The business was formed by a small group of managers who left a previous company. One described the situation as follows: '*Our culture was established at the outset, under the leadership of the General Manager. She has an HR background, and is the main instigator of our system - always talking about teamwork and everyone being part of same team, and all are part of the business, and encouraging an attitude of everyone being prepared to do what is needed*'. A **science-based consultancy** provides another example: '*We don't call it a "high performance working" system, but do see it as a system and conceptualise it principally as built from our quality system, which we regard as fundamental. The interaction of procedure and processes exists and is based upon quality management. The practices we use have been designed to support this*'.

This evidence points towards an informational failure with regards to the concepts and practices involved in HPW. In terms of potential policy interventions it also indicates that each 'system' is unique to the business using it, indicating that prescriptive of inflexible approaches recommending the takeup of particular HPWPs in a particular way or unlikely to meet business needs.

Case Study 1: Aerospace components supply firm

An aerospace component fulfilment business, with approximately 160 employees, has a highly and deliberately systematised approach to high performance working. It cannot compete on product quality (since it is not a manufacturer), so the strategic focus of management concentrates on customer service. Management's basic philosophy is highly attuned to the HPWS principle of discretionary responsibility: '*we have a basic process to follow as a business, but each employee is empowered to be dynamic and make decisions*'. The method for achieving this, in the general manager's view, is engagement: '*the most important [practices] are the ones which lead to a fully engaged employee, that's the starting point that leads to a 'can-do' attitude so they can cope with whatever is thrown at them... but you don't need to find an engaged employee, you get the right raw materials and you can build one*' in around 6-12 months. The business has a multi-faceted process to achieve this, encompassing almost the full range of reward, training and involvement practices.

The roles they have are sufficiently interesting and flexible, and offer opportunities for development, to make the company attractive to recent graduates: '*We have created roles which can be filled by anybody – if it's a graduate, they will stay between 18-20 months, and then go. Then, the next person will come in, do the same role (differently, but essentially the same). That level of aptitude is the expectation of the business, at the same time as empowering the individual so they can go through the process for a couple of years, then move on having achieved everything they wanted.*' Once recruited, there is a significant amount of training, partly geared towards determining where they best fit in the business: the business recruits candidates '*not necessarily with the skill-set of the job – by giving the opportunity to someone seeking employment for the first time, they can apply themselves to the job in hand with the training [we give them]... We norm them into the role, then take them out of their comfort zone, not to make their life difficult but to test them – the better they are, the better the business will succeed... you can build an engaged employee in 6-12 months*'.

This is facilitated by the reward, involvement and monitoring structure. The management regard the reward system as fair, and are at pains to communicate this to the workforce: '*Lots of businesses have reward packages, but they are not good at being transparent, consistent and communicative. When our business is successful, our employees benefit; when it's not, they will not benefit, but will know why*'. All employees have an element of individual performance-related pay, calculated through automatic monitoring of performance, while bonuses related to overall business performance are distributed to all staff equally. The latter are made up of four components, each relating to a different part of the business, and based on clear and well-publicised targets (e.g. dispatching on time, maintaining quality), creating a very visible bonus pool. Since responsibility is devolved, all employees can see how they are contributing to overall reward: '*If you have the KPIs and don't allow latitude to achieve them, you'll have a problem... Because they're aware of the*

KPIs, they're aware of the individual influence they can have, and co-operatively as a group, that empowers them to want to succeed, and by empowering them they tend to go away and get it done'. The overall reward is less important to motivation (employees' basic salary is competitive against market rates) than the job satisfaction and the team spirit that the bonus system engenders.

Monitoring of KPIs is achieved through automatic and substantial collection of MI, which is also analysed and fed back into changes in operations: described as '*consistent monitoring and tweaking of processes*'. There is also an on-going survey of customer satisfaction and periodic surveys of employee engagement, which also trigger investigations and changes in practice if the outcome is unsatisfactory. Similarly, quality systems are integral part of what the firm does, but it regards its own system (which incorporates and integrates elements from a number of standards) as more suitable than the wholesale implementation of an off-the-shelf standard - although the firm operates several ISO standards for contractual reasons.

Staff are welcome to make suggestions, and do so on an on-going basis, in addition to structured opportunities to discuss issues (monthly management meetings and team meetings), with a substantive formal consultation process when major changes are proposed. Consultation and development also involves formal decision aids (4 Box and Fishbone analysis) to structure the decision-making process further.

The system as a whole is perceived to produce a contented, motivated and engaged workforce, which leads to higher morale and productivity, a high level of customer satisfaction and, ultimately, the retention of existing clients and a higher likelihood of winning new contracts.

4.2   Management culture

The above examples certainly conform to the 'generic' description of HPWS outlined in Section 2.1 above. Thus, no matter how businesses refer to it, approximately one-third of all interviewees met this definition. Others fell short of the full 'holistic' definition, encompassing the full range of HPWPs, but indicated that they had 'sub-sets' or 'bundles' of HPWPs that worked together. Most commonly, this involved the subset of training-related practices; as the CEO of an enthusiastic adopter, a **security devices manufacturer** remarked, 'staff development is built into the DNA of the organisation'.

Thus, the concept of a high performance system clearly has value to businesses that embrace the necessary workplace culture, with both the telephone survey and the interviews suggesting that an HPWS is associated with higher quality and growth-

oriented businesses. Those firms that operate a range of HPWPs do so because they aspire to being 'the best we can be', and treat staff well because they value their input. HPWP adoption grows from this overall approach towards business, rather than as a 'checklist' of practices it is advisable to adopt. Those which adopt a more limited range of HPWPs, and a less systematic approach, may be doing so for other, more pragmatic and goal-focused reasons: e.g. regulatory requirements, facilitating growth in a particular area, trying to solve a temporary problem etc. This group may therefore be more likely to use an approach which involved picking those most suitable for the task from a list of HPWPs.

This suggests that moving firms from this latter group into the former requires a shift in the cultural outlook, and possibly the strategy, of the business. This suggests a possible role for behavioural economics and social psychology techniques in order to 'nudge' managers towards this shift in outlook, and fully embed HPW concepts in the organisation.

4.3   Terminology

There is, among the business community, a general wariness of 'jargon' and terminology that does not obviously relate to their operational situation, and also of commonly used 'checklist' approaches to business improvement. As an interviewee from a **construction firm** asked with respect to the term 'high performance': '*What does that mean - that we can dig a better hole?*' Demonstrating the value of a system is thus less problematic than the manner in which this concept is *communicated* to businesses. This suggests that the terminology used when promoting HPWPs needs to be meaningful (in the MINDSPACE framework, have Salience) in the day-to-day currency of SMEs. In particular, given the current economic conditions, interviewees were receptive to ideas for new and creative thinking to improve their business situation, providing they were without significant cost implications.

4.4   Less systematic use of practices

Around half of the high adopters interviewed considered that their uses of HPWPs did not constitute a 'system' as such, although in some cases managers were working steadily towards a more unified system of practices - the businesses having realised that their implementation of HPWPs was fairly shallow, and that the practices did not work together particularly well. In one case, this was prompted by the recruitment of an experienced HR manager, who had undertaken a review of practices and implemented an action plan. In this, he was supported and encouraged by the board (which had realised the company could organise itself more effectively in this respect, but was at a loss to know how to improve a system which had evolved over many years). In another case, the manager was prompted by recruitment difficulties and the urging of an executive coach to hire an HR consultant to thoroughly revise the firm's systems.

The reason for the less systematic use of HPWPs varied among the other adopter businesses. It was most commonly associated, however, with (1) a lack of dedicated

HR responsibility (as dealt with in Section 4.5.3 below), (2) the view that their practices were 'satisfactory for purpose', and (3) a reluctance to devote valuable management time towards devising a more coherent framework. For example, in a **media/direct marketing business**, the interviewee noted that there *used* to be a more extensive system, but that system gradually fell apart after the departure of its driving force – the previous HR manager. Even though knowledge about the system was documented (to the extent that when one of the abandoned HPWPs was revived, the manager used 'a tweaked version of the old handbook'), without the manager, there was insufficient enthusiasm to continue the work of ensuring that the practices were used systematically. Currently, the manager considered that the present system of people management was 'good enough' and that there was no real need to systematise further.

A further example is provided by a **plastic products manufacturer** that combined high adoption of HPWPs with a more paternalistic way of managing the workforce. The interviewee noted that '*in a competitive world, you have to be seen to involve your workforce, to make them <u>want</u> to come to work. We're not particularly highly paid industry, but we look after our workforce. It's the paternalism thing again – they feel as if they belong to the company... We have some long service awards coming up this year – two with 25 years, and five with 20 years service out of 150. That's pretty good. People relate to the business and keep coming and we look after them. The MD has a very soft approach – if a family member is in hospital, we recognise it and that's appreciated.*' This stance was partly explained by the situation of the business – one of the few major employers in a rural town, in a design-led but ultimately traditional manufacturing sector. In contrast to the situation faced, for example, by financial services or high-technology businesses, this business felt that it had to make explicit its 'family' atmosphere, *in addition* to having a high number of HPWPs, albeit not operated in a systematised way. Given the 'old-fashioned' outlook of some of the management team, and indeed of the workforce, it is arguable that this works well, and has enabled the business to make adjustments in the current downturn (e.g. instituting a pay freeze) with little staff unrest.

In fact, it was common for interviewees in businesses which implemented practices in a shallow way, or which implemented few practices, to assert that they did not need a formal system. Instead, they aim to be a 'good company to work for' or some similar categorisation: 'we're like a family here', 'we have an open door policy', 'staff feel they belong' etc.

The virtues of this way of operating a business should be acknowledged. Indeed, the 'good place to work' system can be, and has proven to be, highly effective in managing and eliciting good performance from staff, without the need for formalised procedures. In a small business, where the manager knows all the staff well and there is no real desire to grow or diversify, *it is arguable that the approach can be as efficient as a formalised HPWS*. However, seeking to continue such a system as the business grows beyond a certain point may lead to under-performance, and render the organisation inflexible in the face of needed change.

An example of this is given in the case study of several **construction companies** below (see Section 6.2.1), where a lack of formality and 'over-familiar' management/staff relations have proven to be a major hindrance in developing the

business and improving efficiency. The point where HPWPs, and subsequently a High Performance Working *System* are *needed* in order to improve efficiency varies by business. In our interviewee sample, 25-35 employees could be identified as the likely transition point. Indeed, a construction business within the study, with 35 employees, was in the process of passing through this transition. A manager at the firm explicitly acknowledged that not only HPWPs (which they had already implemented to a relatively high level) but the *formalisation* and *systematisation* of these practices, were identified as being essential to the achievement of further growth, and even to maximise effectiveness at the current size. Nonetheless, even in larger businesses, the 'good place to work' system can prove effective, as shown by the example of the **plastic products manufacturer** above.

In policy terms, there is clearly scope for a relatively small effort to have a large impact on some of these 'unsystematised' adopters, by emphasising the potential benefits that more systematic usage may have. In particular, targeting SMEs at the threshold of greater formalisation may support further expansion, rather than this threshold acting as a barrier. In MINDSPACE terms, it is clear that this is both Salient and appeals to the Ego, in the sense that businesses wish to continue treating their employees well. In addition, emphasising the Incentives in terms of avoiding losses through adopting a HPWS would likely work well at this point, as shown by the clear under-performance of construction businesses which remain informal. However, underpinning this is the raising of growth ambitions among SMEs – if the manager does not want to grow any further, unsystematised use of HPWPs may well suit the business well.

4.4.1   Bundles of practices

In some cases, with further probing of the interviewee, it became apparent that 'bundles' or 'mini-systems' could be identified. This was particularly so with regard to training practices (i.e. undertaking some training, having a training budget and plan, and appraising and reviewing performance) which, in a minority of cases, were also linked to higher rewards, mainly using increments on a salary scale. Interviewees could intuitively see and articulate how these worked together, which was not necessarily the case with high involvement or reward and commitment practices. Only a small number, however, had actually strategically planned to introduce such a bundle or bundles, with the majority indicating that either the system had evolved *in situ* or that it was the consequence of regulatory prescription.

The latter point applies to sectors such as care or construction, where employees are often required to have ratified skills. For example, care workers have to be qualified to a minimum of Level 2, and care managers to Level 4. Similarly, construction workers must possess a CSCS card to gain access to major sites. This confirms that they possess at least Level 2 skills in their trade and a Health & Safety qualification, and provides further information about additional training that they have undertaken with respect to specialist skills.

4.4.2   Moving towards systematic usage

In businesses such as those described in this section, it may be that a relatively small effort would be required to shift from the current pattern of usage towards a

more systematic use of HPWPs. In many cases, however, the shift required is one of outlook of management, rather than a more instrumental promotion and adoption of particular HPWPs. However, dissemination of information about HPW impacts and case studies relating to the process of adoption would also be of benefit, and may help persuade businesses to improve management and leadership at the same time.

4.5   Business characteristics

This section examines whether certain business characteristics tend to be associated with the adoption and systematisation of HPWPs, and the reasons behind this. It is potentially relevant in terms of targeting HPW policy on those types of business that may be more receptive, and seeks to explore whether certain management and governance characteristics may be developed to encourage uptake of HPWPs.

4.5.1   Size of business

While size is a clear influence on the level of uptake of HPWPs, it is apparent that this effect is moderated by sector, strategic orientation, and the firm's managerial culture. This is also true with respect to the depth with which HPWPs are implemented.

However, that is not to say that all small businesses are low adopters. The most obvious example of small businesses being high adopters are where external sectoral requirements dictate that certain HPWPs are implemented, leading to a small business being a medium or high adopter almost by default - for example, statutory requirements in care, client requirements in construction, CPD requirements in financial services, etc. However, the degree to which these practices are normalised and effective, and whether there is genuine buy-in by staff, can vary substantially, even within the same sector.

> **Case Study 2: Nurseries**
>
> Three small independent nurseries, each with 10-15 staff, had all received good OFSTED reports and were running at full occupancy, but varied substantially in their adoption and systematisation of HPWPs. Two had benefited from considerable internal expertise (e.g. a partner being an Early Years university lecturer), and even offered consultancy services to other nurseries. They had also accessed external support: one used a market researcher to test perceptions of the nursery in its target market, while the other participated in a peer network organised by the local authority. These nurseries had a high level of adoption and deeply embedded HPWPs, with a managerial culture of treating staff well (higher rewards, greater levels of training) and competing on quality and high levels of customer service.
>
> By contrast the owner-managers of the third nursery had lower level and a

narrower range of prior sectoral experience (although still with sufficient relevant qualifications), and had not accessed external support. Their strategy was more basic and satisficing. This difference in workplace culture meant that they had implemented fewer HPWPs, and in a less systematic way.

It is clear that for many businesses with 25 or fewer employees, a simple business model and relatively unsophisticated products or services, there is relatively little interest in pursuing a high performance system, particularly given scepticism about the prospective return.

In larger businesses there tends to be a greater degree of adoption. However, again, the normalisation of the practices, and the extent to which only lip-service is being paid to implementation, varies substantially. To a degree, this depends on there being a dedicated HR capacity and, more so, on the wholehearted support of the board and the management team. In those businesses with a more strategic focus on quality and growth, and more sophisticated products or services, there is a greater likelihood of the practices being embedded and normalised and of having a system that operates effectively. In smaller businesses, with this strategic outlook, a fully realised system is less likely to be in place, particularly in a formal manner, but the management team is likely to be working towards this.

As such, using the characteristics of the business such as size and sector to predict the level and depth of adoption – or the openness towards adoption – and thus target support is useful as a broad guide, but its usefulness goes only so far. More effective guidance in this respect would be the more nuanced internal characteristics – strategy, culture, growth orientation – which would allow better targeting, or the nudging of businesses towards the characteristics which will likely lead to better uptake of HPWS. For example, specific business characteristics could be promoted as the (MINDSPACE) Norm for SMEs through using examples of HPW impact in leading businesses. Bearing in mind the importance of the Messenger, a wide range of examples would be needed (sectors, sizes, HPWPs adopted etc), to enable as many managers as possible to relate to the case studies.

4.5.2   Internal segmentation

In some businesses, there is a clear segmentation between different types of workers, with one group working to a HPWS, but not the other. The clearest examples of this are businesses with a group of 'fee-earners', with the remainder of the business essentially supporting their activities. For example, an *equine veterinary practice* applied a wide variety of HPWPs to its vets and (to a lesser extent) the veterinary nurses. In particular, this group undertook significant amounts of training (with the consequent adoption of a range of training-related HPWPs). The 'support staff' undertook substantially lower levels of training, and had minimal input to decision-making. However, the business functioned effectively, partly because

the staff seemed to enjoy working there (although, undoubtedly, this was connected to the fact that many of them loved horses, and obtained some fringe benefits connected with that interest).

Similarly, an **electrical engineering firm** with 30 employees undertook annual performance reviews with managers and apprentices but not electrical engineers, who work projects which can be quite distant and where they have to be capable of managing their work and working independently. An **animal feed manufacturer** carries out annual performance reviews for its sales staff, while for everyone else appraisals are every 3-4 years to coincide with the firm's IiP process.

In others, reward and benefits packages may differ by seniority. For example, an **engineering manufacturer** operates a final salary scheme for management and offers stakeholder pensions to everyone else. In other businesses, management receive higher pension contributions or other perks which are not open to lower level employees, such as free or subsidised health insurance or access to share options.

This emphasises the role of the perceived 'fairness' – rather than equality – of reward packages, as well as the importance of behavioural principles on a micro level, to embed and normalise practices throughout the workforce as a whole.

4.5.3   Human Resources capacity

Just over a quarter of the interviewed businesses had either a manager with dedicated human resources responsibility, or a manager with substantial previous experience in HR. These tended to be the businesses with more systematised practices and deeper implementation of HPWPs (although some had only appointed an HR manager *after* they had adopted HPWPs). This implies that businesses with an HR capacity (or with a culture and/or of a size which means they are likely to appoint an HR manager) are more likely to adopt HPWPs, and in a more systematic way than other businesses.

In other businesses, HR tends to be an additional responsibility either undertaken by the sole manager (in a small business) or allocated to the manager thought most suitable, with other managers contributing where necessary according to their expertise. The designated HR responsibility often goes to the person who deals with quality standards or processes in general, especially in manufacturing businesses.

It can be the case that this serves as an effective route for adding HR capacity - and thus to increase or deepen HPWP adoption while the business remains relatively small. However, as the business grows, it becomes less effective, and the burden of taking on two responsibilities risks affecting job performance and (indirectly) HPWP adoption. For example, an **electronic component manufacturer** had offshored a large production workforce while retaining a core design and sales teams numbering approximately 70. In the new structure, HR was overseen as part of a portfolio of the Quality Manager, who had a highly systematised approach to formulating policies and procedures. This was entirely contingent on his own knowledge and experience, which did not include specific human resources training. As such he suspected that he was 'missing a trick' in terms of being able to develop systems, while his HR responsibility diverted his time away from his main responsibility of

quality systems. HPWPs had been effectively introduced, but it was not clear that the system would develop further without a dedicated HR manager.

Another interviewee, an **electrical wholesaler and retailer**, belonged to a firm that had never had a dedicated HR function, in spite of the fact that over 25 years the workforce had grown to 150, across several sites. The founders had sectoral experience, but no professional management skills, and increasingly encountered difficulties coping as the business grew. Therefore, they had recently brought in two directors with such skills, in order to professionalise processes and practices - although neither had specific HR-related qualifications. They were able to institute a new, more formalised approach, including new contracts, formal consultation with staff and a new dress code. This represented a culture shift, but the lack of formal HR skills, coupled with the heavy managerial responsibility in other areas placed on the directors in a business of that size, meant that the firm had to subscribe to a support service to gain advice and guidance when needed. While this substituted for an internal HR function, it proved mostly useful when disputes arose, rather than as a means of proactively developing people management in the business. The lack of internal expertise and the weight of other duties prevented the increased adoption or deepening of HPWPs, even though the interviewee would have liked to take the processes further.

This evidence indicates the importance of internal people management expertise – either through a dedicated HR manager, or as part of the skillset of the owner or senior manager. While dedicated HR training was rare, staff with some training in general management techniques – which would likely incorporate elements of people management and, possibly, elements of HPW – were generally more open to the adoption of HPWS. This implies that there may be a role for incorporating HPW techniques in existing management courses. In the MINDSPACE framework, these courses are trusted, making them a good Messenger and creating Salience in communicating the benefits of HPW.

4.5.4   Characteristics associated with HPWP adoption

Econometric analysis was undertaken of data from both the 500 businesses interviewed in the telephone survey (including UKCESS11 data) and from 38 businesses which undertook in-depth interviews, with their responses coded into appropriate variables.[11] This provides some basic associations between the characteristics and management styles of the business and the likelihood of their having adopted HPWPs or a HPWS. This complements the qualitative evidence derived from the interviews, which reveal more about the causality of processes and how the quality of and commitment to internal procedures affects the business (rather than simply the existence of procedures, as is necessarily used in a regression analysis).

The econometric analysis shows that adoption of HPWPs and HPWP systems can, in the main part, be reliably predicted on the basis of relatively few indicators.

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[11] Full details of the variables used and a description of the analysis are given in Appendix 4. Insufficient data was available from two interviewees for them to be included in the econometric analysis.

Specifically, analysis of the telephone survey showed that over 50 per cent of the variance in number of HPWPs adopted could be accounted for by the existence of a training budget, a business plan and the proportion of staff having an annual performance review. Using data from the smaller sample derived from the interviews, over 30 per cent of the variance could be accounted for by the number of employees, the degree of autonomy in operations and their positioning with respect to entrepreneurialism, risk and growth ambitions.

Regarding adoption of HPWP *systems*, 17.5 per cent of the variance in the telephone survey data was accounted for by whether the interviewee had received specific HR training, the level of innovation, the existence of bonus/incentive or other pay schemes and the proportion of staff having a formal job description. In the interview-derived sample, more than 50 per cent of the variance could be explained, by the degree of autonomy in operations, their positioning with respect to entrepreneurialism, risk and growth ambitions, whether they were responsible to external owners or not and their use of formal decision aids.

