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Human Resource Management Practices, Workforce Alignment, and Firm Performance

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Abstract
Small business leaders are charged with delivering high levels of company performance. There is no shortage of potentially fruitful investments available for consideration; these include developing new products or services, improving product or service quality, and enhancing marketing and sales. Another possible investment - improving the way a company manages its people - tends to receive less attention. This is somewhat surprising, however, when one considers that the human resource management practices a company uses can dramatically impact the bottom-line. One study of large publicly traded firms, for example, found that companies using "high performance" human resource practices have market values that range from between $16,000 and $40,000 per employee higher than firms that do not use such practices. A study of high tech start-ups showed that for firms going public with a high level of human resource value, the probability of survival is .79; for firms going public with low levels of human resource value, however, the probability is only .60. So, what human resource management practices foster small business success? The problem in answering this question is that prior studies often disagree about which human resource management practices are effective and which ones aren't. Furthermore, even if scholars could agree about which practices are best, there is no reason to believe that the practices used by large Fortune 500 firms or small high-tech start-ups would translate to many (if not most) small businesses. After all, small businesses (i.e., those with fewer than 200) employees, typically compete in areas other than high-tech, and are generally unlikely to go public any time soon. The Cornell University/Gevity study of human resource management practices in small businesses is the first study we know of to provide definitive answers to two critical questions facing small business leaders: (1) Do people contribute to the success of small businesses?, and (2) What human resource management strategies (and practices) can the leaders of small businesses employ to foster firm success? The results of the study are presented as follows. First, we provide a visual depiction of the study's findings. Second, we show that workforce alignment is strongly related to small business success. Third, we demonstrate how various employee selection, management, and motivation strategies affect workforce alignment. Fourth, we present four key takeaways from the study. Finally, we provide a section that allows you to compare your company's results on all study variables to those of the other 250 companies that participated in the study.

Keywords
management, practices, workforce, performance, alignment, small business, business, people, company, success, human resource management, human, resource

Disciplines
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Comments

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WORKING PAPER SERIES

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Introduction

Small business leaders are charged with delivering high levels of company performance. There is no shortage of potentially fruitful investments available for consideration; these include developing new products or services, improving product or service quality, and enhancing marketing and sales. Another possible investment – improving the way a company manages its people – tends to receive less attention.

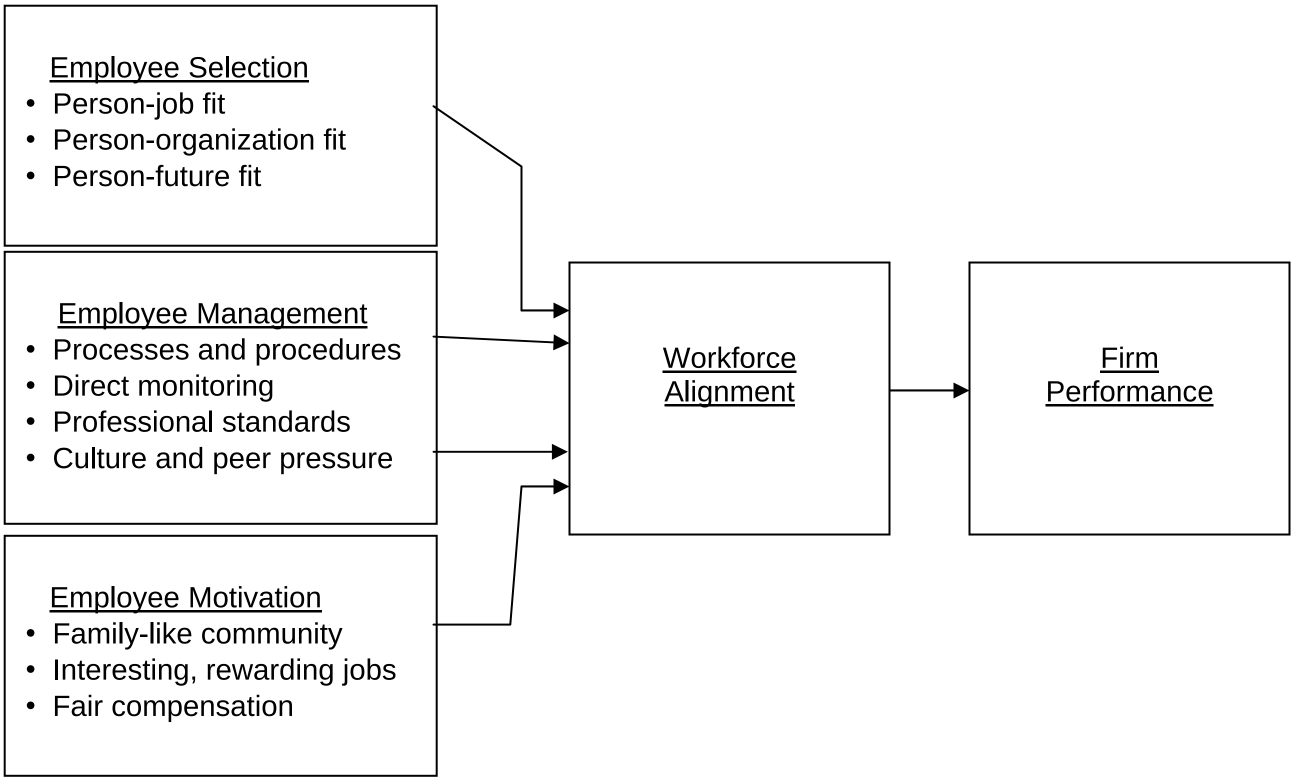
This is somewhat surprising, however, when one considers that the human resource management practices a company uses can dramatically impact the bottom-line. One study of large publicly traded firms, for example, found that companies using "high performance" human resource practices have market values that range from between $16,000 and $40,000 per employee higher than firms that do not use such practices. A study of high tech start-ups showed that for firms going public with a high level of human resource value, the probability of survival is .79; for firms going public with low levels of human resource value, however, the probability is only .60.

