People Management Benchmark

The impact of investing in people

“You can outperform in your own industry, against your peers, or against the benchmark on a world stage.”

Sir Dave Brailsford, Team Principal,
Team Sky Former Performance Director,
Great Britain Cycling Team

The impact of investing in people

Does achieving excellence in people management actually make a difference to efficiency or performance?

This briefing investigates the relative impact of focusing on various people management techniques. The results highlight the potential performance gains associated with specific approaches. Read this briefing to calculate the potential return on investment in people.

Who should read this briefing?

Senior leaders looking to drive performance through improved people management, decision makers, finance and HR professionals. This research briefing would be of interest to anyone looking to:

- Understand which management techniques are most likely to deliver performance results
- Provide focus for management efforts on key areas that are most likely to yield gains
- Estimate and quantify the potential gains of investing in people

Methodology

Performance data, management information and UK economy reports from the Office for National Statistics (ONS) have been combined to identify key drivers of performance for UK businesses and the value to the economy.

- The underlying research focused on measuring efficiency as a predicator of performance outcomes.[1]
- Using the responses to survey questions across a large sample of business decision makers, statistical analysis[2] was undertaken to discover whether there is a link between efficiency and various management approaches.
- The management approaches are not in themselves the stimulants of greater efficiency or performance. It is the greater focus on performance and the establishment of the more formal business processes and practices that lead to the gains.

The three main data sources used are:

People Management Benchmark

In September 2015, Investors in People began reporting live management data, to enable the tracking and comparison of performance of different industries, against a common set of people management metrics. Data is gathered from mainly UK businesses against a common framework set out in the international Standard for people management. Explore the live public data source via **www.investorsinpeople.com/dashboard**

Economic data

Secondary data on efficiency within the UK economy, including ONS economic output reports (represented by approximate Gross Value Added – GVA), was used to underpin estimates of the value of any gaps in business efficiency explained by attitudes and behaviours towards the key factors highlighted within the report. **www.ons.gov.uk**

Performance data

A sample of 750 business decision maker perspectives (collected July 2015) on efficiency, alongside attitudes, behaviours and presence of various people management approaches, was used to correlate identified practices with performance outcomes.

About the study

This briefing is based on a joint Investors in People and TBR study titled 'Investors in People – Efficiency Gap Analysis'. The research and analysis was prepared by TBR's Economic Research Team. In this study 'performance' is defined as the efficiency levels at which an organisation or sector is performing. It was decided that output (measured as GVA) should be employed as the key measure of that efficiency. As efficiency improves, output should also improve when compared to the level of resources employed (inputs).

1 GVA or Gross Value Added measures from the ONS were used to extrapolate financial values from efficiency improvements
2 Ordinal logistic regressions

Poor people management hits the UK economy hard

Key finding: The Investors in People study reveals that the average UK firm is lagging behind those demonstrating excellence in people management.

- In total poor management is costing the UK economy in terms of reduced efficiency and performance.
- This translates into a loss to the economy of £84bn.
- If all UK businesses mirrored the approach of best performing businesses in the adoption of improved people management, the UK economy could benefit from an efficiency gain of £77bn.

Understanding different management approaches

This study tested a set of ten management principles. The factors tested were common to high performing firms and reflect current trends in human resources and professional management. Does a focus on these principles make a difference to performance?

These identified approaches are based on extensive consultation with over 1000 businesses.[3] Through this study, the presence of each of the following people management principles were tested for correlation with improved efficiency outcomes. Respondents also had the option to specify a management approaches and techniques not listed.

People Management Principles:

Empowering people
A focus on creating a culture of trust and ownership within an organisation to enable people to feel empowered to make decisions and act on them.

Developing strong and inspiring leaders
Organisational focus on building leadership capability throughout the organisation. The result being a culture of motivation and commitment driven by individuals with the skills to lead others.