While the econometric analysis reveals associations, it does not determine the direction of causality. Evidence from the interviews suggests that this is complex and nuanced, with different businesses being influenced by different factors (explored in more depth in Section 5). However, it is clear that there is likely to be a virtuous circle, where HPWPs reinforce managerial outlook and business direction, and vice versa. Therefore, certain business practices and characteristics can be linked to the development of HPWPs and a HPWS. These include creating explicit job descriptions; creating autonomy of operations and responsibility for decisions; a positive attitude towards growth, risk and innovation; regular use of decision-aiding methods and allocation of an explicit HR role to a manager (including the provision of relevant training).

A potential criticism of this analysis is that some of the predictors used are components of the criterion – for example, having a training budget is also an included HPWP, so it is not that surprising that it is a moderately good predictor. However, this criticism mainly applies to the analysis of the telephone survey, in particular to the prediction of number of HPWPs. It may also be the case that establishment of certain HPWPs may act as a catalyst for the adoption of others or, indeed, an entire system. This being the case, businesses which adopt the following HPWPs may be more likely to go on to adopt others: a training budget; a business plan; annual performance reviews; pay and incentive schemes (bonuses, flexible benefits, share options etc.).

However, as shown by evidence from the interviews, it should be borne in mind that the commitment to these schemes and their quality are highly important to their success, and their impact on the business. Simply implementing the practices without attempting to normalise or embed them within the business is likely to produce sub-optimal results. The creation of a culture and strategic vision that is receptive to HPWPs is thus highly important.

4.5.5 Business characteristics – conclusions

The evidence in this section suggests that, while certain types of SMEs (e.g. larger businesses, business services firms) may be more receptive to adoption of HPWPs and HPWS than others, the strategic outlook and leadership of the management team are of crucial importance. Furthermore, undertaking management training, and improving people management skills in particular, appears to aid adoption and deepening of systems. Finally, there is evidence that treating staff fairly and consistently, rather than necessarily equally, and communicating this to the workforce as a whole, supports the effective adoption of HPW. In the MINDSPACE framework, there is a clear case for promoting HPWS and upgrading management and leadership skills as Salient and establishing them as the Norm for SMEs, via effective Messengers such as case studies of other businesses and management training courses, and appeals to the Ego. Targeting businesses at particular thresholds may also prove to be effective.

5 Drivers of adoption

This section examines the initial drivers that prompt businesses to consider adopting HPWPs and HPWS. The findings from this research show that the reasons for the initial *adoption* or for the *deepening* of practices to form a system vary substantially, suggesting there is no 'one-size-fits-all' solution to promote or predict HPWPs and HPWS adoption.

Nonetheless, there are a number of drivers and common factors which can be identified, both internal and external to the business. Indeed, it is possible for businesses to have multiple drivers of adoption – of different practices; of forming a system from unsystematically adopted practices; at different times as the business expands, changes direction etc. Adoption and deepening in an **aerospace components supply** firm, for instance, was driven not only by repeated takeover and the consequent imposition of systems by the new parent company, but also by the desire to use a high performance system as a tool to establish competitive advantage.

It should also be noted that in several interviewed businesses, there was no single identifiable driver; instead, the driver was a vague, generalised desire to formalise the business as it grew or restructured and/or to 'be a good company to work for' or 'the best company we can be'. In such cases, the practices evolved organically as the business grew, based on expediency or awareness of new approaches. It could be said that the culture of the business was open to change, facilitating the implementation of HPWPs (as dealt with in Section 6) but the culture was not a driver *per se*. Nonetheless, it is clear that this culture shift was an important part of the process, and one that could be targeted in various ways by interventions, as noted in the previous section.

In addition, it should be noted that in a number of interviews with managers in long-established businesses, the introduction of some or all practices predated the appointment of the interviewee or the current senior management, rendering the initial drivers unclear.

5.1   'Champions'

The adoption of a High Performance Work *System*, where all or most practices are intended to work together synergistically, is often driven by a 'champion' within the management team. This may the founder of the firm, who has a particular vision of how they want the firm to be operated – such as the owner-director of a **security devices manufacturer** interviewed for this study, who seeks to spread this message to other firms - or an existing manager who becomes aware of the potential for adopting and deepening HPWPs. In fact, it was more common among businesses in the sample for there to be a realisation by the *board* that the business or workforce was under-performing. In these cases, this realisation typically prompted a decision to overhaul either HR practices themselves or the management and administration of the business more generally. Sometimes it also led to the specific recruitment of a

manager intended to 'shake things up'. In some instances, the board had a clear idea of the processes which may be involved; in others the new manager was given a wider remit and freedom to change systems as they saw fit (within limits). The introduction of HPWPs may be an integral part of this: in several businesses, the new manager brought knowledge and interest in HPWPs with them, and set about persuading the business of the merits of adoption.

A new manager's 'outsider' status may also be regarded by a board as beneficial, as they may wish to disassociate or distance themselves from potentially unpopular or what could turn out to be unsuccessful decisions. Indeed, the interviewee in one family-owned and managed *animal feed manufacturing* business explicitly noted that this was the case. An external MD – characterised as a 'hatchet man' – was hired for a time-limited period to introduce new, more formal practices; when the task was complete he was swiftly replaced by a member of the family once more and their control re-established.

In a *media/publishing company*, with 25 employees, the directors recognised the need for change, but had neither the expertise nor appetite for doing so themselves. They hired a new MD, with prior HR and training experience in a number of corporate environments, giving him a specific remit to introduce and implement systematic procedures. He went on to introduce HR practices adapted from his previous jobs (e.g. 360°appraisals). Some were direct transplants of good practice from corporate business, but others were a conscious reaction to his corporate experience – for instance, linking staff rewards more closely and directly to specific projects' financial performance.

An injection of new blood and enthusiasm, coupled with the import of ideas from a previous job, proved crucial to implementing a HPWS in a number of interviewed businesses. Given that they were at the stage of hiring an external manager, this mostly applied to medium businesses or growing small businesses which had reached 25-30 employees - the point at which a more effective structure was required. A further size threshold can be identified at between 50-75 employees, when management of the business may decide that a dedicated human resources manager has become necessary.

However, it should be noted that the appointment of a champion does not always work as planned if there is not broad-based support within the business for the changes. There has to be a *will* to go along with the newly recruited HR manager's suggestions, on the part of the board, the management team and, in particular, the broader workforce. For example, the board of a medium-size *construction* business recruited an experienced human resources professional and paid for her to undertake a master's degree in HR, indicating what appeared to be some seriousness on their part about the reform of HR practices. The new manager introduced a number of additional high performance practices, but found the workforce unsupportive and apathetic. For example, nobody provided feedback through the staff suggestion scheme. She attributed this to the culture of the business, with the rank and file of the workforce being on over-familiar terms with senior management. The owner-managers were experienced skilled trades workers, who had largely recruited their friends and associates, so that the business had grown to employ over 100 people while retaining a 'small business' mindset; the

owners lacked the requisite management skills to run a business of that size effectively. Thus, although the management team fully backed her actions, they were unwilling or unable to communicate to the workforce the reasons they were doing it, thereby undermining her efforts to increase involvement. The HR manager also partly attributed this reluctance to the prevailing attitudes in the construction sector – *'in terms of HR it's like stepping back 20 years'*.

A good counter-example, which reinforces the key role of achieving broad backing for change, emanates from the board of a medium-sized **joinery**, which brought in a champion, a 'quality expert', to drive high performance working. As part of qualifying procedures to gain access to procurement contracts, operations managers in the business participated in training supplied by a larger client, which resulted in them requesting the implementation of HPWPs. They could see the direct business need and understood the purpose and relevance of HPWPs. The champion acknowledged that this not only made his job much easier but also reduced the number of staff needed to introduce, implement and monitor HPWPs (see Section 6.2.1 for a fuller case study of this business).

Ultimately the success of initiatives driven by Champions depends on the whole workforce, but in particular the management team, 'buying in' to the principles of HPW. In MINDSPACE terms, this would be supported by making these principles the Norm across a larger number of businesses than is currently the case, and through managers making Commitments to the workforce – i.e. communicating effectively their actions and the reasons behind their decision, and being consistent in how the system operates across the business.

5.2   Founding principles

It is, of course, possible that the founder of a business could be a champion of HPWPs and set up the business with such an ethos in mind. The practices in this case may form the basis of their operational methods and, potentially, their competitive advantage. Indeed, if a business is conceived from the start as being run along 'high performance' lines (even though that term – or indeed, any similar term – is unlikely to be used), size is not necessarily a significant barrier to a business adopting an HPWS. Among our interviewees, there were three cases which fit this template, outlined below.

Case Study 3: Care organisation

This **specialist care** business, with around 35 employees, is an 'adopter', in the sense of having a significant number of the relevant practices and a philosophy of staff involvement etc. The owner-managers consider that they have a 'system' – although they do not recognise it explicitly as a 'high performance working' system. It is run by a father-and-son team, both of whom have MBA level training. The father, who also has extensive senior management experience in large companies and as an SME consultant, has been a key influence over the way the company operates, based on his existing knowledge

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Case Study 3: Care organisation

of management techniques, with respect to communications, change, conflict etc. Further bolstering their HR expertise is a recently appointed training manager, with a specialist degree, responsible for day-to-day activities relating to the organisation's accredited training centre status, including the training of the firm's team leaders as teacher/assessors.

As an integral part of its wider philosophy, the company's management has genuinely sought to give autonomy to team leaders, who are encouraged to identify needs and solve problems, and to facilitate the upward flow of ideas within the organisation. This reflects team leaders' relative closeness to clients, and the emphasis upon quality in a highly specialised and complex service. It is also explicitly recognised within the business that the current owner-managers, for various reasons, will not be running the business for many more years. Therefore, the strategy effectively seeks to nurture the wider 'management team', including team leaders. Giving them a long-term stake in the business, and a collective responsibility for getting things right, for the good of the clients and for the company, is seen as the means by which the long-term future of the business can be ensured: '*Management sees its role as influencing others' behaviour, and wants team leaders to adopt this practice also. The objective is to achieve a continuous process of self-development and the development of others within the organisation*'.

The need for workforce skills that are differentiated from those typically found within the sector was recognised at the outset: strategic planning models were used to identify challenges and barriers, and ways in which these would be managed. Ongoing adjustments are internally-driven (rather than externally) through staff reflecting on customer needs and how best to respond. Management purchases some (limited) external programmes of training which relate to HPW-type practices; they identify the most useful lessons, and incorporate them into the firm's own programmes as a training provider and assessor: '*Because of the nature of our business, what we need does not usually exist in the form required, so we have to develop it ourselves*'.

Case Study 4: Nursery

Close examination of a nursery with 11 employees shows that not only is it a high adopter, but that it can reasonably be categorised as having an HPWS i.e. the practices work well together and are systematised. From the owner-managers' point of view, this has '*tended to arise organically*'. The business's working methods are essentially the only way the interviewees can see that it could operate, based on their prior experience and training in the sector, as well as external drivers. Thus, from the start, high performance principles have been embedded in the business, and the owner/managers have worked systematically to achieve this. In this situation, high performance working is 'natural', rather than being a strategic choice derived from formal planning.

Case Study 4: Nursery

There are several important drivers which can be identified as having shaped the principles on which the nursery was founded, and led to the way it operates:

1. External assessment requirements from both OFSTED and the local authority (Early Years provision). Achieving a good assessment is crucial for success, and the managers adopted a critical self-evaluation process in order to ensure this. The perceived change in OFSTED inspections – which now have 'a sense of waiting to be caught out' rather than an opportunity to explore suggestions for improvement – have also driven them to evaluate their processes to pre-empt criticism. Processes are thus reviewed regularly and systematically.

2. Both owner-managers are childcare experts, with qualifications going beyond the minimum required to operate a nursery. Indeed, one manager supplies consultancy services to other nurseries. This also facilitates networking and learning from other businesses. This high level of internal expertise has led the managers to both systematise processes and ensure that staff are trained and rewarded to a high level (to the extent that one employee is currently being supported to take a degree).

3. Appreciation of staff's efforts is conspicuous and consistent (e.g. giving flowers). This is recognised as being motivational for staff: an acknowledgement of their discretionary effort and of their taking extra responsibility for non-core functions, which underpins excellent customer service. A new appraisal system is intended to further deepen this system, possibly facilitating more formal interaction with employees (e.g. 360-degree appraisals).

4. The 'saturated' local market means that the business needs to compete on customer service while offering competitive prices. HPWPs are a means to deliver this. Management's emphasis on self-evaluation is relevant here: the managers employed independent market researchers to mystery shop the nursery and test how the local market perceives the business.

The third example is slightly different. A **packaging firm** was set up by experienced managers leaving a larger company. Over time, they recruited many of their former colleagues. The practices chosen for adoption largely '*came as a package from or as a reaction to "the other place"; they have either been transferred from the previous company by the founders or have evolved in situ, in line with the teamwork emphasis of the directors*'. Management at their former company had been in the process of making changes to work practices, but progress was slow at the unionised site, and '*the new firm was able to move this agenda along*'. The process may have been led by the key managers, but was supported by the outlook of those 'known quantities' who were recruited: '*People came with us because they wanted to do this*'.

As with Champions, there is a role for intervention here to attempt to make high quality strategy and HPW the (MINDSPACE) Norm for start-ups. Harnessing existing start-up support, ensuring that their content is consistent with Priming and Affect, would aid this process, as would ensuring that the Messenger used is relevant to start-ups – for example, making use of a case study of a recent start-up rather than a larger, more established business.

5.3   External requirements: clients, regulation and quality systems

Clients, for the most part, did not demand specific HPWPs of the organisations interviewed, nor did they generally ask what practices were undertaken. There were two exceptions to this general rule. First, clients may be bound by the regulatory practices or norms of their industry, which meant that where training or CPD was mandatory, they would check that a firm's employees were qualified to the requisite standard. Second, quality systems were either demanded by clients or seen as a 'feather in the cap' (as one interviewee put it) which counted in the business's favour, explicitly or implicitly, when trying to win new contracts. This applied most frequently to ISO standards (including ISO9001, included in our list of HPWPs), but also to a range of other, similar, standards which included elements of people management.

However, adoption of HPWPs as a means of meeting particular standards or requirements may well lead to shallow implementation, in the manner of simply ticking off a checklist of practices. Crucially, however, this may be moderated by the culture of the board and management, such that regulatory and client requirements can become the basis for a more meaningful and thoroughgoing implementation of HPWPs. For a **bespoke joinery** business with around 120 staff to qualify as a preferred provider for a prime contractor, all management staff had to attend training provided by the this contractor. As a result, the business has three Quality, Environmental and Health and Safety (QUESH) staff, who drive forward HPWPs and related practices, such as ISO submissions and staff rewards (e.g. subsidised gym membership). The other managers (who have substantial trade experience and skills) are fully supportive, partly because the required training has led to greater awareness receptiveness to quality/HR issues. Driving forward the agenda is now like '*pushing on an open door*' for the QUESH managers. Fewer staff are needed to progress the HPWS agenda, which has become normalised and embedded, rather than vested in a few individuals who are not considered fundamental to the business.

Similarly, a **care services** business operates in a sector where staff development has been driven in substantial measure by external regulation on occupational standards. While many companies have merely complied with this requirement, our interviewee was at pains to point out that, for the business's particular 'Rolls Royce' service, higher standards were needed to ensure ultimate quality of provision in terms of service, which is focused upon helping clients to achieve their individual needs and development aspirations: '*We access the medical literature to identify ways in which developments impact upon the kind of client we can support and the services we can offer. Others tend not to do that, so they are not able to respond as readily to these changes in the market.*'

External regulation, from the managers' perspective, not only bears little relevance to their situation, but also causes disruption, in terms of associated red tape. HPW-type practices are normalised within the organisation and considered to underpin the nature and quality of the service provided. They have been developed as practical devices and as part of an overall company philosophy, led by the system's champion within management. Emphasis has been upon leadership, specifically 'transformational leadership': '*the trick is to recruit good people and, through investing in them, develop their ability to meet our client needs, and therefore our needs as a company. Trust and responsibility are at the core of this endeavour*'.

It is apparent that external requirements can form the basis for either a shallow or more meaningful system, dependent upon how the board, management and workforce react to them. Once again, the culture and vision of owner-managers can be seen to act as a crucial factor in the transformation of practice within a business. However, evidence tends to point towards the enforcement of requirements leading to a relatively shallow, unsystematised adoption of HPWPs. It is possible that supply chain development could be harnessed to encourage more effective use of HPW among suppliers, but no specific work has been undertaken as to the means by which encouragement rather than requirement can emerge from such relationships.

5.4   Strategic direction of business

In several cases, those interviewed represent businesses which have sought to use HPWPs to facilitate growth, providing structure to more informal systems which might struggle to cope with expansion of the workforce. An HPWS is seen as a necessary or desirable facilitator of this growth, promoting efficiency and effectiveness among staff, while also freeing up management time to pursue strategy and operational plans. The use of HPWS to allow staff to take more control over their day-to-day work can act as a precursor to a business achieving growth in turnover and employment.

For example, a **general construction** business grew rapidly, from four staff to over 30 over the past five years, as a consequence of a strategic decision to pursue larger contracts and become a prime contractor, rather than only acting as a subcontractor. As part of this strategic change the board brought in a third partner (with general management experience) in addition to the two founders. In order to facilitate the desired growth, the three partners felt that they needed a more effective structure for the business and its processes, based on their own prior experience of management and lessons learned from a level 4 IoM course. The introduction of a greater number and more in-depth HPWPs followed as a consequence. However, the rapid growth and the lack of management time to address issues, such as the documentation of processes, has led to practices which are likely to be embedded only for as long as the current board remains in place. Partners recognise that their business systems remain too informal to facilitate further growth, and that they require a more coherent, documented system. In response, they are in the process of hiring an external manager to undertake this task and to run day-to-day operations. The interviewee summed up the reason for moving towards a HPWS: '*As you move from four to 30, you couldn't run the business unless you formalise things – it's a necessity, as well as wanting to be better... It wasn't necessarily for the employees' benefit, but it was definitely for **our** benefit*'.

A strategy based on entrepreneurial opportunism can also be an effective, though sporadic, driver of growth, with HPWPs similarly being adopted to meet and manage the changing operational needs of the business as it expands, either into the same area or related areas. A good example of this is a *cold storage* business that initially consisted of the owner selling ice cubes to local pubs. Over time, his customers made various requests for related services, leading to the renting and leasing of refrigerated storage, the building up of a large refrigerated transport fleet and eventual ownership of several large refrigerated chambers. At the same time, the products the business handled diversified substantially – again, mostly in a reactive way, responding to customer requests – and now include a range of different food and drink types and, more recently, pharmaceuticals, each of which require their own quality standards for handling. In addition, the business has taken on other contracts in the same opportunistic fashion e.g. washing re-usable product containers. Throughout, the strategic emphasis has been on quality and customer service. This episodic growth of the business, coupled with the high standards demanded both by regulation and the culture of service ingrained in the management style, necessitated a growing need for documented processes and procedures, and thereby the organic growth of HPWPs. This has led to an effective but informal system of training and reward, underpinned by the processes necessary to achieve British Retail Consortium quality standard.

It is clear from these examples that HPWPs constitute both a way to impose order on a business which is growing somewhat unpredictably and to facilitate further growth, which is in turn likely to lead to the deepening of existing HPWPs or the adoption of new ones in an evolutionary way. However, it is also clear that unplanned adoption of HPWPs during growth may not coalesce into a formal system without some other driver - for example, a crisis if the company expands beyond the limits of its current processes. There is a clear role for nudging businesses to encourage systematisation of existing HPWPs in order to facilitate formalisation and growth, and further management and leadership development.

5.4.1   Competitive advantage

In a few cases, the driver to adopt an HPWS has been its use as a strategic tool in a very deliberate manner to improve the competitive position of the business - i.e. partly as a reaction to how other businesses in the same sector operate. This can be distinguished from other drivers by the way the HPWPs are highly concentrated and intensively used for this purpose, with the focus of the system being on how it affects interaction with customers and impacts on financial performance.

In two cases (a *financial services provider* and a *component supply centre*), a HPWS has been geared towards getting the best out of their staff over the typically short period they spend working at the business. Both take on high calibre recruits, who tend to stay for under five years before moving on to a better position in a different business, as the career development opportunities at both are limited. (One manager specifically stated that 'we are not a destination employer'.) Interviewees at both businesses reported that 'losing' staff is not seen as a failure, but as a natural consequence of the way their business has chosen to position itself competitively. The rate of churn, and the costs involved in recruiting and training employees, are incorporated into their operating costs. Indeed, one manager sees poaching staff as

simply a natural way of business: '*We need to contribute to supply. It's knock for knock - sometimes we recruit people with training and experience that doesn't cost us a penny while our own staff want to develop their careers and need to move on to do so*'. Both not only operated an extensive training regime, and well-developed reward packages and communication with staff, but also had little formal employee involvement or use of external quality standards (as opposed to their own internal standards). Interviewees at both reported high levels of discretionary, devolved responsibility; indeed, this was expected as a crucial feature of their operating models. There is a suggestion that others in the same line of business may well use similar operating models, but that in both cases managers regard the company as among the leaders in their respective markets, and see their use of HPWPs as a strategic tool which gets the best out of staff and has proven crucial to their success.

Such businesses provide one of the clearest demonstrations of the potential impacts of an HPWS, albeit one that is not necessarily applicable across a wide range of businesses. Nonetheless, if properly targeted, such businesses would be a valuable Messenger to communicate these impacts, particularly as they are highly focused on bottom line impacts. It is also clear that businesses regard their model as something which has been developed by themselves, albeit through combining ideas and techniques from elsewhere with their own initiatives, and, while seeing the affinity with HPW, are indifferent about applying a particular label to it. This suggests that the business must feel 'ownership' of the system they develop, i.e. that it is unique or modified to fit their circumstances, rather than simply being an 'off-the-shelf' or checklist approach. This fits with tacit learning from other businesses and developing management skills to enable managers to analyse their business situation and diagnose how to make an HPWS work in their own circumstances.

