



HRM practices and establishment performance: an analysis using the European Company Survey 2009

Executive summary

Introduction

The way an enterprise is managed has been proven to impact on the performance of companies. It is generally assumed that less rigid forms of work organisation are required to cope with more dynamic market conditions and product developments. To a greater extent than before they are intended to accommodate the requirements of a more knowledge-intensive and learning workforce. These practices have been introduced primarily to improve performance and thus mirror the move from personnel to human resource management.

More recently, they have been closely related to the concept of high performance workplaces and the use of innovative workplace practices, often abbreviated as HRM (human resource management) policies, have been researched since the beginning of the 1990s. These multidimensional policies are introduced in order to make companies more efficient, by introducing new recruitment procedures, training opportunities for the workers, giving them more responsibility over the production process and also the possibility to participate in the success of operations via financial incentives. If companies are successfully managed, they can lower turnover rates, boost satisfaction of their staff which motivates them to work better and harder and align their pay with the company's success. It also increases the quality of products in line with customer's expectations using new modes of product development, design and innovations. This is a win-win situation for workers as well as for companies. HRM practices certainly improve the competitiveness of companies on their product markets and, by analogy, labour productivity for whole national economies. However, many countries in Europe still do not make enough use of HRM policies. A more

comprehensive introduction of such innovations would render Europe more competitive and strengthen the position of the EU in the world economy.

Policy context

The policy context is firmly rooted in the Europe 2020 strategy for smart, sustainable and inclusive growth. While public policy provides the framework for the realisation of these goals, it is at company level that the success in developing an economy based on knowledge and innovation will be determined. Not least, for the promotion of skills throughout the life cycle individual companies play a crucial role. It is also in the work place itself that the full potential of the problem-solving potential of social dialogue can be realized and turned into a win-win situation.

Key findings

The report provides an overview of the literature on innovative work practices and starts with an inventory of the many practices have been identified as innovative. The analytical part of the paper is based on Eurofound's own European Company Survey (ECS). The dataset covers 27,160 establishments in 30 countries, probably making it the most extensive dataset ever used for this purpose and the only cross-national attempt. The four performance indicators are used: work climate, the lack of HR problems, labour productivity (compared with competitors) and the economic situation in the establishment. A similar approach is used to measure the five aspects of innovative work practices with only quite sophisticated

practices being coded as innovative. The five sets of practices are flexible working time, financial incentives (for a large proportion of the workforce), training, autonomous teams and employee voice. Key outcomes of the investigation are:

- The positive impact of employee voice on having both a good work climate and the absence of HR problems;
- The importance of training for the economic situation and productivity level of the establishment;
- The economic situation and productivity measures of performance are also positively associated with performance-related pay;
- Team autonomy showed relatively strong effects for the work climate and productivity;
- The weakest results are found for working time flexibility for all performance variables.

Furthermore, no evidence was found that various combinations (bundles) of the innovative practices were more conducive to high performance, though some correlation between training checks and working in autonomous teams was observed. There is some reason to believe that some causal relationships are present here. The very strong effects of employee voice on work climate and lack of HR problems are eminently plausible. Similarly it would be difficult to believe that it is in fact the performance indicators that 'cause' some of the innovative practices. For example, it is unlikely that just because firms have a high productivity that they then adopt a high level of team autonomy.

Thus an overall conclusion is that the innovative work practices as identified in the ECS do appear to have a positive effect on various dimensions of performance. Labour productivity is not only about new technologies and increased capital investment. Work organisation in general, and these practices in particular, also play a vital part in meeting the challenges facing Europe in the ever increasing global competitive environment.

Further information

The report *HRM practices and establishment performance: an analysis using the European Company Survey 2009* is available at <http://www.eurofound.europa.eu/publications/htmlfiles/ef1169.htm>

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