Having a clear set of strong values
The presence of clear values that are understood and embedded in the day to day work of employees.

Individual performance is well managed
An organisational focus on setting stretching objectives and people are encouraged to regularly measure and assess performance as part of the day to day running.

Recognising and rewarding performance
A reward and recognition strategy provides both reward in the form of formal compensation and benefit arrangements (financial and non-financial) against performance. Acknowledging and appreciating people's specific achievements is part of the day to day running.

The ability to compare performance to competitors'
Management are able to benchmark and measure the performance of various practices, processes and outcomes to competitors or 'best in class' organisations.

The structure of work
This refers to how a business is structured to deliver the organisation's ambition. Where there is a focus on this factor, roles are well designed to deliver organisational objectives and create interesting work for people, while encouraging collaborative ways of working.

A focus on building future capability
This factor explores how an organisation seeks to build people's capabilities by understanding people's potential, supporting learning and development and deploying the right people at the right time.

A culture of continuous improvement
A focus on building a culture of continuous improvement by encouraging employees to use internal and external sources to come up with new ideas and approaches. This factor is associated with higher risk appetite.

Adoption of sustainable practices
The extent to which there is a focus on the future and practices are developed to respond to change. Leaders are expected to have a clear understanding of the external environment and the impact this has on the organisation resulting in constant adaptation.

3 The Standard, Investors in People, 2015. www.investorsinpeople.com

Does a focus on excellence in people management actually make a difference?

Using data from the performance survey, where respondents were asked to rate the level of efficiency within their organisation, a statistical analysis[4] was undertaken to examine any links with the key management factors identified above. The analysis found that **six factors** were statistically significant in explaining improvements in efficiency and performance.

Table 1: Management factors influencing efficiency differentials

Performance management factor	p	Correlation
Strong and inspiring leaders	0.032*	Positive
Having a set of strong values	<0.001*	Positive
Recognising and rewarding performance	0.002*	Positive
Structuring work	0.026*	Positive in large & medium sized organisations
Delivering continuous improvement	0.016*	Positive
Adoption of sustainable practices	0.005*	Positive

Source: TBR analysis of IIP survey data NB – green shading represents positive statistical relationships.
*indicates statistical significance $p<0.05$

4 Using the responses to survey questions across a large sample of business decision makers, statistical analysis (ordinal logistic regressions) was undertaken to discover whether there is a link between efficiency and various management factors.

Do these firms outperform industry averages?

Firms that had a focus on 3 or more of these principles saw an overall efficiency premium compared to the UK average firm. There was, on average, a 108% efficiency premium, achieved by firms that placed importance on these factors:

Table 2: Estimating the efficiency gain from adopting 3 or more approaches

	Small firms	Medium firms	Large firms	UK economy
Average efficiency rate of firms adopting approaches	73%	72%	74%	73%
Average efficiency rate of firms not adopting approaches	63%	60%	64%	62%
Weighted average efficiency rate for all firms	67%	65%	69%	67%
Potential efficiency gain %[5]	109%	111%	107%	108%
Potential efficiency (output) gain £	£33bn	£18bn	£32bn	£84bn

Source: TBR analysis of IIP surveys and ONS GVA (output) data (TBR Ref: S5)

Key findings:

- There is direct statistical correlation between the focus on certain people management principles and improved efficiency, and therefore performance. There is an 108% Outperformance efficiency premium for firms that adopt 3 or more techniques.
- Firms displaying at least three of the management principles identified are operating at higher levels of efficiency than firms displaying fewer of those behaviours.
- If all UK firms adopted improved approaches to people management, there would be an overall gain to the economy.
- When converted into monetary terms, this means that UK businesses are missing out on £84bn in efficiency improvements through poor HR and people management practices.

5 Note that the efficiency gap is calculated as the percentage difference between the efficiency rate of best practice firms and the efficiency rate of the weighted average of all firms. It is not sufficient simply to subtract one from the other as we are estimating the uplift across a large population.