5.5   Takeover

In some cases, the driver has been the takeover of the business, and it having to adjust its systems to ensure alignment with those of the new parent company. The reverse also occurred in one case included in this study – a business took over some NHS functions, and the conditions of the TUPE transfer meant that they had to implement some HPWPs not used previously.

An example which illustrates how the deepening of HPWPs has been prompted by takeover is an ***aerospace component supply*** business. This originally started as a supplier of only a few components in the mid-1980s. Over the following two decades there were repeated takeovers and mergers (either directly or a takeover of the parent business), increasing the range of products supplied and forcing compliance with a different – usually more sophisticated and extensive – range of management systems and processes as the activities of the larger business were internalised, consolidated and rationalised. With each takeover, the business has become more structured, while retaining broad operational independence. This has allowed some scope to modify processes to fit with the original site's culture, while ensuring compliance with the broader group, and at the same time honing the HPWS to drive competitive advantage (as outlined in the section above). This, in turn, has driven both the adoption of HPWPs in its own right, and the capability on site to be self-reflective and evaluative, as managers have adapted processes to fit with the way in

which the site's workforce operates. The outcome is a very effective system, with substantial MI being collected and a philosophy of intensive training and devolving responsibility as far as possible.

The management team at the business described above responded to takeover in a positive way, readily incorporating HPWPs 'imposed' on them. This was accomplished through being allowed the operational freedom to tailor them to make that particular site profitable – effectively harnessing practices that improved staff performance by conferring discretionary responsibility. However, takeover can also act as a negative driver. An **engine component distribution/maintenance** business was taken over by a larger business based some distance away. The consequence was a complete culture change: '*it was less human; you became just a number*'. Subsequently workers felt that they no longer had a connection to the management, with little communication or consultation on decisions. This has clearly had a negative effect on morale, although lack of competition in the sector has led both to the company being relatively successful under the new owners and the staff being reluctant to leave.

In two cases, an MBO proved to be the spur to the overhauling of administrative practices and deepening of the intensity of HPWPs use – indeed, the whole point of an MBO in one business was stated to be to 'fix' its structure and institute a new and fairer reward system. However, the true driver in the case of the MBOs was that the management team had been complacent and inattentive to the way it structured its business, and with respect to how its practices compared with those of its competitors. This led to the need for a radical solution, of which the MBO was a partial, possibly necessary, precursor to adoption/change with respect to HPWP adoption. An MBO can thus be an important a facilitator of HPWPs in the sense of presenting an opportunity to introduce essential new ways of working.

5.6   Crisis/turning point

In some cases, the main driver of adoption of deepening of practices was the businesses reaching a crisis, perhaps after years of organisational inertia. In this scenario, the business has a deep-rooted problem, to which an HPWS can be seen as an enduring solution - i.e. a strategic as well as an operational response. The case study below illustrates this point, and shows how recognition of the multi-dimensional difficulties facing a business triggered a response which included upgrading their use of a HPWS.

Case Study 5: Dredging/aggregates business
This business supplies aggregates obtained from seabed dredging and has 25 employees. The general manager joined eight years ago and has had a high level of management training, though not specifically in HR. Most of the practices predate his arrival; until recently, he had made few changes. The practices have '*evolved to the point where they work together*', but '*mostly in my head*', not in a formally structured way, creating a 'system' which is still some

way from coherence. For example, the performance appraisal system, training review, training plan, and pay linked to training progression, though complementary and sequential, are not formally linked together by documented procedures.

Having only one dredger meant that the manager had to recruit and retain 'the best' workers (or those with potential to be so). Thus, when the interviewee joined, the pay and reward package was generous, including pensions and private health insurance for senior staff. Pay rises were linked to training, aimed at motivating staff to take up opportunities to up-skill. However, career progression within the company is difficult, due to the lack of available positions on the single boat. For example, the Second Mate may take the opportunity to up-skill to the level of First Mate, and will receive a raise, but cannot be promoted unless the existing employee at that level leaves or is promoted to Captain – which in turn will only happen if the existing Captain leaves. Several employees have opted not to up-skill, possibly because of this lack of potential career progression, since the motivation of higher remuneration offers insufficient reward by itself.

The reward structure incorporated profit-related pay but provided little incentive, as it came to be expected as a normal part of the salary, rather than as a bonus for the company performing well. Removing the bonus when profits fell thus became, in effect, a disincentivising wage cut. In addition, the formerly high rates of pay had fallen behind those of other similar businesses, due to the lack of ongoing benchmarking. The combination of relatively lower wages, a pay freeze, the loss of bonus and poor career progression led to the loss of several senior officers and difficulty in finding new recruits. The 'system' was thus only intermittently successful at motivating staff and produced unforeseen impacts which were not in the company's interests.

It is clear that organisational inertia, induced by a long period of stability, a lack of critical reflection on practices, a lack of demand for change from the board or clients and the inexperience of the manager in HR issues, led to crisis, and the realisation that revision of the system was necessary. Notably, this was backed up and encouraged by feedback from the manager's executive coach. A full-scale pay review and benchmarking exercise was undertaken, restoring pay to above industry norms. This facilitated the recruitment of two new staff. The pay structure was changed so that there is now a graduated salary scale for each position, rather than a single wage, with increments based on taking on additional responsibilities stemming from specific training (e.g. health and safety officer) as well as experience. Their evaluation of HR practices prompted the recruitment of a specialist HR consultant to devise a new system, through working with the business for one day per week over six months – a process the manager sees as '*essentially starting from scratch*'. The manager envisages that this will lead to better documentation of procedures, better communication and transparency with staff, and an upgrading of his people

management skills. Thus, regular benchmarking and critical analysis of procedures have been embedded within the business, and they are moving towards more formal documentation of the strategy and planning process.

Such a process can also be facilitated by bringing in an outsider. An **animal feed business**, for example, reached a major turning point some years ago where there was both internal conflict and the need to downsize the business. HPWPs – the 'professionalisation and rationalisation' of the business – were the tools chosen by the external MD brought in to accomplish this end. The crisis precipitated the introduction of HPWPs as a mechanism to manage change, rather than because the new MD believed in them as a 'champion' *per se.* Nonetheless, the changes proved so effective that they are now embedded in the business, even now that the externally recruited MD is no longer with the business. (Having steered the company successfully through the crisis he has been replaced by a member of the controlling family).

Management of one of the **nursery care** providers interviewed solved less serious problems in a similar fashion: though on the whole rated 'good', regular inspections by OFSTED and Early Years revealed that the nursery's documentation of procedures was insufficiently systematic. The situation had crept up on management and on reflection they felt they had been too complacent. Their response was to bring in the manager from another nursery one day per week over six months, to observe their practices closely and objectively. She made helpful (and some radical) suggestions; taking account of the business's particularity and informed by deep knowledge of the sector. This prompted a thorough overhaul of the nursery's processes and procedures, in particular documentation and how and where it can be accessed. Management judged that her understanding of the business itself and the sector was invaluable and outweighed any commercial sensitivities; they intend to repeat the exercise and have provided reciprocal services to others in the same sector.

The management team at a **media/direct marketing** business with 65 staff had established a highly effective HPWS during the only period in their 35-year history when they had a dedicated HR manager. However, this manager left approximately ten years ago, and was not replaced, as it was considered that the system that he instituted was working well. At the same time, the structure of the business was shifting towards exploitation of their B2B database for direct marketing, making the database manager the most important middle manager, with the largest department answerable to him. This meant he became both the *de facto* operations manager and the person responsible for the administrative side of HR (although major decisions still rest with the Chief Executive). Without an HR manager to champion and run it on a day-to-day basis, parts of the HPW system had in fact fallen into disuse and were being implemented inconsistently, despite the fact that well-documented processes were technically still in place. This 'haphazardness' also led

to inflated pay rates, well above the industry norm, which (along with the recession) contributed to the business coming close to bankruptcy. An MBO followed by a complete overhaul of procedures and practices – including an across-the-board pay cut and a compensatory introduction of a profit-related bonus scheme – proved a successful remedy. It also facilitated staff buy-in to the new or reintroduced/ reinvigorated HPWPs, as '*everyone felt like they were in the same boat – we're all in this together, we'll all be rewarded together*'. Since then, this new (or renewed) sense of engagement has allowed continued re-systematisation of HPWPs, bringing back the neglected documentation into use, updated where necessary.

It is clear that while the introduction of HPWS as a response to the crisis may be effective, our sample is biased as it only consists of *survivors* – it is impossible to interview businesses which attempted this strategy unsuccessfully and subsequently closed. Nonetheless, these cases provide good examples of the changes potentially possible through the introduction of an HPWS. In this case, the goal of intervention should be to encourage managers to consider HPW earlier than they actually did, i.e. to be able to analyse the business more efficiently and see HPW as a potential remedy to any problems, or to stave off difficulties in the first place. The examples clearly demonstrate the potentially important role in HPW adoption of of mentors and other external consultants to provide a 'fresh look' at the business, and of benchmarking against competitors.

5.7   Technological change

In an industry where technology changes frequently, workers must be well-trained and have an incentive to keep up with change, in order to maintain a business's competitive edge. A HPWS concentrating on this aspect provides the potential means to cope with a rapid pace of change.

This was part of the driver in, for example, a small **_printing business_**, where workers need to be aware of how to best utilise the latest printers and, increasingly, be aware of ICT and design issues, in order to deliver an integrated service to clients. This implies a system should be in place which ensures that management is aware of the skills of the workforce and can determine where employees require training or updating of their skills, and in which areas. This requires not only a training plan, appraisal and budget, but also the collection of substantial amounts of MI and clear channels of communication between managers and employees.

This chimes with the linking of innovation policy with HPW promotion seen in, among other countries, Finland and Ireland. The example of the print business clearly demonstrates how HPW can have synergetic effects with incremental innovation. Support in this area (e.g. grants or loans for investment in more high-tech equipment or R&D, external consultancy, MAS) could promote HPW alongside innovation, or even a more holistic view of workplace innovation.

5.8   Use as a change management tool

In a small number of cases, managers introduced (some) HPWPs as an intentionally temporary measure, in response to a situation which rendered management/staff relationships strained. Once the situation had been resolved, the adopted HPWPs were abandoned. This situation seems mostly to apply to businesses where HPWPs would not usually be expected: essentially small, non-complex and relatively low-skilled workplaces. These businesses are often run on the 'good place to work' system outlined above, but where this has failed for some reason, it has proven useful in certain instances to institute a formal system as a transition tool.

A small rural **pub with restaurant**, employing around a dozen people, illustrates the point: the adoption of particular practices on an interim basis, to solve a particular, labour-related problem. This offers an example of a small business where the owner-manager is largely unaware of HPW, and has no ambition to operate the sort of workplace culture commonly associated with HPW. In this, he reflects the position of many in the sector.   Following purchase of the business, the new manager had to confront employee relationship problems arising from the former owners' uneven treatment of different categories of staff and the removal of a manager popular with employees. The new owner adopted a number of HPW-type practices, as part of an adjustment process; these included a formal appraisal system and monthly meetings for all members of staff, specifically intended to air issues and discuss improvements to operations. These have since fallen into disuse, on the grounds that '*things are working OK now, so they are not needed*'. The case represents, therefore, an organisation which has regressed in terms of HPW – not because they failed, but because they succeeded, and the preferred informal processes can now be operated with respect to communication, motivation etc.

Similarly, the directors of a long-established, medium-sized family-owned **animal feed manufacturer** realised they needed to downsize, which was likely to cause significant internal conflict. They hired a new 'outside' MD with an HR background and expertise, specifically to deal with this task, in order to make use of his ideas, analysis and implementation methods – and his objectivity. He could be seen as a 'temporary champion'. They considered this a brave decision and one which also '*distanced the family from unpopular choices*', given their intention to resume direct operational management in the future. He used psychometric testing and was able to 'professionalise and rationalise' the organisation and its workforce, introducing or deepening a range of HPWPs, during the 2-3 years this remit lasted. Following this reorganisation, during which turnover increased by ten per cent, the 'outside' manager was replaced with an 'internal' MD, a member of the controlling family. However, while the introduction of HPWPs for purposes of managing downsizing and to resolve internal staff conflict was intended as a specific remedy to a specific situation, the system proved such an effective tool that it was retained after the changes were accomplished successfully.

Thus, while in some cases HPWPs can be seen, and were intended as, a purely temporary measures, successful implementation may ensure that the system survives indefinitely. Much depends on the nature of the business itself, and whether the broader culture is receptive to the use of HPWPs in the longer term. Thus, there is a clear route whereby HPW can be promoted as a tool for businesses

in specific circumstances – by, for example, mentors, consultants or trade associations – backed up by more nuanced efforts to embed culture change within an organisation.

5.9   Awareness of HPWPs

In a small number of cases, the driver for the introduction of HPWPs was simply owners, directors or managers becoming aware of them – although, again, clearly the culture and situation of a particular business has to be receptive to the adoption of HPWPs in order to act as the catalyst for their implementation.

For example, it was noticeable that interviewees who were HR professionals in high adopting medium-size businesses, were inclined to ask if they could keep a list presented to them during interview of 35 HPWPs, to check their own practices against. This demonstrates both curiosity and a persistent appetite for self review. For the most part, interviewees identified three main sources of information about people management: their previous experience, trade associations and the internet. The overall feeling was that, if they needed to find information, they knew that they would be able to simply 'Google it' or would 'know who to ask'. In the latter case, this was often a trade association, lawyer or accountant, depending on the particular circumstances. Few thought that any specialist knowledge or training was necessary to implement the HPWPs on our list. Equally, however, it could be argued that the managers who asserted this were not implementing HPWPs as thoroughly as they might, and their desire to do so was probably less than that of managers who had more formal training or outside support in undertaking HPWP adoption.

More broadly, the telephone survey showed that there is a widespread lack of awareness of HPWPs and their potential benefits. Given that in some cases, simply learning of this triggered adoption, there is evidence of an informational failure among SMEs – including some with a relatively high level of HR expertise. This indicates that the principles behind HPW, and the impacts they can have on businesses, should be promoted more effectively, through as many avenues as feasible. However, following the MINDSPACE framework, this requires careful thought of not only the messages to send, but also how they are conveyed and the Messenger involved. This applies both to online promotion, and through intermediaries such as trade associations and consultants. This topic is explored more fully in Section 9.

5.10   Drivers of HPW - conclusions

The research shows that a trigger is often needed to drive initial adoption and/or deepening of HPW. There is evidence that this is often learning about the benefits of HPW, implying an informational failure, which could be rectified using a variety of channels (e.g. online, trade associations, mentors etc.), bearing in mind behavioural principles relating to how to present the information, and the appropriateness of the messenger used. Messages must be varied, to reach as wide a range of SMEs as possible. Also important is promoting culture change, as the development of vision,

leadership capabilities and strategic orientation both reinforces and is reinforced by HPW.

6 Implementation

The previous section explored why the board and management team at some businesses chose to adopt or deepen a high performance work system. This section builds on that, by examining in more detail the process of implementation once that decision is taken, including the internal and external facilitators and barriers to development that are involved. It identifies factors and processes common across those businesses which have adopted medium-to-high levels of HPWPs. It goes on to examine common factors in relation to the lack of implementation among non-adopters.

6.1 Speed of adoption

Interviewees at the majority of high adopting businesses reported that the introduction of HPWPs had been gradual, steadily increasing as the business grew and greater systematisation was needed. However, this was mostly unplanned, with no underpinning rationale, as opposed to a 'big bang' approach with many HPWPs introduced at once. Indeed, a small number of interviewees, when asked how they would do things differently, advocated a more rapid introduction of HPWPs, having witnessed how well HPWPs worked in practice. The practicality of doing so was not generally discussed.

However, the experience of one interviewee, which had one of the most systematic approaches of the sample, is illuminating on this issue. The business was a manufacturer of **electronic components** at the time when the majority of HPWPs were introduced, but management had recently decided to outsource the actual manufacturing, leaving only the design and distribution sides of the business on site. The interviewee advocated gradual change, rather than 'overwhelming' staff with significant change across a short period. HPWPs were thus introduced one at a time, and allowed to 'settle in' and be accepted by the workforce, before further adoptions. He noted that older, longer-standing staff in particular had to be persuaded to accept the change, and were the hardest to influence; younger staff with shorter service were more accepting of change. Therefore, the adoption of HPWPs had to follow the pace of the slower adopters. Implicit in this process was the importance of including staff in the decision-making process, giving them greater ownership of the new system.

In the case of an **animal feed manufacturer**, management sought to make significant changes in the working practices of delivery drivers. Recognising that in order to ensure the buy-in of workers, and thereby eventual success, it was essential to address any resistance, management consulted with workers, individually and collectively, across three months. The consultation process aimed to listen to employees, and take account of and address or allay their concerns. Some small adjustments were made but overall plans went ahead as intended, with full support of the workforce and they have been judged a success. Reflecting on the process, management felt that allowing the necessary time and opportunity for genuine dialogue were essential to successful implementation.

Similarly, where the workforce is more sceptical to innovation in working practices, the HR manager may need to operate a longer-term campaign to win 'hearts and minds' through persuasion and explanation of a well thought through and clear rationale – in behavioural terms, showing Commitment to the process, and making it Salient to and the Norm for employees. This issue is explored further in the comparative case study in Section 6.2.1 below.

Thus, changing the culture of the workforce, and obtaining buy-in to a high performance method of operating, may take time and managerial effort to achieve, in order that the system works effectively. Other cases also demonstrate the benefits to be gained from engagement, involvement and communication with the workforce during a transition period when there is a deliberate strategy to introduce HPWPs (as opposed to organic change). The implication is that it is difficult to set a timetable for introduction, but that it is not a short process. It is clear in other businesses where the effort to involve staff has not taken place that the system is only being implemented in a shallow way, with employees paying lip service to the practices and their behaviour and commitment to the business largely unchanged, even if the more rigorous new processes have brought other benefits. Interventions should bear in mind this timetable for introduction, and the possibly slow speed of acceptance of a new Norm by employees attempting to introduce HPW. Emphasising an incremental pace would also appeal to employers in smaller businesses who often note a shortage of management time to devote to such business improvement measures.

6.2   Adopters: internal factors

Interviewees in the majority of the high, intensive adopters stated that the management team did not *strategically plan* to create a High Performance Work System (regardless of whether they were aware of or used this terminology). Instead, adoption of practices was generally gradual and evolutionary, with sporadic episodes of accelerated adoption or – more often – episodes of deepening of existing practices, prompted either by the recruitment of a 'champion' or by a critical juncture for the business (e.g. danger of bankruptcy, takeover).

In this, how the board and management team approach the strategy and operation of the business is critical. As has been emphasised in the sections above, the most important role of the board (or owners) and senior management team in the implementation of HPWPs is to establish a culture which is receptive to these practices. This involves a strategic vision for the business, an atmosphere of fairness and respect for all staff, the clear, transparent communication of key messages about the business and the individual's role within it, and a high level of management skills – in particular, people management skills. As management and leadership skills are commonly cited deficiencies amongst SMEs, this may well represent a frequently encountered barrier to broadening the uptake of HPWPs across a greater number of SMEs.

An example of how an owner-manager can establish such a receptive culture comes from a *care* business, where management emphasised the central role purposively accorded to the six team leaders. They are responsible for setting up and delivering

service units in different parts of the country, including the training of carers in their team, and are critical to the quality of the service to clients. The system accordingly is designed both to give them autonomy to make decisions with respect to their units, and to fully engage them in learning and decision-making processes at headquarters. The strategy effectively seeks to nurture a wider 'management team', including team leaders: '*This gives them a long-term stake in the business, and a collective responsibility for getting things right for the good of the clients and the company... Management sees its role as influencing others' behaviour, and wants team leaders to adopt this also. The objective is to achieve a continuous process of self-development and of the development of others in the organisation. Since the team leaders and other key staff have been instrumental in designing and implementing the system, it can be expected that it will be possible to continue the way of working without the managers who encouraged the adoption of the system in the first place*.'

It is also clear that in creating this culture, the knowledge and experience of the owner/board and managers are highly important. This can come from either the prior experience of key personnel, or learning while employed by the organisation – including formal training, acquisition of tacit knowledge through interacting with other businesses and stakeholders, and the acquisition of intelligence about the sector, market and competitors.

For example, implementation of processes is facilitated by the personnel involved having knowledge or experience of HPWPs. This can come from a range of sources. Benchmarking practices against competitors enables the business to both remain competitive (particularly in terms of reward practices) and establish the quality and effectiveness of their own implementation, and gaps in practices which they can seek to plug. For example, the managers at a labour intensive **services provider** regularly check competitors' websites and deliberately interviews job applicants currently employed by rivals, in order to glean information and 'tweak' their own practices accordingly.

This implies an important role in HPW promotion for: encouraging greater use of networking; learning through the benchmarking of processes against leading businesses; more effective dissemination of sectoral and market intelligence; and incorporating HPW in management training.

6.2.1   Internal factors as constraint or facilitator – a case study

Three medium-size construction businesses in our sample offer contrasting examples of how the strategic focus, strategies adopted for implementation of HPWPs, and the culture of the business and the board can affect the success of a plan to establish high performance working. These cases show how differences in internal factors can facilitate or hinder a HPWS, and the importance of subtle tailoring of HPW promotion policies, using behavioural economics principles, to influence the board and managers to move towards the 'right' attitudes and behaviour.

Company A is a general builder in the East of England with just over 100 employees. It is family-owned, and family members make up most of the senior

management team. A group administrative manager was hired some years ago with the intention of overhauling their management practices in general, and HR in particular. She had substantial prior human resources experience and the business paid for her to undertake an MA in Human Resources. However, while this seemed to indicate that the owner-managers had a solid strategy for developing the business; it became apparent that this was not in fact the case. The overall strategy remained essentially to continue operations as they were: *'Strategy is overstating things, they're reactive rather than proactive, introducing anything new is a battle against inertia, based on the notion that what we have works, so why change it?'*. The hiring of the manager, it transpired, was a result of the board considering that the business was not operating sub-optimally, but without thinking of her role in any detail, beyond being a 'new broom'. As such, whilst the family's intentions were to develop the business and they gave the impression that they believe in using HPWPs, in practice, the board have left the manager to proceed on her own. There has been little overt backing or 'enforcement' for her changes by the management to the employees, little attempt to communicate the rationale for change, and, most importantly, they have persisted with an informal work culture. This leads, in the HR manager's experience, to over-familiarity, with the workers feeling like they do not need to participate in new schemes nor go beyond the minimum effort. As such, she is clearly frustrated that her efforts to develop the workforce through engagement, reward and training practices have had little impact. However, it may also be the case that her strategy for implementing HPWPs is under-developed and ineffective, compared to both Company B and C.