So, what human resource management practices foster small business success? The problem in answering this question is that prior studies often disagree about which human resource management practices are effective and which ones aren't. Furthermore, even if scholars could agree about which practices are best, there is no reason to believe that the practices used by large Fortune 500 firms or small high-tech start-ups would translate to many (if not most) small businesses. After all, small businesses (i.e., those with fewer than 200) employees, typically compete in areas other than high-tech, and are generally unlikely to go public any time soon.

The Cornell University/Gevity study of human resource management practices in small businesses is the first study we know of to provide definitive answers to two critical questions facing small business leaders: (1) Do people contribute to the success of small businesses?, and (2) What human resource management strategies (and practices) can the leaders of small businesses employ to foster firm success?

The results of the study are presented as follows. First, we provide a visual depiction of the study's findings. Second, we show that workforce alignment is strongly related to small business success. Third, we demonstrate how various employee selection, management, and motivation strategies affect workforce alignment. Fourth, we present four key takeaways from the study. Finally, we provide a section that allows you to compare your company's results on all study variables to those of the other 250 companies that participated in the study.

Overview of Study Results



Workforce Alignment and Firm Performance

Do people contribute to the success of small businesses? When addressing this question it is necessary to point out that the strategic human resource goal of any small business is workforce alignment. A company with an aligned workforce has (a) the right types of people, (b) in the right places at the right times, (c) doing the right things right. A company with the right types of people has employees with the knowledge and skills necessary to help the firm achieve its goals. A company with people in the right places at the right times effectively utilizes its people and, thus, gets the most out of its employees' knowledge and skills. Finally, a company with people doing the right things right has employees that always act in ways that help the company succeed. The three components of workforce alignment are highly interrelated. It is tough, for example, for people to act in ways that foster firm success if they do not possess the knowledge and skills necessary to do so or if they are mismanaged (i.e., in the wrong places at the wrong times). In short, then, when all three components are present there is workforce alignment and this, in turn, should help drive company success.

Does it? The results of the study suggest that the answer to this question is an emphatic YES! People appear to make a crucial contribution to the success of small businesses. More specifically, companies with aligned workforces are more likely than those with less aligned workforces (a) to develop and deliver high quality products, services, or solutions, (b) to develop and deliver new products, services, or solutions, (c) to satisfy customers or clients, (d) to effectively market products or services, (e) to achieve sales growth, (f) to operate profitably, and (g) to capture market share.

To find out how your company rates in terms of workforce alignment and firm performance go to the section titled "Your Company's Results" on page 7.

Human Resource Practices And Workforce Alignment

Now that we know that people matter to the performance of small businesses, the next question is: What human resource management strategies (and practices) can leaders of small businesses employ to foster workforce alignment?

Employee Selection Practices and Workforce Alignment

The most important way a company can ensure that it has the right types of people is by hiring the right types of people in the first place. There are three different strategies or sets of human resource practices that companies can use when selecting people. First, companies can emphasize <u>person-job fit</u>. Companies that pursue person-job fit seek to match job applicant's knowledge and skills to the requirements of specific job openings and focus on an applicant's ability to perform well right away without extensive training. Second, companies can favor <u>person-organization fit</u>. Companies pursing a person-organization fit focus on how well the individual fits with the culture or values of the company and hire people with the capacity to work well with other company employees. Finally, companies can emphasize <u>person-future fit</u>. Companies that pursue person-future fit focus on the potential long-term contribution of applicants, often to the extent that they are willing to leave positions open until the find the best and brightest new employees.