Which management principles contribute the most to performance?

Our study found that different management approaches yielded different results. Table 3 shows a ranking by size and the relative importance of each factor. Statistically, these factors should be considered to offer the greatest performance opportunity by organisations falling into the different size bands.

Table 3: Ranked efficiency gain (%) by factor

Factor	Small firms	Medium firms	Large firms
Strong and inspiring leaders	(2) 109%	(4) 103%	(4) 100%
Having a set of strong values	(3) 108%	(3=) 104%	(2=) 105%
Recognising and rewarding performance	(1) 110%	(2=) 105%	(3=) 104%
Structuring work	(6) 95%	(3=) 104%	(2=) 105%
Delivering continuous improvement	(4) 104%	(2=) 105%	(3=) 104%
Adoption of sustainable practices	(5) 102%	(1) 116%	(1) 109%

Source: TBR analysis of IIP surveys and ONS GVA (output) data (TBR Ref: S5)

Key findings:

- For small firms, a focus on recognising and rewarding performance offers the opportunity to generate the greatest efficiency improvements (110% efficiency gain), followed by developing strong and inspiring leaders (109 %).
- For both medium and large firms, adoption of sustainable approaches presents the greatest opportunity for improving efficiency (116% and 109% respectively).

What is the financial impact of poor management?

What's the value of closing these gaps in performance? By combining UK economic data from the Office for National Statistics we were able to estimate the efficiency gain from adoption of various management approaches.

Table 4: Efficiency gap (£bn) by factor

Factor	Small firms	Medium firms	Large firms	Total
Strong and inspiring leaders	34	5	0	39
Having a set of strong values	29	7	21	57
Recognising and rewarding performance	38	8	17	62
Structuring work	-19	8	23	12
Delivering continuous improvement	13	9	19	42
Adoption of sustainable practices	8	27	42	77

Source: TBR analysis of IIP surveys and ONS GVA (output) data (TBR Ref: S5)
Note that the effects arising from improving multiple factors will be cumulative but they are not additive. In other words, it cannot be assumed that addressing two factors would generate efficiency gains equivalent to the sum of each factor.

Key findings:

- For small firms, recognising and rewarding performance offers an efficiency improvement opportunity worth £38bn whilst developing strong and inspiring leaders could improve efficiency by £34bn.
- Medium sized firms could benefit by around £27bn if firms were better at the 'adoption of sustainable practices'. Large firms could generate efficiency improvements of £42bn if this they were better from the adoption of sustainable practices.
- If all firms mirrored the attitudes and behaviours of the best performing firms with respect to the "adoption of sustainable practices", then the UK economy could benefit by up to £77bn in efficiency gains.

How do the potential management efficiency gains vary by industry?

Further analysis of the underlying data allowed us to examine and estimate the scale of efficiency gaps by key industry. As shown in Table 5, the efficiency gain does vary significantly from one sector to another.

Those sectors that could achieve the highest percentage efficiency gain:

- Health and Social Care (8.9%)
- Wholesale and Retail (8.7%)
- Construction (8.6%)
- Accommodation, Food and Leisure (8.6%).

Table 5: Sectoral efficiency gains

Sector Group	Output (£bn)	Efficiency Gain (£bn)	% of Total Efficiency Gain	% Sector Efficiency Gain
Accommodation, Food and Leisure	74	6.3	8%	8.6%
Construction	74	6.4	8%	8.6%
Education and Government	15	1.2	1%	8.0%
Health and Social Care	27	2.4	3%	8.9%
Manufacturing	148	12.6	15%	8.5%
Other industries[6]	139	11.3	13%	8.1%
Professional, Business and Financial Services	366	29.9	36%	8.2%
Wholesale and Retail	158	13.7	16%	8.7%
Total	1,001	83.8	100%	8.4%

Source: TBR analysis of IiP surveys and ONS GVA (output) data (TBR Ref: S6)

Key findings:

- Professional, Business and Financial Services could benefit from efficiency gains of £30bn through improving people management approaches.
- Wholesale and Retail is missing out on efficiency gains of £14bn.
- Manufacturing could achieve efficiency gains of £13bn.
- Construction and Accommodation, Food and Leisure could each achieve efficiency gains of £6bn.