Company B is a groundwork business in London, with around 70 staff. Like Company A, the board hired a new human resources manager with substantial experience (in a larger business), with the intention of overhauling their practices. As with Company A, they were aware that '*something needed to be done*' but were not sure as to precisely what. As such, the new manager had more or less free range, but there has been '*a constant battle*' with both a sceptical management team and apathetic ground staff to convince them of the worth of change. The crucial difference here is that the board fully and publicly supported her introduction of a range of new practices and the intensification of those already in use, and the HR manager adopted a more nuanced strategy towards winning over sceptics than Company A's new recruit. For example, the business is moving towards a more formal consultative mechanism following the success of their first round of annual performance reviews. To overcome initial scepticism at its introduction, she turned it into, in effect, a 360-degree feedback process, with ground-workers not only being reviewed but feeding back ideas for improvement to management, which subsequently implemented some of the requested changes.

'Winning over' staff and other managers in this way, and communicating *why* the changes were being made at the same time was a highly effective way of establishing that she was 'on their side' rather than remaining an outsider, as had been the case at Company A. For the management team '*it's a new thing to do... they said we don't need HR, especially not a woman, to come and tell us what to change. When you try to bring in new practices it's always met with hesitation – we won't do it this time, we'll wait – and for me it's a case of pushing, and I keep on pushing and eventually it gets into someone's head and they say, "You know, yes, we'll do it". I'm implementing something, they always think it's a negative, not a*

positive, so you actually have to engage and speak to them'. Members of management were aware that they needed to change their operations to compete and survive, and eventually embraced change, once they had understood the implications: '*They get it now; they understand the processes*'.

Company C, located in the East of England, has approximately 120 full-time staff, and is a bespoke design/high-end joinery business. This contrasts with A and B, where the workforce do not require such a high level of specialist skill. The board and managers see Company C as a market leader, with a commitment to quality and a small number of competitors in a specialised but lucrative sectoral niche. This outlook suggests the likelihood of a greater use of, and intensity of use, of HPWPs than in A or B, which is indeed the case. The management have achieved this by adopting a strategic approach both within the company and with members of their supply chain. Their explicit aim is to *'develop a close-knit, award-winning team of loyal, highly skilled and motivated people'* in order to *'reach the position where we're routinely asked for by name by clients, time and time again'*. For our interviewee, this means *'taking very good care of our people, so that they in turn take great care of our clients... looking after our like-minded supply chain too – glaziers, architectural metal workers, stonemasons and upholsterers – so they perform to the same exacting standards as we set ourselves'*. To achieve this state of affairs, the MD asked a quality consultant the firm had used repeatedly to join the staff and help embed good practices. Managers also network with their principal contractors, and are sent on approved training in order to qualify for preferred supplier status. The training has built awareness and commitment to HPWS throughout the company and the connection between that and winning work is made obvious - so the dedicated quality manager and his staff find it much easier to drive forward and implement a HPWS agenda.

6.3   Adopters: external factors/facilitators

In addition to the internal factors outlined above, interviewees at high adopters reported that connections with some external organisations had proven useful in the implementation of HPWPs in their businesses. However, with the general exception of the ratification of quality standards, external organisations were usually of secondary importance in this process, with a preference for making use of internal resources. For example, in many cases, business support (where used) acted purely as a signpost or very basic diagnostic, directing the business's attention towards a particular area where they could improve their practices, rather than offering more intensive support related to HPWPs. In cases where it was utilised, more intensive external support often consisted entirely of management courses (e.g. from the Institute of Directors or other private providers) with no dedicated HR element.

However, it is also clear that the organisations dealt with in this section are a means by which messages about HPWPs might be conveyed, and whereby businesses can be encouraged to keep up with good practice and new developments in their sector. Equally, they can be an effective way to discover and/or access support – either peer support or more in-depth support from an external consultant – for businesses requiring this type of support.

6.3.1 Networks

Networking was common among interviewees in high adopters, occurring principally with other businesses in the same sector, rather than on the basis of physical proximity. Networking was used to keep up with the new developments of competitors and with their respective sectors more generally, in an informal way, with a minority of interviewees motivated to undertake new developments through what they had learned via networking.

Some networks, however, proved more important than others. For example, the interviewee at a *financial services provider* strongly endorsed networking through the City HR Association: established as a forum specifically for HR managers in the financial services sector, and has subsequently evolved to provide a range of services to inform and support HR activities at all levels. The networking element, particularly the monthly meetings, remains, in the opinion of the interviewee, an excellent forum for exchanging good practice and keeping up-to-date with new developments in high performance-related areas. It also provides a group of known, trusted contacts with relevant expertise available for quick reference by phone as a JIT resource. However, it was unusual amongst the interviewees to attend a network which is so specifically focused.

It is clear that networking has a role to play in the acquisition of formal and tacit knowledge about both other businesses and HPW in general. For example, it facilitates the demonstration effect, whereby businesses can learn about the potential benefits of HPW by talking directly to, or hearing a presentation by, HPW adopters, and to publicly demonstrate a Commitment to HPW by adopters. It also facilitates the formation of partnerships of employers to develop skills and practices, including bidding for funding in this area.

6.3.2 Trade associations

Good practice in people management practices can be facilitated by membership of a trade association, although mostly in a fairly minor way: for example, highlighting of good practice in a trade magazine; updating of members on changes in regulation or new management methods; providing a helpline for queries in a variety of areas.

Some trade associations did provide a more in-depth service: the British Print Industries Federation provides a good example. The BPIF has three levels of membership, with the most expensive (platinum) level offering a wide range of bespoke services to member businesses. An interviewee, senior manager and co-owner of a *printing* business, indicated that the business was too small to have a middle management layer, and BPIF services were able to compensate. Senior managers worked in tandem with BPIF representatives to develop necessary policies and documentation throughout the business, including HR policies, and in addition to factsheets, role model case studies and telephone support lines for legal, financial, HR and other advice. Our interviewee summarised the benefits of BPIF's services as ensuring '*that we're trading in the proper manner... We don't have to put the BPIF badge on, but we have it because it's a well-recognised body, and they do everything needed and legal to be a well-run business and a successful business and to grow your business*'. He thought that the outcome of activities with BPIF was

that they had led to winning business from big clients who recognised the standard (as opposed to smaller, local clients, who would not).

In the MINDSPACE framework, trade associations are a trusted Messenger, with a role in the formation of Norms and Salience relating to HPW. However, it should be noted that relatively few SMEs join trade associations, and those adopting HPW (and especially those adopting for strategic reasons) are more likely to be a member than non-adopters. Therefore, there is a role not only for dissemination of information and support via trade bodies, but also possibly for encouraging more SMEs to join such an organisation.

6.3.3   Consultants and mentors

Specialist HR consultants were used in a number of ways:

- Providing services where needed – for example, on employment law and redundancies and tribunals in particular. This is a 'passive' way of using consultants, and has proven useful, albeit mostly when the business has had disputes with its staff. This may prevent the development of expertise within the business, and thereby hinder the implementation of HPWPs.

- Some businesses used consultants routinely to keep them up to date and identify potential changes (for instance to employment law) upstream, allowing the business to focus its attention elsewhere.

- In a more active way, providing a bespoke service to implement policies and procedures within the business, rather than the business providing the services themselves. This was less common, and overlaps with the service provided by more active trade associations (e.g. the BPIF service outlined above).

In the case of the latter point, a number of examples can be identified where an external consultant has been used to undertake a diagnostic of the business and recommend and/or implement changes. For example, a small *aggregates* business is currently undergoing such a process, which is anticipated to take approximately six months, with the consultant working on-site for one day per week. The manager emphasised the importance of choosing not only a consultant with excellent HR credentials but also relevant sector experience. He expected to upgrade his own people management skills from working alongside the consultant and collaborating on the development and documentation of appropriate processes. A very similar arrangement has been utilised by management of one of the *nurseries* interviewed, who plan to repeat the exercise in the future. One of their directors also provides consultant HR services to others in the sector, both routinely and on an *ad hoc* basis.

Similar to trade associations, consultants can be a trusted Messenger for delivering messages about HPW. However, there can also be distrust of consultants, and those SMEs that are open to external advice and support are also those more likely to have adopted HPWS. As such, while consultants can be a route for dissemination of information and support to implement HPW, behavioural economics also has a role in nudging managers to be more open to using and actively seeking external advice in the first place. The example of the dredging business illustrates not only how useful such external support can be, but also of the need to convince

businesses of this relevance before they encounter a crisis which makes the need obvious. Use of external advice should be seen as the Norm in MINDSPACE framework through convincing SMEs of the Salience of their support. Examples of how this could be achieved include case studies emphasising the role advice and support has played in the success of other businesses, and enhanced marketing of support and signposting services to be more effective in attracting SMEs. There is substantial material in this report and previous research to inform the improved design of a marketing strategy and ensure its effectiveness. Further suggestions in this area can be found in Section 9.

6.3.4 Public sector support

Only a minority of interviewees had received intensive public sector business support. The majority of interviewees were aware of the Business Link brand, and some were aware of the changed status quo (i.e. the shift to mostly online support for the majority of businesses). However, for most, this change meant little: a substantial proportion reported receiving Business Link promotional emails, but only a very small number had followed up and sought or actually used more intensive services when they were available (with most of the users rating them highly).

Few had heard of those specific support products which offer a good fit with the high performance agenda, such as Knowledge Transfer Partnerships, the Manufacturing Advisory Service or high growth support (now known as Growth Accelerator). For the most part, therefore, use of public sector support is limited to the use of training, such as a residential course offered by a private consultant but part-subsidised, or NVQs and higher level managerial training through a local FE college or university.

Other than Business Link and training providers, the most commonly cited HR-related public sector organisation was ACAS, which was specifically mentioned by one fifth of the interviewees, with all recommending it highly. Reported use of ACAS was mostly reactive, with interviewees consulting the website when necessary for advice and guidance, often to check employment law or tribunal procedures when faced with a dispute with an employee, or when procedures needed to be (re)written. A small number also mentioned relying on ACAS updates on a regular basis for information. Again, as a trusted source, ACAS could be used to impart more extensive information about HPWPs, encouraging managers to incorporate them routinely when devising procedures.

Section 9.3 examines more closely how online support can be better harnessed to be effective in promoting HPW, and how other public sector initiatives, such as MAS. KTP or Growth Accelerator, could similarly incorporate aspects of HPW. It also examines whether HPW support could be linked to innovation policy in order to promote a more holistic workplace innovation regime, alongside a broader definition of 'innovation'.

6.3.5 Benchmarking and learning from other businesses

While it was common for implementation of HPWPs to be influenced by lessons learned from the direct experience of managers during their prior employment history, few stated that they had set out to emulate or specifically learn from other

'role model' businesses. However, it was common to acknowledge that they 'kept an eye on' their competitors and adjusted their practices if necessary.

In certain cases, possibly those businesses operating in smaller markets (e.g. *bespoke joinery, specialist food manufacturer*), there was explicit awareness of their business's relative position to competitors which included areas such as HR practices (reported to be because of the need to retain 'the best' staff).

A small number of owners/managers maintained trusted contacts at other businesses against which they could check their own practices (and vice versa). Some were open to ideas, if they came across a case study of a role model – for example, in a trade magazine – while they might use it to gain new ideas, though they might not necessarily devote management time to more active searches. Smaller, younger businesses may have more to learn from role models than the longer-established businesses which made up the majority of interviewees, although no interviewee stated that they had done this earlier in the life of the business. The interviewee from the *bespoke joinery* reported learning and benchmarking about HR practices via its supply chain – the prime contractor.

Benchmarking therefore, was the most common form of learning from other businesses, used by many interviewees in the implementation and maintenance of HPWS. The process involved comparisons of wages, reward packages, quality of service etc. against the industry or locality norm. In particular, high or systematised adopters considered that generous wages compared to the norm were important for recruiting and retaining good staff (although not necessarily *motivating* them) than the performance-related measures which are categorised as HPWPs. One or two businesses in the sample offered health lifestyle/sports-related benefits to employees, with the express intention of retaining them and encouraging good health.

Owner-managers at a *specialist food manufacturer* used a more novel form of benchmarking, by regularly entering the Private Business Awards[12] and trying to improve their ranking. They regard the Awards as an opportunity to thoroughly audit and overhaul their practices against other high-performing businesses. The judging criteria include employee engagement, people development and the 'positive culture' of a business. This, and similar awards – such as the *Sunday Times Best Company to Work For* – are unlikely to act as drivers to the adoption of HPWPs *per se*, but could provide a route and template for businesses to audit and improve their implementation of HPWPs, while also gaining a higher profile and a badge of recognition which may lend some competitive advantage.

6.3.6   External facilitators – conclusions

It is clear that only a minority of adopters have made active or intensive use of external facilitators in the implementation of HPWPs. Most common was

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[12] An award for non-publicly traded companies which 'can demonstrate a progressive track record with solid cash flows, a defendable market position and growth in products or services. The management team will have demonstrated energy and drive, the long-term strategy will be intact and it will have made considerable progress with its financial, ethical and social ambitions' (from www.privatebusinessawards.com).

benchmarking wages and standards against norms, and picking up information about HR practices in a more or less random way through articles in trade magazines, networking etc. Most interviewees did not use external consultants in a developmental or strategic way; only accessing online advice in a reactive way as information is needed; they did not access public sector support; and did not use the proactive support of a trade association. However, those who have been more strategic in using such methods reported strongly positive results, and highly recommended their use.

A general conclusion is that external support needs to be a trusted source, and/or attuned to the precise needs of the business in order to offer a potential route for promoting HPWPs. For example, the management team in a **scientific consultancy** business, while having considerable internal resource in management training and experience, found useful advice and support relating to HR and related practices from external sources: ACAS, personnel tips on websites, external seminars, the FSB magazine/network; social networks. However, they found the support offered by Business Link to be too generalist: '*We aren't looking for a generic answer; we want something more suited to our circumstances*'. A key issue from the interviewee's perspective was the need for advisers to be familiar with the specific business context. Thus, the adviser in connection with accreditation ISO 9001 was regarded as particularly helpful, since they were able to pass on information about what happens in similar situations in other companies: '*It is helpful that she knows this business well, since she is able to identify those ideas that might fit out situation*'.

The evidence supports the use of the demonstration effect. It is also worth noting that the Messengers, in this case, are other businesses rather than the government or an umbrella organisation, whether the message about the worth of HPW is sent implicitly (e.g. by SMEs improving the way they treat staff in response to a competitor doing so) or more explicitly (e.g. through an award or a talk given at a networking event). It supports the greater use of trade associations, sector-specific external consultants and networking, as well as other means of tacit learning and benchmarking, such as dissemination of case studies of leading businesses and the use of business awards.

6.4 Adopters: barriers

This section looks at the barriers which interviewees in high and medium adopters reported to have prevented them taking up some HPWPs, slowed down the process of adoption or caused difficulties in deepening and systematising their use.

6.4.1 Employees

Despite the survey findings that 40 per cent of businesses experienced some pressure from employees to introduce HPWPs, none of our interviewees reported that the workforce, as a whole or in part, was a significant driver of adoption of HPWPs. Employees were, in most adopters, willing to accept the change of practices rather than opposing them, and this in itself may have been an indicator of good HPWPs (involvement/consultation etc.) – although there were a number of important exceptions.

Only one of the businesses interviewed was heavily unionised, meaning we can say very little about the impact that unions may have in driving forward the process of implementation of HPWPs. However, in the non-unionised workplaces which comprised almost all our interviewees, it is clear that the employee perspective is fairly limited, with little sign of initiative in demanding additional practices to give them a greater input or say into the business. Indeed, employee consultation itself was one of the least implemented HPWPs (in only 20 per cent of respondents to the telephone survey), and the majority of interviewees reported that they had only an informal mechanism for receiving employee input (often phrased as 'an open door policy'). This included a perhaps surprising number of businesses with over 50 employees, although some interviewees mentioned that they had attempted to institute a more formal system which had failed due to lack of interest. This proved more successful when it was formally incorporated into less public communication routes – for example, as a mandatory part of a one-on-one appraisal process – perhaps confirming that employees are more likely to give feedback through a private discussion than in a meeting or via a suggestion scheme.

None of the interviewees in the group of medium businesses mentioned the statutory right of employees to be informed and consulted about the business, although virtually all did ensure that information was cascaded to the workforce, through mechanisms such as a newsletter or via team leaders. It was also common to receive feedback from lower level employees through team leaders (or similar positions), although this would best be categorised as something that senior management expected rather than mandated. In most businesses, it was up to employees to raise issues with leaders informally, or for the leader to ask in a similar informal manner, rather than there being a set process.

One interviewee (at a high adoption **packaging manufacturer**) suggested that employees perhaps place more emphasis upon being in a position to have a say than on actually participating. She pointed out that the principles on which the business was set up focused upon '*flexibility and every one having a voice*'. As such, changes within the firm are introduced only after talking to the people directly involved – '*Management work with them to come up with the right solution. There is no union and we will discuss issues in small or larger groups, depending on what the issue is and who is affected*'. She concluded: '*This system of informal communications works for us; I can be very sure in saying that the workers really don't want involvement other than what exists*'.

However, it could be that, to a limited extent, the focus is in the wrong place in seeking to identify the incidence and depth of employee involvement by levels of consultation. In at least three cases, (**electrical engineers, bespoke joinery, media/advertising**) while there may not be extensive or formalised consultation processes, workers are given considerable autonomy over how they perform their roles. Many work off site (and for long periods) and have to be trusted to perform their tasks well, in a timely manner and to maintain the standards of the company.

Employees were a major barrier to implementation of HPWPs in only a small minority of cases – for example, the **construction** business case study (Section 6.2.1). However, neither did they tend to be an important facilitator. In most interviewed businesses, employees accepted the changes – usually minimal –

required to implement HPWPs simply as a normal part of their job. Apathy and inertia, rather than outright hostility, were thought to be barriers to HPWPs being embedded and meaningful, rather than barriers to the introduction of HPWPs *per se*.

It is clear from the evidence here that it is likely to be more worthwhile, and more straightforward, to target employers rather than employees in the promotion of HPW. In particular, it would be difficult to work through trade unions, given the low rate of unionisation in SMEs. However, with employees often neutral or apathetic to new initiatives such as HPW, employers must use effective people management techniques to embed the practices in their organisation. This supports the incorporation of HPW in existing management training initiatives, and efforts to convince a greater number of SMEs to access management and leadership training.

6.4.2   Management and owner/board

According to interviewees (a mix of middle and senior managers and owner/directors, in order to provide a rounded view), the senior management team itself could be a barrier to implementation of HPWPs or the depth to which they were practised, in a number of ways:

- Over-familiarity with the workforce. This can occur when the business is established by skilled craft workers, with the workforce composed of other workers in similar trades they know. In several instances – all in construction – this hampered the efforts of an externally recruited HR manager to improve practices.

- Lack of transparency, particularly in communicating the reasons for HPWPs to be adopted.

- Inertia, complacency or over-caution. The owner/board may simply satisfice, rather than pursue a more proactive growth strategy. This is likely to militate against the introduction or deepening of a greater number of HPWPs. This can be exacerbated by a lack of competitive pressure in the sector or locality, which means the business is not motivated to improve efficiency or quality to survive.

- Remaining within a comfort zone. Implementing HPWPs involves devolving responsibility to the workforce, ceding some control of business operations and thereby placing trust in the employees that they are competent to do so. It should also involve managers making greater use of 'soft skills' in people management which – especially in businesses formed by skilled trades workers without prior management experience – may be underdeveloped. Both of these take some managers – particularly small business owner-managers – out of their comfort zone, and may lead to either HPWPs not being introduced at all, or introduced in a shallow, 'checklist' manner (e.g. to satisfy external requirements).

- Lack of knowledge of HPWPs, and the benefits they could bring to the business.

Most importantly, the board and the senior managers provide the lead for how the workforce perceives the business, and to implement HPWPs need to create a culture which is accepting of them. The factors listed above may form an effective barrier

towards the establishment of that culture. As one interviewee (an HR manager in a high adopting business who firmly believed in high performance principles) put it, when asked how he would do things differently if he moved to another business: '*I would only implement this sort of thing if there was a general will in the company to do so. And if there wasn't, I wouldn't be with that company for long*'.

The key unifying factors indicative of low adoption are lower levels of management and leadership skills in the business, combined with a lack of ambition and a lack of awareness of HPWPs, and/or a lack of desire to discover more about high performance working and other ways to improve business performance. Thus, there is a clear informational failure, requiring promotion of HPW through the methods outlined throughout this section. By itself, however, the dissemination of information will be relatively ineffective without efforts to improve management, leadership, growth ambitions and strategic vision among SMEs.

6.4.3   Lack of resources

The recession was cited by a number of interviewees both as a barrier to further developing a HPWS, and as a driver in reducing the system's extent or intensity. This applied most obviously to reward practices, with wages frozen or cut at a number of establishments, and falls in profitability leading to no performance-related bonuses being paid.

In terms of the cost of implementing HPWPs, the main cost was management time spent researching and documenting the procedures. In many cases, this was minimal. Some interviewees claimed that even a relatively small amount of time would be resented in their current financial state, although this was usually combined with scepticism about the HPWPs under discussion. This backs up the speculation from the telephone survey that HPWPs are seen by some managers as a 'luxury', which would not benefit their bottom line in a recession, and not worth the effort they would take to introduce. However, in some cases, the recession may also be a convenient excuse for not moving forward, with the underlying reason that the manager has no appetite for operational changes. In this latter case, improving leadership and strategic vision is a necessary prerequisite for HPW adoption or deepening.

6.4.4   Segmented applicability

Some interviewees reported that some or all of the HPWPs they used only applied to a portion of the workforce. There were two main categories of segmentation:

- By job role. For example, in jobs where outputs are easy to measure or targets readily formulated (e.g. business generated by sales staff), individual performance-related pay was more likely to apply than in the rest of the workforce.

- By seniority. In some cases, only management received certain rewards (e.g. profit-related bonuses, health insurance) or would receive comparatively greater rewards (e.g. higher bonuses, greater pension contributions).

In some cases, both applied. For example, in an **equine veterinary practice,** the senior medical staff also formed the senior management team. Vets and nurses received regular (mandatory) training and vets could exercise the right to share options on promotion. The remainder of the practice was essentially the 'support staff', where HPWPs did not really apply.

This *partial* use of HPWPs runs against some of the principles underlying high performance working – namely, that it is most effective when the system embraces the whole business, and employees have discretionary responsibility and input no matter what level they are at. Where HPWPs are not applied at all to a segment of the workforce, this may act as a disincentive for that group.

Equally, it can also be argued that segmentation may actually facilitate adoption, in the areas of the business (or the parts of the workforce) to which the system is most applicable. This system was certainly not resented by staff in the support departments in the example quoted above, even if the 'us and them' attitude was a barrier to HPWPs being rolled out more generally.

It is also generally accepted that, as long as the principle applies to the entire workforce, the actual level and content of benefits and input can vary between groups. In businesses where managers received share options or other flexible benefits (e.g. health insurance) which were not received by lower level staff, there seemed to be little dissatisfaction among the workforce that they did not receive such 'perks'. The actual segmentation of practices between discrete groups of staff in this way is not seen to go against the principles of a HPWS. Groups of staff can receive different benefits without it being a disincentive, as long as the rationale for this is clear (e.g. seniority), communicated transparently, and does not go against a general culture of treating employees well.

One interviewee at a **media** business did note that they deliberately avoided implementing performance-related pay among shop-floor staff at roughly the same level of responsibility, as they felt that this *would* lead to discontent. The rationale for this decision was that it was easy to measure performance for sales staff, but far more difficult to measure performance for the non-sales staff on a similar salary. Thus, while it would have been possible, the manager was reluctant to implement individual performance-related bonuses for sales staff due to the risk of creating suspicion that they were being 'unfairly' rewarded, thereby creating resentment among other staff.

Similarly, another interviewee, at a **plastics manufacturer** argued that it was 'iniquitous' to single out certain employees with individual bonuses, since their personal performance was inextricably linked to the workforce as a whole (e.g. a sales rep's performance depends partly on the quality and reliability of the product). Thus, he argued that basic pay rates should reflect the work done by the individual, but bonuses should always depend on the performance of the business as a whole, and should be shared equally between all staff.

HPWPs may also be used to build cohesion between disparate parts of the workforce, especially if the business expands to become multi-site. The **scientific consultancy** business encountered a major challenge as it expanded (and

particularly when it opened a second office elsewhere), which involved confronting issues of 'us and them', 'primary-secondary' etc. '*In fact,*' the interviewee observed, '*we have partly tackled these through instituting the same treatment of people and uniform systems*'.

6.5   Non-adopters

This section examines why the management of businesses with no or few HPWPs have never adopted them, or adopted then abandoned some practices. In the light of the various rationales for adoption outlined above, it also examines whether certain types of business would be more or less amenable towards HPWPs than others.

Most non-adopters were, in fact, very similar. In the sample as a whole, there were very few businesses with over 50 employees which could be classed as non-adopters, and none with over 100 employees. Non-adopters tended to be small and less sophisticated businesses undertaking a limited range of straightforward tasks (a rural pub/restaurant, an undertakers, a high street bakery etc.), and with little or no regulatory pressure to increase training levels. In most cases, these businesses also sold direct to consumers rather than dealing with other businesses, with the consequent lack of demand for quality standards or formal training.

One of the most common reasons given for non-adoption was that the high performance practices under examination were not applicable to such business, or could not be implemented, rather than apathy or outright hostility to the practices *per se*. In some cases, this may be true, assuming that growth ambitions are low or non-existent, and the business is relatively small and unsophisticated. As such, this is not necessarily a case of information failure, since managers at such businesses would largely be resistant to attempts to promote the adoption of HPW since they lack a strategic vision for business enhancement, and may not wish to develop one.

Interviewees in businesses with fewer than 25 employees, for example, often indicated that their currently operated 'system' worked well. The owner-manager knew all the employees (and they all knew each other) and oversight was straightforward, though how best to gain oversight is not the same as how to get the most from staff. This 'family atmosphere' was reported to be the most important way in which employees were kept involved and should not be underestimated as an effective management technique for businesses of this size.

In such a set-up, some interviewees told us, the introduction of reward incentives risked creating divisions in the workforce and resentment amongst those who were (or perceived that they were) being paid less. This is not to say that small size is an outright barrier to adopting HPWPs, rather it reduces the need for such a system. Similarly, business where tasks were simple and straightforward, requiring a low level of skills, training and experience, indicated that they had no *need* to implement HPWPs, although they could have done so if they desired it.

Implicit in many of these cases is a lack of ambition to grow, and/or fear of the owner-manager losing control and oversight of all aspects of the business. The

majority of interviewees in small businesses with few HPWPs were satisfied with their current position (e.g. '*things are going fine, we don't need to grow*'). Those with higher adoption rates or ambitions to create a HPWS either had growth ambitions or were in a more competitive marketplace, and wanted an 'edge' over their rivals which HPWPs could provide.

Since they regarded their business performance as satisfactory, interviewees at many non-adopters did not proactively seek to improve this position. As such, they were unlikely to undertake a substantial amount of networking with other businesses, and were less likely to be a member of a trade association than adopters. As such, they may well only encounter the ideas behind HPW by chance. In a few cases, a shortage of management resources was also mentioned in this context: in a small business, management staff do not have the time to research and implement new techniques, particularly if they lack formal skills and have little prior knowledge or experience in that area.

This lack of ambition means that external facilitators, such as those outlined above, are not used to their fullest extent by non-adopters, signalling that culture change may be necessary to drive uptake. For example, the interviewee at a ***motor components distribution*** business had limited growth ambitions and was happy 'just to tick over'. He takes advantage of the relevant trade association (Group Auto Trading Group) largely through its role in negotiating discounts on behalf of its membership. The owner-manager is aware that the association offers advice and support – and would '*always go there, rather than to a public sector body*' – but has no real incentive to seek this kind of support, given limited ambitions for the firm.

Case Study 6: Plastering business

This small firm, with a dozen employees, is typical of many sub-contractors in construction and, indeed, other businesses based upon skilled trades workers joining forces. Family director-managers and a foreman-director own and operate the business, which provides a standard range of plastering services to a localised market. Its training and other HR-related activities and practices are reflections of (i) externally imposed requirements or influences (principally health and safety, employment law, the Sector Skills Council); (ii) the need to keep up with other businesses in terms of skills and capabilities; and (iii) practical issues to do with the nature of the operation. The management team are all experienced construction workers, and the foreman-director constantly moves between jobs to supervise operations.

Practices are constrained by a well-established culture among such skilled trades workers, who – in the opinion of the interviewee – tend to lack ambition and are sensitive to differential treatment. It is difficult, for example, to use an appraisal system to improve performance: workers are reluctant to engage in reviews of their performance, especially where the manager is only qualified to the same level in their trade or, potentially, to a lower level (trade skills development having been foregone when they moved into management).

Instead, a family atmosphere is fostered, with management aiming to maintain an acceptable performance on the part of workers, rather than one that is aspirational. It is thus entirely understandable that the manager's stated motivation for obtaining IIP was to demonstrate its relative standing to customers, rather than improve internal operating systems. The prospects for wider adoption of HPWPs are highly restricted, given the nature of the business and the expectations/culture of the people (including managers) working within it.

6.6   Implementation – conclusions

The evidence from interviewees suggests that the most crucial issue in the implementation of HPW is the management culture of the business – the greater the management and leadership skills, and the vision and growth ambitions for the business, the more likely HPWPs will be implemented smoothly, embedded and normalised. However, the direction of the causal link between this and HPW is not clear: HPW reinforces good management and vice versa, suggesting that promoting both better management/leadership and HPW itself would be beneficial. Where managers do wish to develop their business, there is evidence of information failure regarding the benefits of HPW. In addition, given the lack of evidence for employees in small businesses leading in the development of HPW, policy initiatives would be most effective if targeted on employers; however, thought should be given to ways in

which employees can be persuaded to 'buy in' to HPW, such that it becomes embedded and normalised in the organisation.

7 Evaluation and impact

This section examines how interviewees at respondent businesses evaluated their management practices and whether they explicitly link reward, development and involvement practices to the performance of the workforce and the business as a whole. In other words, is there hard evidence that HPWS makes a measurable difference to the business? This is of particular relevance as it is likely to prove the most promising ways to persuade sceptical businesses to adopt HPWS: if they can be shown to be of benefit in other businesses.

7.1   Evaluation of HPWPs

Few interviewees indicated that the management team make use of thorough, formal evaluation methods of HR practices. Similarly, very few explicitly link any of the HPWPs under investigation with performance of either individuals or the business as a whole. Monitoring – via management information collation – is more common, including approximately one quarter of interviewees who collect some data on individual performance. For the latter, basic indicators such as absence are monitored, and more detailed monitoring of performance is carried out where it is straightforward to do so – for example, performance of sales staff against targets. 'Informal' evaluation, based on managers' observations of the staff, is also common, with a good proportion of interviewees noting that HR practices are discussed at regular management meetings, and changes made as a result of 'something not working'. At least three businesses (**nursery, financial services** and **specialist food manufacturer**) reported reviewing their HR procedures systematically, in order to refresh them, rather than waiting for a problem to occur.

The use of accreditation or appraisal systems as evaluation tools was also reported. For example, if the business is fulfilling the requirements of ISO, IIP or other standards, the managers may well be satisfied that the business is performing as required (at least in particular areas). If it is clearly falling short of one of the requirements, attention is directed to that area. Similarly, regular appraisals of the workforce enable monitoring of performance and highlight areas where training may be required. However, while both of these methods have proven to be valuable management techniques where used, they do not answer the basic question of how high performance systems and practices contribute to the bottom line of the business.

More detailed evaluation evidence on the impact of HPWPs, such as the motivational effects of performance-related pay or the specific performance enhancements stemming from training, is rare. This is partly because it is difficult to measure, and managers cannot see the worth of dedicating effort for little return. The feeling, particularly in smaller businesses, is that the manager can see for him or herself where an employee is underperforming or a system is not working, and the results of that failing will be obvious in lower sales or profitability.

Nonetheless, interviewees in medium and high adopters often made an anecdotal or common sense link between the practices – or some of the practices – and the better performance of the business. This applied in particular those in businesses with a well-developed system and/or a deeper commitment, rather than those where the HPWPs were the result of regulatory requirements or contractual necessity.

Similarly, interviewees frequently asserted that the business performed well because it was 'a good place to work' or a similar sentiment, such as 'we're like a family here'. Much importance was placed on an 'open door' policy (so that management considers itself always accessible to employees); perks, such as team nights out or trips or an 'unofficial closedown' over Christmas (which effectively boosted holiday entitlement). Such practices either supplemented or were seen as a replacement for a high involvement system. Some were more hostile to the latter, and contrasted the two ways of working, insisting that implementing HPWPs could lead to either actual or perceived unfairness (e.g. suspicions that a colleague is being paid more for doing the same job) and destroy the team spirit of the organisation. In this conception, a light touch or more informal way of creating a good relationship between management and the rest of the workforce is considered more effective for individual and business performance than a fully formal system of involvement, development and reward. While firms in this latter group may implement HPWPs, albeit at a shallower level, this 'lighter touch' or 'open door' policy, as opposed to more formal consultation and involvement, makes it difficult to assess how feasible it is for employees to bring items to the table – to get things on the agenda or to introduce ideas – given their views are not sought systematically.

There was more thorough evaluation in a minority of businesses, i.e. formal procedures which go beyond monitoring. While this group tended to be among those businesses more committed to HPWPs, it is certainly not the case that every business with a HPWS undertook thorough and extensive evaluation activity.

Performance at a *care* business is monitored through a management control system, including monitoring per unit/client, and an explicit link between monitored performance and pay within a specified band (calculated by job content). Team leaders have a particular monitoring role at local level, and increasingly they have been able to access budget and other information remotely: '*Developing this facility is an important part of facilitating autonomy, and also permits more effective budgetary management at unit level*'. Formal evaluation of the firm's service occurs in terms of (1) quality assessment (quality standards for external regulator); and (2) the operation of the EDI Training Centre, which has also to meet external standards (internal verifier, plus external visits twice yearly).

Management of a small number of businesses used formal staff surveys for evaluation purposes. In an *education* business, the idea of the survey was introduced by an external consultant, and has been enthusiastically continued (and modified) subsequently. The results are compared against previous years, and an action plan produced in response; both results and action plan are clearly communicated to staff, highlighting changes and the rationale for change. The aim is to keep it relevant and not allow the survey to become routine.

Similarly, the management team at an **aerospace components supply** business recently undertook a one-off survey on employee engagement, characterising each employee as engaged, disengaged (i.e. expending minimum effort) or between the two extremes. They were in the process of examining the findings with employees in small groups, to address reasons for disengagement; the process will be repeated with the management team, so that solutions can be rolled out throughout the business. This will make use of work undertaken by their US parent business, which employed a consultant to devise a 'timeline' for working with disengaged employees and re-engaging them. However, the UK managers feel that they need to tailor the operationalisation of this process to their own culture: '*It's very American, so we take the principle and apply it from a European point of view*'.

To varying degrees, the examples above illustrate the resistance of high adopting businesses to 'off-the-shelf' solutions, which may be too generic for the unique system they have established and therefore for the results to be genuinely useful. The management team at the **aerospace components supply** company is also one of the few to use formal decision tools (4-Box and Fishbone analysis) and has an ongoing survey of the satisfaction level of customers. If this falls below a certain level, it automatically triggers a non-conformance process to investigate and rectify it.

7.2　Impact

Given the information on evaluation outlined above, the evidence on the impact of HPWPs gleaned from interviewees is mostly anecdotal or indirect, with the vast majority not able to point to a confirmed link between HPWPs, staff performance and the bottom line. Most commonly, interviewees gave a somewhat vague answer that HPWPs meant that employees felt more involved with the business, although the link between that and higher performance was often more asserted than proven.

7.2.1　Discretionary responsibility

Unprompted, a small number of interviewees mentioned discretionary responsibility as one of the benefits of HPWPs. Some were concentrated in knowledge-intensive sectors, particularly finance and business services, though it was also true of those with high level construction skills (**bespoke joinery** and **electrical contractor**) and it tended to be among the most important benefits they acknowledged. Indeed, some noted that their entire business was structured so that responsibility was devolved as much as possible. One interviewee noted: '*They do the jobs, they know what they're doing much better than you do; they are more likely to have a good new idea of how to do it than you do*'.

The interviewee at a **scientific consultancy** business confirmed the value of HPW-type practices in the context of a professional workforce engaged in complex activities: '*We simply could not function in a more traditional way – we need staff to buy-in to what the company is about, and we can't sit on their shoulders watching them all the time*'. This is at least partly because of the substantial difference between the ways their business worked relative to their competitors: '*We employ our staff directly, while many of our competitors use agency staff. We pay them*

whether we have the work or not; while competitors get benefit in terms of a lower overhead by working through the agency system. The methods/practices we deploy are simply not available to them. The benefit, as we see it, is that our "HPW-type" approach allows us to keep hold of our staff, with their working relationships tacit knowledge etc. - and embodied training - and from customer point of view we can keep to schedules better. We operate differently in order to achieve the quality and control – that is our driver.'

7.2.2 Recruitment and retention

Very few interviewees reported difficulties with retention, regardless of HPWP use. Some explicitly mentioned that they used HPWPs to improve retention. However, even in these businesses, a more important incentive was believed to be the level of pay compared to industry benchmarks, rather than bonus or performance-related pay. Good levels of staff retention were more commonly attributed to a team atmosphere or good working conditions, rather than high performance-related measures directly. HPWPs may contribute to this atmosphere (as in the case of **scientific consultancy** quoted in the previous section). In the opinion of some, HPWPs may work against retention: providing training may lead to highly skilled staff being poached by competitors, though the response to this was not always negative or used as an argument against training '*If we want the best it's inevitable, it won't make us do anything differently*' (**financial services provider**).

In fact, a HPWS may be geared towards the turnover of staff, rather than retention *per se*. Interviewees at a number of businesses noted that, although some staff stayed for a long time, the average tenure was short because of the nature of the work (or the size/status of the business itself within its own sector) and its usefulness as a 'stepping stone' to better positions elsewhere. This would typically apply to jobs involving young graduates, where a HPWS encourages high performance for a few years, after which the graduate, having gained new work skills, leaves for – usually – a better paid job with more responsibility and longer tenure.

Interviewees at several businesses noted that retention has been less of a problem during prevailing economic conditions: '*We have no retention problems because they know if they leave they're not going to find another job*'. In fact, this also applied to one of the businesses with a short average job tenure, which had seen its staff turnover fall sharply since the downturn started. That said, some interviewees did partly attribute business survival to the HPWPs they used. By treating their staff well in the past, management had demonstrated their commitment to the workers, and the workers were prepared to stand by the business in difficult times, accepting a temporary pay cut or freeze and/or the suspension of bonus payments. This effect should not be overstated – the reason for accepting a pay freeze may be that the workers know there are few other jobs available in the locality and the relatively high pay rates already in place at high adopters. Nevertheless HPWPs may well have mitigated potential friction, (as indeed they seem to do when pushing through other changes, e.g. drivers' working patterns at **animal feed manufacturer**).

As such, the impact of HPWPs on retention appears, at least currently, to be of minor importance. They may contribute indirectly, through the fostering of involvement, trust, and/or a good work atmosphere, but there is little evidence that

HPWPs greatly aid interviewed businesses in retaining staff. Similarly, while a small number of interviewees mentioned an explicit link between their HPWS and improved recruitment, this was usually indirect via reputational effects - i.e. being a good company to work for. Again, pay rates compared to the industry norm were noted as being more important in the recruitment process. Few interviewees used the benefits of HPWPs as a recruitment incentive, beyond mentions of above market rates of pay and the promise of training.

7.2.3 Winning new business

A number of interviewees attributed either winning new clients or retaining/increasing orders from existing clients to their use of HPWPs, for several overlapping reasons. HPWPs aided the winning or retention of contracts through enabling employees to be more effective in the following areas:

- Fulfilling the demands of clients, which led to some winning preferred contractor status

- Better customer service through more highly trained and responsive staff

- More efficient and effective working practices, thereby impressing clients and encouraging repeat business.

- The reputational effect provided (indirectly) by HPWPs.

- The shift to quality and formal procedures enabling the landing of higher value contracts, or higher quality work where the business can capture a greater proportion of value added. Similarly, the implementation of HPWPs enabled a business to move from subcontractor to prime contractor on construction jobs.

The implication is that a HPWS may increase turnover through enabling a business to win or retain trade it would not otherwise have won, or to win higher value business than would otherwise have been the case. Given that this is a more demonstrable manifestation of the effect of HPWPs than those on productivity or effectiveness, businesses were more likely to attribute HPWPs' bottom line impact to this channel.

7.2.4 'Bottom line' impact

Interviewees at high adopting businesses were more likely to attribute a bottom line impact to HPWPs. This clearly includes those businesses which would not be able to operate without HPWPs (e.g. because of regulation). More importantly, management teams committed to the discretionary or voluntary use of HPWPs beyond the minimum required were more likely to report that HPWPs had an impact on the bottom line. This was rarely, if ever, measured in concrete terms but through such reported channels as the winning of new business without a large increase in costs.   A number of the interviewees attributed their survival, at crises in the past, or during the present recession, at least partially, to HPWPs – for example, the engagement of staff with the business and the clear commitment of the management meant that a pay freeze or cut was accepted more readily by the workforce, with the expectation in return that wages would increase when profits returned to normal. There seemed to be an implication that this was about more than just remaining in a job in the absence of alternatives, and attributed to having faith or trust in the management..

7.3   Evaluation and impact - conclusions

Previous research[13] has shown that, in the aggregate (at the sector/economy level) and in individual businesses (often in the longer term), it is possible to identify specific impacts linked to the adoption of HPWS. However, given the longer-term nature of the impacts, and the incremental manner in which an HPWS is often introduced, producing hard, short-term evidence that HPW is linked to bottom-line impacts can be extremely difficult. The clear challenge demonstrated by the evidence in this section is to convince individual businesses that the adoption of HPWS is worthwhile. The most compelling evidence collected is often anecdotal and qualitative. Businesses may not always be able to quantify the specific impacts from implementing HPW, but will be able to note an improvement in staff attitude or morale, observe more effective customer service, monitor the satisfaction of clients etc. Equally, HPWs were identified as a way to bring structure to a business, or to more closely align the interests of employees and management – so that, for example, a pay freeze could be implemented without significant staff friction. Thus, interviewees, asked to give observable impacts, provided a wide range of answers, including: the business could not function in any other way; increased formality has helped win contracts that would otherwise not have been possible; the survival chances of the business during the recession have been enhanced.

Despite a minority of adopters using more formal procedures, these more intuitive answers were in keeping with how the majority of SMEs interviewed conceived of HPW. Shifting businesses closer to formal evaluation would be difficult, given the widespread opinion that HPW brings benefits that are relatively intangible and inherently hard to measure, which leads to resistance to even attempting this.

Nonetheless, it is possible to learn lessons from the small number of businesses which have adopted more formal procedures, potentially using them as examples of the benefits which evaluation of HPWPs offers. This could be fairly simple – for example, a regular survey of staff; following up clients to determine satisfaction using a standardised questionnaire, including reasons for the loss of business; monitoring complaints, production faults etc in order to gauge improvements; and potentially linking these to cost efficiencies.