6 'Other industries' includes agriculture, energy & mining and transport & storage. This sector has been created to ensure a sufficient sample size.

Which management principles offer the greatest financial return by industry?

Depending on the industry, certain factors will deliver greater impact on business performance. What's driving performance?

Our analysis has also explored efficiency gaps driven by performance of the key management factors[7] across sectors. The aim is to identify the factors which matter most for each sector in terms of the scale of efficiency gain.[8]

Key findings:

- Developing strong and inspiring leaders generates the greatest efficiency gap in Construction (where the scalar effect of addressing this issue is 107%) and Education and Government (105%).
- Having a strong set of values has the greatest efficiency impact in other industries (116%), and Manufacturing (109%).
- Recognising and rewarding performance could have the greatest impact on efficiency in manufacturing (115%), Accommodation, Food and Leisure (109%) and Wholesale and Retail (109%).
- Structuring work is an issue most affecting Health and Social Care (121%), Manufacturing (115%) and Accommodation, Food and Leisure (108%).
- Delivering continuous improvement is a priority development area for other industries (111%), Health and Social Care (110%), Wholesale and Retail (109%) and Accommodation, Food and Leisure (109%).
- Adoption of sustainable practices represents a major opportunity for Accommodation, Food and Leisure (121%), other industries (118%) and Health and Social Care (114%).

7 These are the management factors outlined on page 4. They are commonly adopted by high performing firms, and reflective of 'best practice' people management techniques.

8 This is expressed as a percentage of the current efficiency level - that could be achieved if all firms valued each factor in the same way that 'best practice' firms do.

Learn from the approaches driving the best

Find out what's behind the performance of the very best organisations and unlock the potential in your own workforce by working towards the world recognised Investors in People Standard.

With 14,000 accredited organisations across the 75 countries; being an Investor in People is the mark of excellence. By focusing on the most important people management factors, IIP accredited businesses are more likely to be achieving improved efficiency and performance, compared to the average UK firm.

How does your business compare to the Investors in People Standard?

2015 sees the launch of the first real-time UK management benchmark.

Explore the Investors in People Management Dashboard to:

- **Access** live industry level management benchmarks around factors driving performance
- **Find** common management strengths and weaknesses across sectors
- **Download** your personal self-assessment report and benchmark against the Standard

Explore more at **www.investorsinpeople.com/dashboard**

> "For the first time, anyone can access a unique set of common metrics, showing the management performance of workplaces across the UK. It's a simple way to see how well employers are leading and supporting their people"

Paul Devoy
Head of Investors in People

About Investors in People

Investors in People is the standard for people management. The Standard reflects the very latest workplace trends, essential skills and effective structures required to outperform in any industry. It is constantly updated and reviewed by world leading academics, practitioners and industry experts.