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[13] See the overview in Belt V and Giles L (2009) *High Performance Working: A Synthesis of Key Literature*, Evidence Report 4, UKCES

8 Typology of adoption

From the interviews and the phone survey, we can construct a broad typology of businesses by the level and depth of their adoption of HPWPs.

High, systematised adopter (17 per cent of telephone survey sample)

These are businesses using most or all of the HPWPs under investigation (and usually others) in a coherent, systematic manner and mainly businesses with over 50 employees, but there are also a number of smaller businesses fitting this category. They often have a highly strategic outlook, oriented towards growth, customer service and quality, and open to a wide range of external influences. These would be clearly be the core of demonstration businesses, particularly for the two categories immediately below, illustrating the benefits from systematising practices. As such, they would need to be recruited for case studies or participation in networks (although they are already likely to do so), in order to spread messages about HPW. They may be expected to lead or be heavily involved in bids for pots of funding.

High, unsystematised adopter (13 per cent)

This covers the remaining businesses with nine or more practices. They tended to be less sophisticated, strategic and innovative than systematised adopters, although a number were clearly striving to be more strategic in their outlook, having realised the benefits of formalising and deepening the practices deployed. In a number of cases, these were relatively small businesses working in a highly competitive market dominated by larger businesses, seeking to compete on customer service and quality at least as much as price. These would be a prime target for interventions, since a relatively small effort could gain large benefits in terms of systematisation. This would involve correcting an information failure by exposing them to sources of evidence for the benefits of HPW – for example, through networks, trade associations, mentors and other trusted intermediaries.

Medium – trainer (22 per cent: 10 per cent systematised, 12 per cent unsystematised)

Businesses with five or six of the training-related practices and three or fewer other practices i.e. those which qualify as medium mostly because of their training practices, and undertake few if any of the other involvement and reward practices. It is worth separating out this group, as training was the most commonly cited 'mini-bundle' of practices which clearly work together. In addition, interviewees often noted that they were 'forced' to undertake training by regulatory or sectoral requirements and norms. Mid-range (rather than high end) construction businesses are likely to be found here (or possibly just in the 'high' category); the same applies to care/nursery businesses and mid-range, medium size manufacturing businesses. In all cases, if they are run by skilled trades workers without external managers or management training, and/or if they take a 'paternalistic' attitude to staff, they are less likely to be systematised.   Systematised trainers would fall into a similar category as the high, unsystematised group above, since they would principally need encouragement to implement a wider range of HPWPs than at present, and integrate them into a system. For those which are unsystematised, messages would also need to stress the benefits of improving management and leadership, with the

possibility of supply chain development being harnessed to encourage HPW adoption and systematisation.

Medium, systematised adopter (10 per cent)

This covers businesses with 4-8 practices, not dominated by training-related practices, which indicated that they operated a HPWS. Their implementation of a broader range of HPWPs than the trainer category above implies that they may be operating a system which is optimal for their situation – the 'success' of an HPWS should not be judged by the number of practices adopted. As such, they could also act as demonstration businesses, being just a little way ahead of businesses in the group below. Networks comprising both high and medium systematised adopters could demonstrate a range of options to other SMEs, which are relevant across a wider spectrum of situations.

Medium, unsystematised adopter (31 per cent)

This covers businesses with 4-8 practices, not dominated by training-related practices, which indicated that they did not operate a system. Some of these undoubtedly fit into the 'good place to work' category, where the business relies on creating a good work atmosphere to motivate and engage their staff. These businesses would benefit primarily from learning about the potential impacts of systematisation, in the same manner as the high, unsystematised adopters above.

Low adopter (7 per cent)

This is the smallest category, with only seven per cent of the telephone sample fitting into the 'low' category – although, given some of the interview findings about how poorly some practices are implemented in medium adopters, it is arguable that some of that latter category should be 'demoted' to low adopters. Many of these are small, unsophisticated businesses which rely on promoting a good atmosphere to engage staff. In particular, small businesses with most or all of their sales direct to consumers and in sectors with few regulatory requirements for training or client demands for quality standards, are likely to be found in this category. Businesses of this type would largely be unreceptive to HPW messages, unless such practices were to be the Norm far more widely than is the case at present.

8.1   Targeting of policy options

This allows us to characterise those SMEs which are likely to unlikely to be receptive to HPWP promotion. Those which are less likely to be receptive include:

- micro businesses
- 'old-fashioned' and/or paternalistic manufacturing and construction businesses (particularly those started by tradespeople with no external involvement nor dedicated HR manager)
- businesses engaged in simple process tasks (e.g. warehousing) and/or direct selling to consumers (e.g. pubs, shops)

The above businesses would need to be encouraged to raise their ambitions first, in order for HPW promotion to be effective.

Those businesses which are most likely to be receptive, and could be specifically targeted by most policy options, include:

- finance and business services

- businesses with regulatory requirements and a more progressive outlook (e.g. construction and care open to external influences)

- businesses with a high proportion of graduates

- businesses competing against larger competitors on quality, not price

- businesses with dedicated HR functions or the capacity to develop HR functions (i.e. a fully developed or evolving middle management layer)

- businesses which seek out external support and learning opportunities through networking, trade associations, membership organisations etc.

A number of businesses also indicated that they were less receptive to HPWPs at present, due to difficulties caused by the recession, suggesting the perception that HPWPs are a luxury for the good times rather than fundamental. This may of course just be an excuse for not wishing to go down the HPWP route at all, but the perception that HPWPs are simply a tool for pursuing growth or an 'extra' is incorrect and does not aid adoption. HPWPs can help a business to survive during lean economic times (as a number of examples above show), by making the business generally more competitive and entrepreneurial at every level. The message that HPWPs can aid survival and growth to transcend current economic conditions should be beneficial and appealing regardless of the economic climate e.g. transforming the business to an entrepreneurial learning organisation.

9 Conclusions and policy perspectives

This section summarises the findings of the study, and lays out the rationale for intervention in terms of market failures and information failures among SMEs. It also relates the findings from this research to evidence of experience in other countries to suggest ways in which these failures could be rectified. The analysis incorporates insights from behavioural economics and social psychology.

9.1   Issues affecting adoption

Currently, both awareness of HPWPs and their adoption are low in the English SME sector. The evidence shows clear information failures and an associated sub-optimal level of demand. Most SMEs are unfamiliar with idea of HPWS and are not aware of the potential longer-term benefits that employing such a system can bring to the business. Demand is further reduced by the lack of short term benefits; the difficulty in linking HPW to actual bottom line impacts; and a wariness of jargon and prescriptive approaches to business improvement.

However, whilst few English businesses use a HPWS involving a complete 'bundle' of HPWPs, a high proportion employ at least some of the practices involved in such a system. This typically reflects the incidental adoption of relevant practices rather any deliberate adoption a HPWS *per se*. Adoption, and the deepening of HPWPs into a coherent system often requires a trigger (in many cases simply by becoming aware of HPWSs in the first place). Businesses with strategic growth ambitions and a quality-led business plan are more likely than others to adopt a coherent high performance system. Larger SMEs are also more likely to adopt HPWPs than smaller ones.

In general, there is a fairly widespread desire to be a 'good employer', in order to motivate the workforce to perform well, impress customers, and to gain the respect peers. The precise definition of what constitutes a 'good business' varies, but it typically involves treating staff well, being a 'good place to work', achieving 'quality' or 'excellence'. Using HPWPs is typically seen as being consistent with these aims. Accordingly, providing businesses with models of 'good businesses' that include the use of HPWS may well be a powerful mechanism for increasing adoption.

Businesses reported that if they decided to implement a practice, they found plentiful advice, support and training of sufficient quality for their purposes. In fact, many of those implementing HPWPs in a shallow way found sufficient information online or through asking their accountant, lawyer or trade association for advice. However, HPW is not incorporated into support products on an extensive basis, and it could be embedded to a greater extent in a wider range of support options.

9.2   Rationale for government intervention

The use of HPWS in English SMEs is low in both absolute terms and in relation to those found in a number of key competitors, including Germany and Sweden.

The evidence from this and other research suggests that the wider adoption of HPWS could produce potentially extensive and significant performance gains and growth.

There is a clear market failure associated with a lack of awareness of HPWS amongst the majority of English SMEs, which are unaware of this concept and the benefits it can bring.

Despite these low levels of awareness, many businesses currently employ at least some of the practices involved in such systems. Accordingly, in these businesses relatively modest changes could potentially produce disproportionate benefits.

Most businesses, including non-adopters, are sympathetic to the concepts and practices involved in HPWS.

HPWS is actively, and successfully, promoted in other countries, including Canada, Australia and Ireland.[14]

9.3   Policy implications

Two broad issues lie at the heart of low adoption of HPWPs and HPWS:

- Lack of awareness of both HPWPs and the potential benefits they could bring to a business if adopted and implemented in a systematic way.

- Inadequate leadership and management skills in SMEs, coupled with a lack of ambition for growth and improvement of the business.

The successful promotion of HPWPs and HPWS may well be best achieved through a multidimensional approach. In devising appropriate policy solutions, there are two broad approaches which could be pursued in tandem. The first is the 'instrumental' approach, which directly tackles the barriers outlined in previous sections. This would include measures such as awareness raising and developing the provision of specific training courses relating to HPWS. The second is a more indirect approach that aims to influence the culture, ethos and values of management to create a situation in which HPWS are more likely to be adopted.

This second approach lends itself to measures informed by behavioural economics, 'nudging' businesses towards this position. This nudging can be done to foster either those management characteristics identified as associated with the adoption of HPWPs and HPWS, or to encourage the adoption of specific HPWPs, which may

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[14] Stone I (2011) *International Approaches to High Performance Working*, UKCES Evidence Report 37, September

act as catalysts for further adoption (although it must be stressed that the catalyst hypothesis requires testing).

Further, those being nudged could be employers or employees, or both. We propose that targeting employers is a better policy than targeting employees for the following reasons:

- It is much more feasible to target employers than employees.

- Employers' cooperation will be needed anyway, for any new initiative to be successful.

- Employers, on average, have a greater influence over more parts of the business than employees.

- There are existing initiatives to encourage employers to work together to improve their businesses through skills development.

In addition, employers may feel threatened by any attempts to influence the running of their business perceived as coming through their employees – which in turn may impact negatively on other behavioural change strategies.

The research also provides findings that would allow for evidence based segmentation and the effective targeting of particular types of business. For example, those businesses that have reached a certain size (see section 9.5 below) or that already have some HR capacity and an interest in growth might be more amenable to nudging than others. Bearing in mind these considerations, some specific policy recommendations based on the literature from social psychology and behavioural economics are outlined in the next section.

Throughout the following sections, it should be borne in mind that HPW itself is not only difficult to encapsulate simply, but the changes that are required to promote HPW are also complex to describe and implement. HPW is also only one part of what needs to be a wider strategy to raise performance in SMEs that will inevitably involve multiple partners and complex interlinkages. In particular, success in this area is likely to be closely related to the more general development of management and leadership skills within SMEs.

Finally, it should also be borne in mind that the current position of SMEs varies widely. As indicated by the typology of adoption in Section 8, some SMEs are very close to adopting an HPWS, and require only a small push to achieve potentially large impacts. Others require a much larger push. This raises questions about the desirability and feasibility of segmenting the business population in order to effectively target interventions.

9.4   The MINDSPACE framework

This section analyses the evidence gathered using the principles of behavioural economics. It establishes a set of guiding assumptions on which to base more concrete policy options and action – these are outlined in Section 9.6.

The MINDSPACE report[15] provides a framework within which policymakers can locate various different measures for encouraging behavioural change. 'MINDSPACE' is in fact an acronym mnemonic for nine different behavioural change mechanisms that have been identified by social psychologists and behavioural economists: Messenger, Incentives, Norms, Defaults, Salience, Primes, Affect, Commitment and Ego.

Messenger refers to the nature of the person or organisation attempting to encourage change. Currently, the government is a key messenger through the Business Link website. However, this is a generic website and it tends not to have the direct, customised, relevance that business owners and managers are most likely to engage with. While it does not do so to any real extent, the businesslink.gov website clearly could be developed and used to promote HPWs, If this option were to be pursued, our research findings suggest that there may be some merit in developing specialist spin-off sites, 'owned' and largely built by businesses. These could possibly be based on size, sector and/or type of business (e.g. family-owned, rural, knowledge-based, exporters etc.) and content could be largely derived from the users in the form of co-operative and social media tools: e.g. wikis, tweets, blogs.

Incentives Direct financial incentives are not recommended; financial reward is known to 'crowd out' intrinsic motivation (and, as mentioned above, it is clear that there is intrinsic motivation to be a 'good employer' which can be harnessed). However, there are also non-financial incentives, discussed under other headings below; for example, awards (see Norms) and stressing the benefits to the business (see Salience). Further, from our survey it does not seem that finance is perceived as major obstacle. Public funding is best directed towards providing consultancy or training, rather than direct financial incentives.

Norms refer to the patterns of behaviour that businesses perceive as acceptable (and those deemed unacceptable), and those behaviours seen as being desirable. This research supports the view that norms are key to encouraging behavioural change in SMEs. To be specific, it is essential to equate HPWPs with being a 'good business'. Further, it is important that those business which conform to the norms are seen to do so. Accordingly, there should be a way to provide businesses with the means to 'blow their own trumpet'. This could be accomplished through the Business Link website (e.g. through case studies) and placing stories in the media. Social networking sites such as Facebook and LinkedIn could also be utilised. Awards as recognition of good business practice (see section **Error! Reference source not found.**) could be considered, including featuring on a website (or in other persuasive material) those businesses which exemplify the use of HPWs.

Defaults There is a general preference for the status quo over change; to encourage engagement in a desired behaviour such behaviours or practices need to be considered the default option. Thus, for example, offering people a comprehensive pension plan as a default when taking a job (that they can opt out of if they wish) results in more people being covered to a higher level than if people have to 'opt in' to a pension plan. This principle has been successfully applied to

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[15] Dolan P, Hallsworth M, Halpern D, King D and Vlaev I (2010) *MINDSPACE: Influencing behaviour through public policy*, report for Cabinet Office and institute for Government

organ donation and car insurance. However, HPWS are not currently the normative system in English SMEs and, given that legislation in this area is not a practical option, promoting them as the default situation may well be a long term goal rather than a current policy option.

Salience People can often be nudged into a particular behaviour just by making some options stand out, or be more accessible, than others. For example, giving salads prominence over desserts in a cafeteria can increase healthy choices by customers. There is, of course, nothing new to this – marketers have known it for decades, if not centuries.   It is clear from the survey and interviews that the message regarding HPWPs is not getting through to all SMEs, suggesting that the concept's profile should be raised. Indeed, even those businesses with HPWPs did not always recognise the term. An advertising campaign could be used to increase awareness and direct people towards an improved website. This should be accessible to as many businesses as possible. Specifically, SMEs need to be made more aware of the tangible material benefits of HPWPs.

Priming People can be subconsciously 'primed' into behaving in certain ways. For instance, players become more competitive in a game if it is labelled as 'the Wall Street Game' rather than 'the Community Game'. Online and other advertising material could be used as a vehicle for symbols (e.g. a logo or other images) and slogans that prime the values and norms which fit with the promotion of HPWPs (e.g. enterprise, cooperation and employee engagement).

Affect refers to both mood and specific emotions that moderate our responses to stimuli and influence subsequent behaviour. The effects of affect are powerful but somewhat complex. For instance, by arousing emotions people can be moved to respond automatically and intuitively instead of analytically weighing up pros and cons. This can be good if the intuitive response is desirable (e.g. to take the word of an 'expert' on face value) but it has also been shown that people are more committed to decisions made on a reasoned basis than emotional/intuitive. Decisions regarding HPWPs should therefore be made on a reasoned basis, and the provision of high quality information about the pros and cons of such practices may be better than the manipulation of emotions. Nonetheless, it may be worthwhile trying to evoke positive moods (moods being less intense but longer lasting than emotional states) as this should lead to positive associations being made with the message presented. This could be achieved, for example, through the use of particular imagery on a website.

Public health and safety campaigns often try to evoke fear (e.g. fear of lung cancer from smoking). However, this can backfire in the sense that people close themselves off to the message – this is particularly true if no information is given about how people can protect themselves. Although they can be effective, on balance using fear appeals in the context of promoting adoption of HPWPs is not recommended. (but see the sub-section below on 'framing').

Commitment People will be more likely to carry out an activity that they agree is something that they and/or society would benefit from, if they enter into a public contract with others to do so. For example, it has been found that those publicly committing to an exercise course were significantly more likely to follow through with

that course, and achieve exercise goals, then those who signed up for the course but made no public commitment. Businesses could therefore sign up with others to achieve certain goals or make pacts with their employees, and such contracts could be publicised as exemplary.

Ego We often act in ways that make us feel better about ourselves or, in other words, to boost or bolster our egos. A potential barrier to adoption of HPWPs is a lack of belief in the ability to change – this contributes to inertia. This was observed among some interviewed businesses, where the tight market conditions or the attitude of employees was blamed for an inability to change how the business operated. Businesses also reported wanting to be perceived as a good firm to work for; raising confidence, particularly amongst smaller businesses would therefore be likely to aid the promotion of HPWPs. This can be done by, for instance, providing 'success stories' relating to similar businesses, and creating positive moods through promotional materials to make people feel more optimistic. More formal methods of human capital reporting (i.e. communicating the value and contribution of people to key stakeholders in the business) may be considered, although they are difficult to implement even in larger businesses. Organisations such as CIPD have developed frameworks, and would be able to advise in this area.

Framing Although not a separate MINDSPACE category its authors report that 'framing' – how information is presented – is 'crucial' to behavioural change. Of particular importance are positive and negative framings. There is an extensive research literature that shows that people are more sensitive to losses than they are to gains. As a result, they are more likely to take actions to avoid a loss than to receive a gain of an equivalent amount. Often it is possible to reframe a gain as a loss (e.g. profits under a target rather than above the current level). It may be useful, therefore, to place emphasis on what will be lost if HPWPs are not adopted (profitability, competitiveness etc.) rather than on what stands to be gained. However, this must be balanced against creating negative affect, as discussed above.

Based in part on this analysis, the following sections examine examples of more specific routes which could be used to encourage the adoption of HPWS among SMEs.

9.5   Overarching issues

There are several issues which emerged during the research which are relevant to all or most of the policy options outlined above, and should be borne in mind during implementation.

9.5.1   Targeting

Of particular importance is the identification of the intervention point, and which interventions are most appropriate to different kinds of business. Section 8 above gives some indication of the type of intervention most relevant to particular categories of business. In addition, the suggestion that some practices may act as a catalyst (with the caveat that this remains a tentative finding) implies that these

should feature more heavily in promotional efforts than others. For example, promoting teamworking has wide relevance and could promote culture change and cohesion within a business, while profit-sharing, for example, could be introduced later, building on and strengthening earlier work towards an HPWS.

Thresholds are also highly important indicators of where a business may be more receptive to a HPWS being adopted or deepened. The two key thresholds in this context are when a business reaches approximately 25 employees (when the owner must cede some management responsibility) and subsequently 50-75 employees (when specific HR management becomes likely). Targeting such businesses is likely to prove an efficient and effective means of promoting take-up of both individual practices and, more importantly, coherent HPW systems.

9.5.2   Terminology

Very few interviewees had heard of the terms 'high performance work practices' or similar names for the practices (e.g. 'high involvement', 'workplace innovation'), and direct promotion of HPWPs deploying such terminology may well be met with suspicion by businesses which would otherwise be receptive. Even the use of the term 'system' met resistance from some (though not all) businesses, even where they clearly operated one. On the other hand, terminology such as 'formalise' or 'documenting' procedures and processes was more welcome, as were phrases such as 'excellence' or 'treating staff right'.

Our findings are consistent with approaches that allow businesses themselves to decide whether and how to develop in this area. The principles of employer ownership should facilitate ways in which HPWPs can be labelled and 'sold' to businesses as a way to improve performance. When asked how they would 'sell' the benefits of HPWPs to a sceptical business, high adopter interviewees repeatedly emphasised the quality of their staff; how to motivate them; trusting them to do the job well; and the consequent mutual benefit, to both the employees and the business as a whole, of an HPWS.

Behavioural principles suggest that the adoption of relevant terminology, nomenclature, slogans and perhaps even a logo would support the promotion of HPWPs. This requires the engagement of marketing professionals, making use of the views gathered in the interviews to devise an appropriate strategy.

9.6   Specific policy options

The above sections established a number of principles from the evidence gathered, which can be used as a basis from which to develop more concrete policy options to move forward. This section examines a number of these in more detail, including assessments of their viability and appeal to businesses.

9.6.1   Mandatory policies

Several northern European economies, including Germany and Sweden, have legislation requiring employee involvement in the business, including, for example,

through works councils.[16] Such an approach is worth studying for lessons it provides, given the success of such economies. Statutory approaches are associated with higher take-up of practices related to involvement and training, although it is unclear how they are connected to the implementation of coherent systems. However, a statutory approach does not fit with existing UK policy frameworks and mechanisms, and there is little appetite for it among businesses. Encouragement within voluntarist frameworks for HPW is likely to be more practical. In addition, this approach fits with giving employers greater ownership of the skills and training agenda, and with the move towards employer-led solutions in general.

9.6.2 Promotional and awareness-raising activity

The research indicated a clear information gap about HPW in general and the benefits of HPW in particular. As already discussed in relation to the MINDSPACE analysis above, an effective method for encouraging businesses to adopt HPW is the use of the demonstration effect e.g. case studies of exemplar businesses. These can demonstrate both the processes involved and potential benefits from implementation. It can be accomplished through networking, business awards etc., or - as in Australia[17] - can be the outcome of deliberately grant-funding leading businesses to serve as examples. This involves a relatively small amount of funding, and is likely to have a clear impact. These could be disseminated through the media, in particular the trade press, or hosted on a website (e.g. the Business Link website or a specific HPW website). If a more general advertising campaign were to be adopted, there is substantial material in this report and previous research to inform its design and ensure effectiveness.

The Business Link website already has a section on effective employee engagement.[18] This gives practical guidance on the issues involved, including: (i) how to develop a strategic narrative and communicate this to the workforce; (ii) how to become a more engaging manager; (iii) establishing employee voice; and (iv) communicating and embedding business values and engagement behaviours in the workforce.

However, as suggested above, government web-based support could be aligned more closely with the MINDSPACE principles, in order to promote HPWPs more effectively:

- the information on the Business Link site is clear and apposite but there may be a case for improving the presentation - for example, by use of appropriate imagery to prime the values to create positive feelings of optimism and confidence
- the messengers appear either to be 'the government' or 'business leaders' and the tone is a little didactic at times. This suggests a role for 'sub-sites', 'owned' by businesses, and perhaps segmented by size and/or type of

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[16] Stone I (2011) *International Approaches to High Performance Working*, UKCES Evidence Report 37, September

[17] Stone I (2011) *International Approaches to High Performance Working*, UKCES Evidence Report 37, September

[18] www.businesslink.gov.uk/bdotg/action/detail?itemId=1083721380&type=CAMPAIGN

business, with user-generated content in the form of wikis, blogs, tweets and discussion forums

- the site should include links to social and professional networking sites such as Facebook and LinkedIn
- better compatibility with smartphones (e.g. via an app) would be helpful.

The ACAS website was much used by respondents, as a trusted and valued source of information on employment and people management issues, and would be likely to offer an effective route to promote HPWPs in a similar way to that outlined for government web-based support.

9.6.3 Developing partnerships and networks

High adopters were more likely to use networking, benchmark themselves against their competitors and be open to external influences more generally, suggesting that greater use of such techniques would aid in promoting the wider adoption of HPW. Partnerships between businesses, possibly including other stakeholders (training providers, universities, trade associations, trade unions and other social partners) can be effective in developing workplace skills and practices. Such an industry-led approach is found in the Canadian Workplace Skills Initiative, which operated through the equivalent of our Sector Skills Councils[19], and which fits well with the current Employer Ownership pilots, as well the Growth and Innovation Fund. This approach would require relatively little upfront funding, and – given the inherent lag in impacts – could be phased to allow progression of learning, consolidation of achievements and dissemination of ideas. The funding of smaller scale pilots, to demonstrate HPW initiatives in practice and seed the establishment of networks which could continue after the pilot and collate and disseminate learning is also an option.

There is international evidence, from such partnership and network-based initiatives, that working practices continue after funding, and that practices are transferred to other organisations. This research suggests that English SMEs might well respond positively to initiatives of this sort.

As already noted in the MINDSPACE analysis, the nature of the messenger is very important. Owners and managers need to be convinced that the person delivering the message not only understands business, but their own specific circumstances – and in particular sectoral practices and norms. The principles of Employer Ownership may well be part of the solution, with high and systematised adopters taking the lead on the promotion of HPWPs possibly in conjunction with partners such as trade associations. Indeed, if funding is available for the development of skills utilisation it is possible that employers and stakeholder could submit bids to promote HPWS. Current examples at the UK Commission include the Growth and Innovation Fund, the Employer Investment Fund and the pilot of Employer Ownership; all three schemes have the potential to fund a project along these lines.

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[19] Stone I (2011) *International Approaches to High Performance Working*, UKCES Evidence Report 37, September

Finally, there is also the possibility of working through the supply chain, with procurers encouraging HPW development in their suppliers. However, the examples seen in this research mainly relate to the enforcement of particular training standards or of quality marks, which encourage the introduction of specific HPWPs, but not necessarily a culture change or a systematisation of practice. As such, more research would be needed into how procurers could encourage HPW in a more holistic manner, rather than require only some elements of HPW, among suppliers.

9.6.4 Dissemination through trade associations

Trade associations, with their specialised sector knowledge and commitment, are a trusted route through which to cascade information to businesses, and therefore possibly a viable route for more proactive methods to support HPWP adoption. The British Printing Industries Federation (BPIF) is an example of the sort of assistance a proactive trade association can provide to its members. There are three levels of membership; the highest (and most expensive) provides an extensive suite of services to its members. In terms of human resources in particular it provides: employment tribunal legal representation; human resources healthcheck and report; on-site support for human resources; online and telephone advice for human resources and industrial relations; training and development solutions; employment law updates and commercial employment law seminars. The code of practice for members specifies that they will 'strive to recruit and employ people with appropriate skill levels, provide fair remuneration and be committed to continuous training and development, bearing in mind equality of opportunity'. Documents available include a salary and manpower survey, allowing benchmarking of wages and hours for both professional and production occupations, as well as more general market reports to facilitate strategy and investment plans. BPIF also hold events to facilitate local and national networking, and have a number of special interest groups for virtual networking.

Although membership organisations may not all have the same agenda and a only a relatively small proportion of small businesses sign up for membership, there may well be a viable policy option here, not least because businesses which have already joined an external organisation are likely to be more open to learning and therefore more receptive to HPWPs in general.

9.6.5 Linking HPW to existing support

Although HPW is not currently an explicit feature of most existing training/education and support programmes and products, these could often be readily augmented to promote it. Indeed, many of the principles of HPW are already likely to be implicitly included in some form, and may simply need to be checked against the desired messages and changed or enhanced if necessary. Specific HPW courses (and possibly even the use of that term), or promoting greater use of HR training would risk 'ghettoising' HPW as a concern just of HR departments or HR managers, rather than being part of mainstream management techniques and embedded within the business as a whole. A more radical approach might use making chartered status (e.g. CIPD) conditional on having been trained in HPWSs.

A number of existing initiatives could be developed to include provision for the active promotion of HPWS to appropriate businesses. These include schemes such as Mentorsme (e.g. mentors could be given information and training in HPW), and MAS and Growth Accelerator, which could recommend HPW where appropriate. Similarly, efforts could be made to include high performance working in private sector training (e.g. the Institute of Directors).

The relatively small number of businesses which had made use of external mentors and consultants reported high levels of satisfaction, and were clearly already receptive and open to new ideas and improving their businesses. Therefore, working through this channel seems a sensible and logical option that should have clear impacts. Mentorsme.co.uk, for example, is an online portal to connect SMEs with mentoring organisations to support and guide business growth. One possible route to encouraging the greater use of HPWPs would be to provide specific guidance for mentoring organisations, to be used as appropriate in their contact with businesses.

Finally, following a similar approach as Investors in People, it would be possible to devise an HPW quality mark, with advice on ways to implement HPW and assessment. This would have a demonstration effect. Funding for its development could derive from existing pots, such as GIF and EIF, which also chime with this approach. As with IIP, a potential quality mark could be pitched at different levels, with the idea that the process of change itself, as well as the changes implemented, would be beneficial to the SME. The challenge for such a mark would be how to make it relevant to smaller businesses when it is likely that larger businesses would be the first to apply for and obtain the mark. The demonstration effect is less strong in this case, as the situation of larger businesses is often seen as significantly different from SMEs i.e. the Messenger is less relevant for communicating Norms and Salience. In addition, there are a large number of quality and accreditation marks; the launch of a new, unproven mark with uncertain commercial benefits into an already crowded landscape may prove difficult, and is unlikely to be an optimal approach to encouraging HPW adoption.

9.6.6   Linking HPW to innovation policy

In Finland and Germany, HPW has been linked explicitly to innovation policy on the basis that they are likely to be mutually reinforcing. There is an emphasis on novel, research-led approaches to workplace organisation, creating learning spaces for networks and use of external consultants. Ireland and Sweden have also adopted a related approach, with an emphasis on workplace innovation.[20]

Current thinking in Germany is increasingly concerned with a holistic notion of innovation policy and practice: effective innovation requires appropriate skills and forms of work organisation that allow innovations to be successfully implemented and exploited. This assigns a central role to HPW in innovation, rather than simply being seen as concerning skills and HR. Innovation in the UK is generally conceived in relatively narrow terms and exploring means of encouraging HPW, and explicitly

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[20] Stone I (2011) *International Approaches to High Performance Working*, UKCES Evidence Report 37, September

linking it to innovation policy, may well lead to additional benefits to SMEs. This could be linked to the Technology Strategy Board's new Catapult Centres, which aim to promote world-class innovation in specific technology areas.

9.7   Measuring success

It is difficult to quantify take-up and intensity of HPWPs use at the level of the individual business and measuring impact is if anything more challenging. However, it would be possible to develop a practically adequate approach to piloting and testing the options outlined above.

Although ultimately, success would be measured in terms of improved productivity and business performance, the mechanisms though which HPWPs contribute to these are well understood. Accordingly, it is relatively straightforward to construct logic models and identify appropriate output measures including, for example, employee job satisfaction and retention, improved business reputation etc.

That said, it should also be borne in mind that a long time horizon for achieving results is required, allowing a gradual increase in adoption and systematisation, as found in other countries. This suggests potential for a phased-in regime of support, as recommended by previous UK Commission reports, to facilitate the development of awareness and expertise.

In terms of progressing HPW adoption, it is clear that there is a rationale for policy development which is worthy of careful consideration. It is also clear that there are a number of policy options, most of which – if properly designed – would be relatively low cost and capable of having positive impacts on SME performance.

Appendix 1   Telephone Questionnaire

S   SCREENER

S1   **Good morning / afternoon, my name is _____from IFF RESEARCH, an independent market research company based in London. May I please speak to** NAME ON SAMPLE**?**

IF NECESSARY: **We are conducting a survey on behalf of the Department for Business, Innovation and Skills (BIS) about human resources and workplace skills**. **The information will be used to inform government of the skill needs of businesses.**

Yes - speaking	1	
Yes - transferred	2	GO TO S2
Not currently available – make appointment	3	MAKE APPT
No – not known/no longer works here	4	ASK S1A
Wrong number	5	THANK AND CLOSE
Company closed	6	

IF S1=3
S1A   **Could I please speak to the most senior person at this site with responsibility for staff and staff issues?**

Yes - transferred	1	CONTINUE
Not currently available	2	TAKE NEW DETAILS AND MAKE APPT FOR CALLBACK
No - refusal	2	THANK AND CLOSE

S2   IF TRANSFERRED, REINTRODUCE: **Good morning / afternoon, my name is** NAME **from IFF RESEARCH, an independent market research company based in London.**

ALL**: We are conducting a survey on behalf of the Department for Business, Innovation and Skills (BIS) and the UK Commission for Employment and Skills (UKCSE) about human resources and workplace skills. Your assistance will ensure that the views expressed are representative of all employers in your industry.**

The interview will take on average 10 minutes depending on the answers given. Is now a convenient time to talk?

Yes – continue	1	CONTINUE
Definite Appointment	2	MAKE DEFINITE APPOINTMENT
Soft appointment	3	MAKE SOFT CALL BACK
Refusal	4	THANK AND CLOSE
Refusal – company policy	5	
Refusal – taken part in recent survey	6	
Not available in deadline	7	
WANTS REASSURANCES	8	SHOW REASSURANCES

REASSURANCES TO USE IF NECESSARY:

- **The interview will take around 10 minutes to complete**

- **Your company has been selected for this survey because you recently took part in the UK Employer Skills survey and indicated you would be willing to be recontacted for further studies sponsored by UKCES.**

- **Under no circumstances will any individual or firm/organisation be identified, nor will your responses be attributed to you.**

- **If respondent wishes to confirm validity of survey or get more information about aims and objectives, they can call:**

  o   **MRS: Market Research Society on 0500396999**

  o   **IFF: Margaret Anderson, Research Executive: 0207 250 3035**

  o   BIS**: Ian Drummond: 0114 207 5065**

S3 **First of all, can I check that I am speaking to the head office of** [COMPANY NAME FROM SAMPLE]**?**

Yes	1	CONTINUE
No	2	CONTINUE
DO NOT READ OUT: Don't Know	X	THANK & CLOSE

S4 **Thinking about decisions relating to human resources and workplace skills, would you say that they are…?**

Taken solely by your establishment	1	CONTINUE
Taken primarily at head office but your establishment has a lot of input	2	THANK AND CLOSE
Taken primarily at head office but your establishment has some input	3	
Taken solely by head office	4	
DO NOT READ OUT: Don't Know	X	THANK & CLOSE

S5. **Can I ask what your job title is?**

PROBE FULLY.

WRITE IN VERBATIM

S6. **Is human resources your primary function in the business?**

Yes	1	GO TO A1
No	2	CONTINUE

S6=2 (HUMAN RESOURCES NOT PRIMARY FUNCTION OF BUSINESS)

S7. **What is your primary function?**

PROBE FULLY.

WRITE IN VERBATIM

ASK ALL

S8 **Can I just check if there are currently fewer than 250 employees across your whole organisation?**

Yes	1	CONTINUE
No	2	THANK & CLOSE
DO NOT READ OUT: Don't Know	X	THANK & CLOSE

A   Background

ASK ALL

We are interested in the management of small and medium-sized businesses, and how the management approach affects business performance.

A1.   **Do you currently have any of the following in place?**

READ OUT, CODE ALL THAT APPLY

Awards performance related bonuses	1
Individual performance related pay	2
Flexible benefits	3
On or off job training	4
Training plan	5
Training budget	6
Annual performance review	7
Work shadowing/stretching/supervision	8
Formally assess performance after training	9
IIP	10
Holds ISO9000	11
Employee consultation / trade union	12
Creates teams to work on projects	13
Business plan	14
DO NOT READ OUT: None of the above	15
DO NOT READ OUT: Don't know	X

ASK ALL

A2.   **Are you familiar with the meaning of the term 'High Performance Work System'?**

Yes	1
No	2
DO NOT READ OUT: Don't Know	3

SAY TO ALL:

[IF A2=1 **Just to confirm,]High Performance Working Systems are a general approach to managing organisations that aim to stimulate more effective employee involvement and commitment in order to achieve high levels of performance. They are designed to enhance the discretionary effort employees put into their work, and to fully utilise the skills that they possess.**

ASK ALL

A3.   **Do you operate such an approach or system at this establishment?**

READ OUT, MULTI-CODE.

Yes, through the business	1	GO TO C1
Yes, in parts of the business	2	CONTINUE
Previously had such a system, but no longer is operation	3	GO TO B1
No	4	GO TO B1

IF IN PARTS OF THE BUSINESS (A3=2):

A4   **Which parts of the business operate such an approach or system?**

DO NOT READ OUT, CODE ALL THAT APPLY

Among certain levels of staff (WHICH?)	1
Among certain departments (WHICH?)	2

At certain locations (WHICH?)	3
Other (SPECIFY)	4
Don't know	X

B   Non-Adopters

IF A3=3,4 (NO SYSTEM OR APPROACH TO IMPROVE BUSINESS PERFORMANCE) – OTHERS SKIP TO SECTION C.

B1.   **Have you considered introducing a system of this sort?**

Yes	1
No	2

B2.   **Have you received advice, diagnostic help or information on practices relating to increased employee involvement, motivation, and autonomy??**

INTERVIEWER NOTE: **"Diagnostic help" is recommendations for improvements based on a review of your business processes and procedures.**

READ OUT, MULTICODE.

Yes - Advice	1	CONTINUE
Yes – Diagnostic help	2	CONTINUE
Yes - Information	3	CONTINUE
None of these	4	GO TO B6
DO NOT READ OUT: Don't know	X	GO TO B6

IF B2=1,2,3 (RECEIVED ADVICE ON EMPLOYEE RELATED SYSTEMS)

B3.   **From where did you receive this** [ANSWER FROM B2: **advice/diagnostics/ information**]**?**

DO NOT READ OUT, MULTI CODE.

Consultant	1
Trade or Business Association	2
Business Link (website or local services)	3
Local Authority / Enterprise agency	4
BIS / Other government	5
Other website (SPECIFY)	6
Other (SPECIFY	7
Don't know	X

B4. **Did the** [ANSWER FROM B2: **advice/diagnostics/information**] **received suggest you adopt a range of practices of this kind?**

PROMPT IF NECESSARY: **i.e. performance related pay, flexible benefits and employee consultation.**

Yes	1
No	2
Don't know	X

B5. **As a result of this** [ANSWER FROM B2: **advice/diagnostics/information**] **have you tended to use more or fewer of these practices over recent years?**

More	1
Fewer	2
No change	3
Don't know	X

IF A3=3,4 (NO SYSTEM OR APPROACH TO IMPROVE BUSINESS PERFORMANCE)

B6. **What were the reasons behind your decision not to adopt such a system or a greater number of practices of this kind?**

DO NOT READ OUT, MULTI CODE.

Advice indicated otherwise	1
Don't think it will yield sufficient business benefits	2
Current economic climate is too difficult	3
Too difficult to implement in a business like this	4
Haven't got time	5
Don't believe in this managerial approach	6
Other [PLEASE SPECIFY]	7
DO NOT READ OUT: Don't Know	X

B7. **Would any of the following persuade you to re-consider adopting a large number of such practices?**

READ OUT, MULTI CODE.

Successful example of adoption by similar businesses	1
Advice and support for its introduction	2
Financial support for its introduction	3
An economic upturn	4
Significant increase in our order volumes	5
Anything else? [PLEASE SPECIFY]	6
DO NOT READ OUT: Don't know	X

C   Adopters

IF A3=1,2 (INTRODUCED A SYSTEM OR APPROACH TO IMPROVE BUSINESS PERFORMANCE)

C1.   **Was this a system that...?** READ OUT

Evolved over time in your business	1
Was adopted as a package	2
DO NOT READ OUT: Don't know	X

C2.   **What were the principal driver(s) for introducing this system?**

READ OUT, MULTI CODE.

Need to improve performance/profitability	1
Management style/preference/ethos	2
Employee expectations/pressure	3
External influences/models in similar businesses	4
Other [PLEASE SPECIFY]	5
DO NOT READ OUT: Don't know	X

C3.   **Did you receive specific advice, diagnostic help or information on practices relating to increased employee involvement, motivation, and autonomy?**

INTERVIEWER NOTE: **"Diagnostic help" is recommendations for improvements based on a review of your business processes and procedures**

READ OUT, MULTICODE.

Yes - Advice	1	CONTINUE
Yes – Diagnostic help	2	CONTINUE
Yes - Information	3	CONTINUE
None of these	4	GO TO C8
DO NOT READ OUT: Don't know	X	GO TO C8

IF C3=1 (IF DID RECEIVE SPECIFIC INFORMATION OR ADVICE)

C4. **From where did you receive this** [ANSWER FROM C3: **advice/ diagnostics/information**]?

DO NOT READ OUT, MULTICODE

Consultant	1
Trade or Business Association	2
Business Link (website or local services)	3
Local Authority / Enterprise agency	4
BIS / Other government	5
Other website (SPECIFY)	6
Other (SPECIFY	7
Don't know	X

C5. **Did the** [ANSWER FROM C3: **advice/ diagnostics/information**] **suggest you adopt any practices relating to increased employee involvement, motivation, and autonomy?**

PROMPT IF NECESSARY: **e.g. performance related pay, flexible benefits and employee consultation.**

Yes	1
No	2
Don't know	X

C5A. **Could you briefly tell me what they suggested?**

WRITE IN VERBATIM

C6. **Did this** [ANSWER FROM C3: **advice/diagnostics/information**] **influence your actions?**

Yes – to a large extent	1	CONTINUE
Yes – to some extent	2	CONTINUE
No – not at all	3	GO TO C7
Don't know	X	GO TO C7

C6A. **What action did you take in response?**

PROBE FULLY.

WRITE IN VERBATIM

C7. **Since introducing these systems, have you seen any of the following improvements at your establishment, whether or not these were because of the introduction of the system?**

READ OUT, MULTICODE

Increased output	1	CONTINUE

Raised productivity	2	
Reduced costs	3	
Increased profitability	4	
Enhanced innovation	5	
Improved quality of service	6	
Other [PLEASE SPECIFY]	7	
DO NOT READ OUT: No changes seen	8	GO TO D1
DO NOT READ OUT: Too early to say	9	GO TO D1
DO NOT READ OUT: Don't know	X	GO TO D1

IF ANY IMPROVEMENTS SEEN (C7=1-7):

C8   **And to what extent if any do you attribute this improvement to the introduction of this system?**

	To a large extent	To some extent	Not at all	Don't know
Increased output	1	2	3	4
Raised productivity	1	2	3	4
Reduced costs	1	2	3	4
Increased profitability	1	2	3	4
Enhanced innovation	1	2	3	4
Improved quality of service	1	2	3	4
Other [PLEASE SPECIFY]	1	2	3	4

D HR practices and business aims

ASK ALL

D1.   **Have you ever had specialist training in the field of human resources?**

Yes	1
No	2

D2.   **Over the next two to three years, do you aim to grow your business?**

Yes	1
No	2
DO NOT READ OUT: Don't Know	3

IF D2=1 (THOSE WANTING BUSINESS TO GROW)

D2A.   **How do you aim to achieve your longer term growth plans?**

READ OUT, MULTICODE.

Increasing turnover by increasing market share in existing markets	1
Increasing turnover by exploiting new markets	2
Increasing the skills of the workforce	3
Increasing the leadership capability of managers	4
Reducing costs by increasing productivity of your workers	5
Developing new products	6
Doing something else [PLEASE SPECIFY]	7
Don't know [DO NOT READ OUT]	8

D2B. **And which of the following are motivations for you wanting to grow your business?**

READ OUT, MULTICODE.

To survive in the current marketplace	1
To increase the capital value of the business	2
To increase profits	3
To be better positioned to compete with larger businesses	4
For some other reason [PLEASE SPECIFY]	5
Don't know [DO NOT READ OUT]	6

ASK ALL

D3. **Does management in your company recognise any Trade Union?**

Yes	1	GO TO D4
No	2	GO TO D5
Don't know	X	GO TO D5

D3=1 (COMPANY MANAGEMENT RECOGNISES TRADE UNION)

D4. **Do you know approximately what percentage of employees are in a union?**

Yes [RECORD NUMBER 0-100]	1	CONTINUE
Don't know [DO NOT READ OUT]	2	CONTINUE

ASK ALL

D5. **How many years has this firm been trading? This includes under all ownerships and all legal statuses.**

PROBE FOR BEST ESTIMATE.