Investors in People accreditation levels

INVESTORS IN PEOPLE | Accredited

INVESTORS IN PEOPLE | Gold

INVESTORS IN PEOPLE | Silver

INVESTORS IN PEOPLE | Platinum

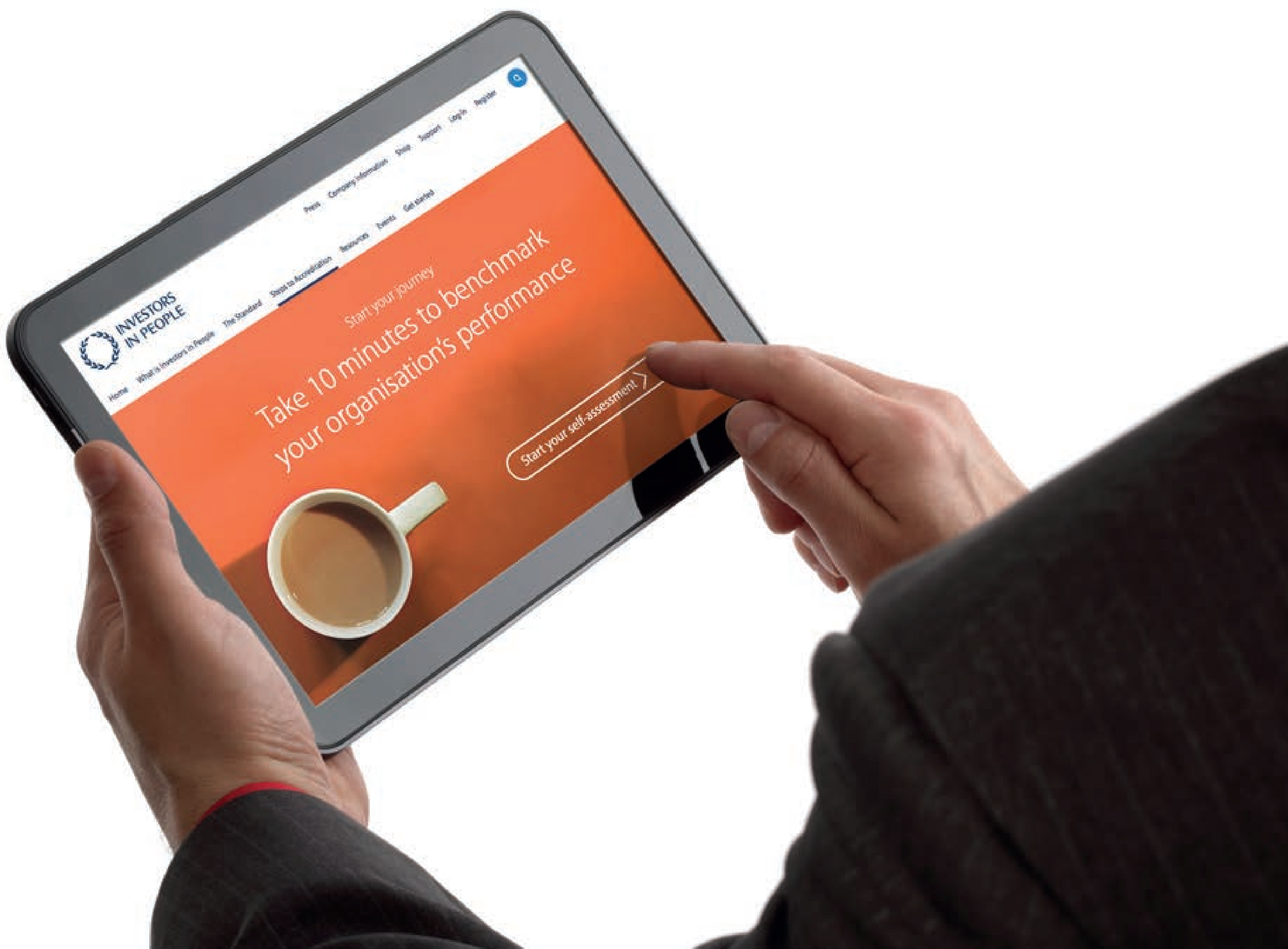
Start your journey

Take a dry run. Start a self-assessment online today and measure your performance against the standard for people management.

Self-assessment – compare your performance and identify how close you are to meeting the Investors in People Standard

Tools and resources – access information on what it takes to be an Investor in People

Attend events – join a workshop to better understand the benefits for your organisation



> “So what do the outperformers all have in common? It’s simple really. They all believe that it’s people that make the difference.”

Paul Devoy, Head of Investors in People

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