Less than one year	1
1 year	2
2 years	3
3 years	4
4 years	5
5 years	6
6 – 10 years	7
11 – 20 years	8
More than 20 years	9
Don't know [DO NOT READ OUT]	10

E Final questions

E1. **Thank you very much for taking the time to speak to us today. Occasionally it is necessary to call people back to clarify information; may we please call you back if required?**

REASSURE IF NECESSARY: **Your details will only be used by IFF Research to call you back regarding this particular study.**

Yes	1
No	2

E2. **As part of this study, the research team at Durham Business School will be conducting follow-up interviews with a selection of people who have taken part in the survey. This would be in the form of a face-to-face conversation, to take place at a location convenient to you, over the course of the next few weeks.**

May we have permission to pass your contact details and survey responses to Durham Business School for this purpose?

REASSURE IF NECESSARY: **Durham Business School operate to the same strict data protection procedures as IFF. Your data will be held in the strictest of confidence and will not be shared outside the research team unless you have given your explicit permission for this to happen**

Yes	1	[CONFIRM NAME, POSTCODE AND BEST NUMBER TO CALL ON]
No	2	

E3.   **It may be useful for the Department for Business Innovations and Skills (BIS) and the UK Commission for Employment and Skills (UKCES) to connect your responses to this survey to other publicly available information. Your survey responses would remain completely confidential. Would you be willing for your survey responses to be used in this way?**

Yes	1
No	2

Appendix 2 Interview Questionnaire - adopters

1. Basic firmographics and strategic management

Q1.1. General <u>information</u> about the business

Sector, market, size, age etc. Potted history of company. Details of interviewee – past experience, role in the company etc. Details about market and overall strategic directions – are they high quality? Innovative? Exporters?

Q1.2 Who <u>makes decisions</u> about business strategy and practices?

<u>Individuals</u>: *At what level in organization? What stake and responsibility for the outcomes? Expertise?*

and/or

<u>Groups</u>: *Diversity and length of membership? Cohesion? Expertise? Peers?*

Are decision makers responsible for their decisions for a long time or do responsibilities change rapidly?
How invested are decision makers in their past decisions?

Who are decision makers answerable to?

Q1.3 Where would you position your organization in terms of:

(a) <u>conservatism</u> (tendency not to change practices)

(b) <u>risk-taking</u> (are they generally cautious or adventurous in business strategy)

(c) <u>expertise</u> (as an organization they have little/much to learn about their business from others)

Q1.4 Run through the list of HPWPs from our survey – confirm that these are undertaken

Divide the HPWs into a number of categories:

1. Those which have and which are fully embedded
2. Those which are embedding
3. Those which are thinking about
4. Those not on the radar

5. Those which once had but are no longer in use

Q1.5 Do you do anything else in the same sort of area which is not on our list?

Q1.6 [*Check response from phone survey and phrase question appropriately*] **Do you think that these [practices] constitute a coherent system?**

2. Awareness/investigation

This section covers all the points we need, but the exact questions and the order in which they're asked depends on the interviewee – the bold questions are essentially headings we can use to collate the information from discussing the how, why and who of implementation as fully as possible.

Q2.1 How did you come to <u>adopt</u> [these practices/this system]?

What was the initial <u>motivation</u>? Where did the initial idea come from?

Did you just fall into using them?

Ask about (some/all of) the following drivers:

- *Internal knowledge (e.g. from managers existing knowledge, possibly from previous job?; employees; HR function – possibly derived from CPD?)*
- *Change in management team, strategic direction etc.*
- *Clients, suppliers etc.*
- *Stakeholders (directors/shareholders)*
- *Networking/mentoring with other businesses*
- *Private sector advice/consultancy etc. (including suggestions from accountants etc)*
- *Public sector advice and support (advice, course, the result of a more in-depth programme e.g. recommended by CfHG or MAS?)*
- *Online (which websites? Forums?)*
- *Case studies in media (e.g. Sunday Times list)*
- *Competitors – e.g. did they learn from/were inspired by a more successful business in the same market? Or another market?*

Distinguish between initial prompt/driver of <u>awareness</u> and sources used for subsequent in-depth <u>investigation</u>, <u>advice</u> and <u>support</u>.

Q2.2 Where did you <u>look for or obtain information</u> about this practice?

Same list of sources as above

Probe for whether or not information was available about '<u>bundles</u>' or '<u>systems</u>', or if the advice was centred around <u>individual</u> HPWs. If there was information about *systems*, where was it found, and which HPWs did it cover?

Did they come to the practices from <u>another paradigm</u> or type of system? Eg workplace innovation, Kaizen, Business Excellence? How does this system interact with our list of HPWs? Are the two approaches compatible?

Do you keep an eye on what competitors are doing in people management terms? If so how do you find out?

Are these practices used in your sector generally?

Q2.3 Did you seek or receive any <u>advice or support </u>beyond simple information e.g. about design or implementation of practices at this stage?
Was the information purely <u>factual</u>, or did you, at this early stage, seek out more information about <u>how to go about implementing</u> it in their business?

Was that sort of knowledge already in the business – e.g. from manager's previous experience? Or was the implementation all about new learning? What have you brought with you to this organisation in terms of prior skills and knowledge?

Q2.4 Did you undertake a strategic analysis (e.g. a SWOC analysis) to decide on implementation?

What was the strategic thinking behind the introduction? How do HPWPs fit in with the business plan?

To what extent are formal decision aids (and forecasting methods) used in the business more generally?
e.g. SMART, decision trees, scenario planning, statistical forecast methods

Do you collect any management information (or similar) on a regular basis? If so, what sort of data, and what is the quality of the data?

How much [extra] data is generally collected before an important decision is made? What sort of extra data did you collect for the HPW decision?

Is timely and reliable feedback received about the quality of decisions made?

Is there a periodic analysis of HR practices, benefits, impacts etc, to determine if HPWPs are needed and effective?

What do you read or hear about in terms of people management? What external sources of information, advice or support influence your people management practices?

What has impressed you recently in the area of people management?

3. Implementation

Q3.1 How was the system (or practices individually) <u>implemented</u>?

This is asking about the <u>initial</u> implementation of (some/all of the) HPWPs, not how they developed.

Was there an '<u>off-the-shelf</u>' solution implemented by your business or an outside consultant?

If not, did you use a standard package but modify it? In what ways was the policy/practice modified for your organisation?   Where did the information to modify it come from? – Internal/External? Who made the modifications and wrote the guidelines etc.

How much work was involved?

Are there '<u>mini-bundles</u>' of HPWs where it makes sense to implement them together?

Which <u>external organisations</u> were involved in the initial process of implementaiton?

What was <u>missing</u> that would have been helpful?

If relevant, for policies being <u>thought about</u>:
Why is this being considered?
What are the drivers either internal or external?
Why were they not introduced earlier?
Were they suggested by consultants?
Are they the more complicated HPWs?

Q3.2 What was the <u>timetable</u> for introducing it?

<u>*When*</u> was it introduced? Is introduction still ongoing?

Was it all <u>evolutionary/organic</u>? Was it staged? Was there a pilot stage?

Did it *have* to be staged – i.e. business could not introduce everything in one go – if not, why not?

How could the timetable have been accelerated – what support would be needed to accomplish this?

Q3.3 What were the <u>barriers</u> to introduction?

What were the challenges of implementation?

How supportive were the <u>staff</u>? Was there resistance or scepticism?

How supportive was the <u>union</u> (if relevant)? Were they a barrier or a driver?

Did implementing (all/some) HPWPs take you out of your comfort zone? Is devolving some responsibility to workers intimidating or empowering?

Could it only be introduced in a period of growth for the business, or was it introduced as a way to make efficiency savings?

How much did implementation <u>cost</u> (direct and opportunity costs etc)? Was this acceptable?

Did the introduction of particular HPWPs pose more of a problem than others? If so, which ones and why?

How could external support have helped?

Q3.4 <u>Who</u> was involved? Who were the <u>drivers</u>? *[refer back to answers on strategic management in Section 1, and relate to HPWPs specifically]*

Internally: role of <u>employees</u> and <u>management</u>?

External stakeholders: <u>directors</u> and <u>shareholders</u>?

Business support <u>agencies</u> and <u>consultants</u>?

Did any practices have to be externally ratified or audited (e.g. ISO, IIP)?

Was there any other external audit body involved on a non-mandatory basis?

> *If HR not mentioned so far, and there is a separate HR function:*
> What role has HR played?
> How has CPD helped?
> What sort of external support is used by HR?
> Is the HR manager part of specific networks?
>
> *If no separate HR function:*
> What sort of HR training is accessed by management?
> Do you have sufficient HR skills to implement HPWs?

Q3.5 How did [the system/things] <u>develop</u> over time?

What <u>lessons</u> did you learn from the early stages of implementation?

What <u>changes</u> have been made to the policy/practice over time? If none why was this? Did significant revisions have to be made?

How well <u>embedded</u> are the policies now? Is the policy still embedding? If so, why?

How does the HPW system relate to other practices?

Would some sort of <u>diagnostic/flowchart</u> help the implementation of multiple policies?

Which are the most <u>important</u> policies – the ones which should be implemented first, or need to be in place for the others to work effectively?

How *meaningful* is the implementation of the processes? Is it only superficial and paying lip service, or has it brought about real change and improvements? Have the workforce bought into the processes? Are they normalised?

How could business support help this process?

Q3.4 What is the coverage of the practices within the business?

Who in the business is covered by the policy/practice – if not everyone check out why this is?

Do different HPWs apply to different groups?

If multi-site, how do HPWs differ by site?

Are some HPWPS seen as <u>manufacturing</u> or <u>services</u> only, and therefore not applicable?

Are some seen as only for <u>large</u> businesses and therefore not applicable?

Is more information about <u>segmented</u> implementation required?

4. Evaluation

Q4.1 Do you undertake regular <u>evaluation</u>, <u>audits</u> or similar?

Q4.2 What has the <u>impact</u> of HPWPs been?

How do HPWPs work? What are the processes by which they impact on the bottom line?

Impact on individuals?

- skill enhancements
- improved productivity
- better morale
- more input into the business
- others

Impact on the organisation?

- improvements in bottom line (productivity, turnover, profits)
- improved recruitment and retention
- better relationship with clients and suppliers
- winning new contracts
- change in strategy (e.g. more innovation, more emphasis n exports)
- greater stability (of cashflow etc)
- survival
- others

What has been the greatest impact? And where did this derive from?

What lessons have you learned from working with HPWPs?

Have the HPWPs been normalised? Could they still continue without key people in post?

Are they still contentious among the workforce? Is there a high degree of buy-in? What sort of evidence is there for this?

Are HPWPs just being undertaken for the sake of it – to fulfil requirements of clients, regulations etc?

If you could do it all again, what would you do differently? If you started a new similar business, knowing what you know now, would you still implement the same practices in the same way?

Q4.3 Is there a need for continuing support?

To keep managers updated with new developments? To perform outside evaluations/diagnostics?

Do you evaluate the impact of your HR practices in any way?

What support has been really useful/the most useful?

Specifically: what about MAS, KTP or CfHG? Do you know about these?

[If not, describe them, and gauge interest.]

5. Policy

5.1 What has been the overall role of publicly funded support? *[if not already covered elsewhere]*

What public support has been received? Which agencies?

If none: why not? None available? Poor quality? Too expensive?

How did you investigate or hear about the support on offer?

Have you noticed any changes in public support provision in this area over the past few years? Do you keep up to date with changes in support?

If public support used:

Was this sourced by yourself, or offered more proactively?

When was it used?

What sort of support was received? Signposting, information, more intensive support?

Did they receive recommendations for development etc.? Were they implemented?

What was missing? What was the public support not able to provide?

What did public support do well?

What was the impact of public support? – more effective implementation? Faster implementation? Signposting to consultants/sources of advice which could help?

Could the transition to HPWs have been achieved without public support? Would it have been less effective? Slower?

Ask all:

How could support in this area be improved?

Appendix 3   Interview Questionnaire – non-adopters

1. Basic firmographics and strategic management

Q1.1. General <u>information</u> about the business

Sector, market, size, age etc. Potted history of company. Details of interviewee – past experience, role in the company etc. Details about market and overall strategic directions – are they high quality? Innovative? Exporters?

Q1.2 Who <u>makes decisions </u>about business strategy and practices?

<u>Individuals</u>: *At what level in organization? What stake and responsibility for the outcomes? Expertise?*

and/or

<u>Groups</u>: *Diversity and length of membership? Cohesion? Expertise? Peers?*

Are decision makers responsible for their decisions for a long time or do responsibilities change rapidly?
How invested are decision makers in their past decisions?

Who are decision makers answerable to?

Q1.3 Where would you position your organization in terms of:

(a) <u>conservatism</u> (tendency not to change practices)

(b) <u>risk-taking </u>(are they generally cautious or adventurous in business strategy)

(c) <u>expertise</u> (as an organization they have little/much to learn about their business from others)

Q1.4 Run through the list of HPWPs from our survey – confirm that these are undertaken

Divide the HPWs into a number of categories:

1. Those which have and which are fully embedded
2. Those which are embedding
3. Those which are thinking about
4. Those not on the radar

5. Those which once had but are no longer in use

QNA1 Run through the practices (grouped into thematic areas) and probe for reasons why not adopted e.g.

- Too expensive
- Not right for the business
- Not the right time
- Workers would not support it
- Board would not support it
- Not relevant
- Clients do not require it
- Other

QNA2 Probe for extent of knowledge about each HPWP:
Have they researched it? Are there misperceptions and biases in their answers? Challenge them about the HPWPs and the benefits they can bring?

QNA4 Probe for what help could have been supplied in order to overcome any barriers identified, and support received in general.

Have you ever had a diagnostic or support from consultant to develop their business? Did they recommend HPWPs? If so, why did you not implement them?

What sort of support do you use in general? And for HR specifically?

What do you read or hear about in terms of people management? What external sources of information, advice or support influence your people management practices? Is the HR manager part of specific networks? What has impressed you recently in the area of people management?

What sort of HR training is accessed?

Do you think you would have sufficient HR skills to implement HPWs?

QNA3 Strategic management

To what extent are formal decision aids (and forecasting methods) used in the business? e.g. SMART, decision trees, scenario planning, statistical forecast methods.   Do you collect any management information (or similar) on a regular basis? If so, what sort of data, and what is the quality of the data? How much [extra] data is generally collected before an important decision is made? Did you undertake a strategic analysis of whether or not to implement any if the HPWPs? What sort of extra data did you collect for this?

QNA5 Do you evaluate the impact of your HR practices in any way?

Is timely and reliable feedback received about the quality of decisions made? Is there a periodic analysis of HR practices, benefits, impacts etc, to determine if HPWPs are needed and effective?

[if relevant] **QNA6 Where did you <u>look for or obtain information</u> about HPWPs?**

Probe for whether or not information was available about 'bundles' or 'systems', or if the advice was centred around individual HPWs. If there was information about *systems*, where was it found, and which HPWs did it cover?

QNA7 Experience and knowledge of high performance working more generally

Do you use another paradigm or type of system? Eg workplace innovation, Kaizen, Business Excellence? How does this system interact with our list of HPWs? Are the two approaches compatible?

Do you keep an eye on what competitors are doing in people management terms? If so how do you find out?

Are these practices used in your sector generally?

QNA8 What has been the overall role of publicly funded support? *[if not already covered elsewhere]*

What public support has been received? Which agencies?

    If none: why not? None available? Poor quality? Too expensive?

How did you investigate or hear about the support on offer?

Have you noticed any changes in public support provision in this area over the past few years? Do you keep up to date with changes in support?

If public support used:

Was this sourced by yourself, or offered more proactively?

When was it used?

What sort of support was received? Signposting, information, more intensive support?

Did they receive recommendations for development etc.? Were they implemented?

What was missing? What was the public support not able to provide?

What did public support do well?

What was the impact of public support? – more effective implementation? Faster implementation? Signposting to consultants/sources of advice which could help?

Could the transition to HPWs have been achieved without public support? Would it have been less effective? Slower?

How could support in this area be improved?

Appendix 4   Technical Appendix

This section includes further details of the statistical analysis summarised in Section 4.5.4.

Analysis of telephone survey

Given the biased sampling (favouring companies that had adopted some HPWPs), a multiple regression was conducted with number of HPWPs as the dependent variable, rather than a discriminant analysis with adopters vs. non-adopters as the criterion. The number of HPWPs is approximately normal so assumptions of MR are satisfied in this respect.

23 predictor variables were prepared from the survey and associated UKCESS data. Only variables that applied to all 500 companies surveyed were included, any with more than 10 per cent missing values were excluded (including 'don't know' responses as missing unless they could reasonably be interpreted as a null response e.g. for 'do you have a business plan' 'don't know' was coded as 'no). Most of the predictors are dichotomous, some are banded where they would be better continuous (but the data was not available). Some would be better as proportions of company size (e.g. number of vacancies) but again data was not available. Finally, dummy variables were not used to code multi-category variables (e.g. region or sector) as this would have increased the number of predictors considerably (leading to potential 'overfitting'). The variables used were as follows:

C1   Number of HPWPs - this is the main DV
C2   HPWP systems (1 All bus. 2 Part 3 Past 4 No)
C3   HR primary function of respondent (Y/N)
C4   Number of employees (4 bands)
C5   Specialist training in HR (Y/N)
C6   Intend to grow business (Y/N)
C7   Trade Union recognized (Y/N)
C8   Years trading (9 bands)
C9   Difficulty in retaining staff (Y/N)
C10   Number of vacancies
C11   Skills gap (Y/N)
C12   Number of staff overqualified
C13   Training plan (Y/N)
C14   Training budget (Y/N)
C15   People Standard accreditation (Y/N)
C16   Level of customization (1- 3)
C17   Depend on price (1-5)
C18   Innovation (1-5)
C19   Premium quality (1-5)
C20   Business plan (Y/N)
C21   Pay and incentive schemes (Y/N)
C22   Proportion of staff having formal job description
C23   Proportion of staff having annual performance review

C24   Employees given information about financial position of co. (Y/N)

There is little colinearity between predictors (highest is approximately r =0.5) and the highest correlations with number of HPWPs are as follows (Pearson correlation coefficients): PropAR.0.63; Tbudget 0.56; Tplan .54; Plan 0.51; HPWPS 0.45; PayInc 0.36; PSacc 0.34; Innov 0.31; Size 0.31; FinInfo 0.31. Note that all the signs were in the predicted direction. Further, due to the fairly high sample size (n = 428) even fairly small correlations will be significant – r > 0.3 is used as a cut-off.

A 'best-subsets' procedure was used to identify the best models for each number of predictors then simplicity of model was traded off against variance accounted for, so that each additional predictor should increase the adjusted R-squared value by at least 2 per cent. This yielded a 5 predictor model (HPWPS, TU, Tbudget, Plan and PropAR) accounting for 58.5 per cent of the variance in NumHPWP (maximum adjusted R-squared using all 23 predictors is 62.1 per cent).

It could be argued that HPWPS should not be included as a predictor since it is partially derived from the DV (although as we have seen the 2 are only correlated 0.45). This was removed and another best-subsets analysis was undertake, leading to an adjusted R-squared of 51 per cent with only 3 predictors (Tbudget, Plan and PropAR) – this increases to 53 per cent if TU is added, and 55 per cent if FinInfo is added (maximum with 22 predictors is 59.6 per cent).

A separate analysis with HPWPS as the dependent was undertaken. This was much less well predicted with an adjusted R-squared of only 18.8 per cent with 22 predictors) – this is probably attributable to the fact that the DV has only 4 levels and cases are not even approximately normally distributed over these levels. A different sort of analysis should ideally be used e.g. Discriminant Analysis, as mentioned above, however, as we shall see shortly, we get a surprisingly good model for predicting HPWPS from the data derived from the in-depth interviews. The best best-subsets analysis yielded a model using 4 predictors (HRspec, Innov, PayInc and PropJD) with an adjusted R-squared of 17.5 per cent.

Interview data

This analysis makes use of data obtained from the in-depth interviews, coded into appropriate variables. These were:

C2   Company age in years
C3   Sector (13 categories)
C4   Company type (Ltd. or other)
C5   Number of employees
C6   Number of HPWP's – main DV (negative skew)
C7   HPWP systems (1 No 2 Past 3 System 4 Yes)
C9   Operations autonomy (1 low to 3 high)
C10   Operations hierarchy (1 vertical 2 horizontal)
C11   Positioning w.r.t. risk/entrepren./growth (1 low to 3 high)
C12   Consultation (0 non-inclusive, 1 inclusive)
C13   Management experience (1 low to 4 very high)
C14   Responsibility (0 other, 1 self)
C15   Decision aids (1 none to 5 extensive)

C16   Data collection (1 none to 6 very high)
C17   Individual data (1 none to 4 high)

There was no missing data so there were 38 observations for each variable. In this case the main dependent variable, NumHPWP was negatively skewed, probably as a result of biased sampling. This skew was not particularly severe so the data was not transformed. There were consequently 13 predictors for NumHPWP.

The correlation matrix was first examined. Again no substantial colinearity was found, although there were two correlations between predictors above 0.5: HPWPS was correlated 0.67 with OpsA (discussed further below) and Size 0.58 with OpsH. Four of the predictors were significantly correlated with NumHPWP: OpsA 0.52; Posn 0.40; HPWPS 0.37; IndData 0.32 – signs were all as expected. A best-subsets analysis gave 3 predictors of NumHPWP (Size, OpsA, Posn) with an adjusted R-squared of 30.8 per cent - the maximum obtainable with all 13 predictors was only 9.4 per cent (although 41.2 per cent unadjusted).

For the analysis of HPWPS the result is better than above, largely due to the strong correlation with OpsA mentioned above. The best-subsets regression accounts for just over 50 per cent of the variance (adjusted R-squared = 50.5 per cent) with only 4 predictors (OpsA, Posn, Respon and DAids). In fact, just using 2 predictors (OpsA and DAids) produces nearly as good an adjusted R-squared, of 47.5 per cent.

Appendix 5   Bibliography

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