So, which of the three selection strategies works best? The answer is, person-future fit. When all three strategies are compared, person-future fit is strongly and positively related to workforce alignment. Person-job fit and person-organization fit, on the other hand, are not related to workforce alignment. Thus, companies that emphasize person-future fit when selecting new employees are more likely to have aligned workforces than are companies that emphasize either person-job fit or person-organization fit.

To find out how your company scores in terms of person-job fit, person-organization fit, and person-future fit go to the section titled "Your Company's Results" on page 7.

Employee Management Practices and Workforce Alignment

The most important way a company can make sure that it has people in the right places at the right times is to manage them effectively. There are four different employee management strategies that companies can use to manage people. First, companies can emphasize formal processes and procedures. Companies with formal management systems have job duties and descriptions so that employees know their roles and responsibilities. They also provide regular feedback to people through a performance appraisal process. Second, companies can favor direct monitoring. Companies that use this approach have managers that closely monitor the day-to-day activities of employees and tightly control the pace and schedule at which employees complete their work. Third, companies can rely on professional standards. Companies that choose this route give employees a great deal of discretion to monitor their own performance and trust employees to get the job done right the first time without direct oversight. Finally, companies can emphasize culture and peer pressure. Companies that rely on culture and peer pressure expect employees to track one another's work and effort and to provide feedback to one another about job performance.

So, which of the four human resource utilization strategies work best? The answers are formal processes and procedures and professional standards. When all four strategies are compared, formal processes and procedures and professional standards are strongly and positively related to workforce alignment. Direct monitoring and culture and peer pressure, on the other hand, are not related to workforce alignment. Thus, companies that use formal processes and procedures or professional standards to manage people are more likely than those that favor direct monitoring or culture and peer pressure to have aligned workforces.

To find out how your company stacks-up in terms of formal processes and procedures, direct monitoring, professional standards, and culture and peer pressure go to the section titled "Your Company's Results" on page 7.

Employee Motivation Practices and Workforce Alignment

The most important way a company can ensure that it has people doing the right things right is to properly motivate its employees. There are three different human resource strategies that companies can use to motivate people. First, managers can create a family-like community, in which employees are motivated primarily out of a sense of responsibility to one another and the company. Companies that foster a family-like community sponsor company social events and outside activities so that employees can get to know one another. They also hold regular company-wide meetings to share information about the company with employees. Second, companies can favor interesting and rewarding jobs. These companies provide employees with challenging work opportunities and chances to learn and grow. Finally, of course, companies can rely on fair compensation. Companies that use compensation to motivate people pay higher wages than their competitors. They also use incentives to attract, reward, and retain their people.

So, which of these three human resource motivation strategies work best? The answer is: family-like community. When all three strategies are compared, family-like community is strongly and positively related to workforce alignment. Interesting and rewarding jobs and fair compensation, on the other hand, are not related to workforce alignment. Thus, companies that use a family-like community to motivate people are more likely than those that favor rewarding jobs or fair compensation to have aligned workforces.

To find out how your company scores in terms of family-like community, interesting and rewarding jobs, and fair compensation go to the section titled "Your Company's Results" on page 7.

Key Takeaways

The results of this study offer four key takeaways for managers interested in improving the performance of their small businesses.

(1) Don't forget about people. Companies with well-aligned workforces outperform companies with less aligned workforces on seven key indicators of performance. The analyses reported here control for many factors that could also influence company performance levels, including company industry, company age, company size (in number of employees), the dynamism present in the external environment, and business strategy. This means that the results are quite robust. Although it is impossible for our study to compare the benefits of investing in people management strategies to the benefits of other company investment opportunities, it is possible to offer the following advice to leaders of small businesses: When looking for ways to improve company performance, don't forget about people management strategies!

(2) Keep an eye on the future when hiring. When hiring new people, most companies seek to match people to specific jobs. The results of this study suggest that this type of focus does not help create workforce alignment. Instead, companies should seek to hire new people capable of making a positive, long-term contribution to the firm.

(3) Manage employees through formal processes and procedures or professional standards. In small businesses it is easy for managers to make the mistake of constantly looking over the shoulders of employees. The results of this study suggest that this is a poor way to achieve workforce alignment. Instead, companies benefit from either developing formal management systems or providing employees the opportunity to manage themselves.

(4) A family-like community is a powerful way to motivate employees. Many scholars and managers assume that compensation is the best way to motivate people. The results of this study, in contrast, suggest that workforce alignment is best achieved by developing a family-like sense of community.

Examples of Best Practices

Person-future Fit Employee Selection:

The practices that we use for selection focus on the potential long-term contribution of applicants.
We will leave a positions open until we can find the best and brightest possible new employee.
We look to elite sources (e.g., top universities, headhunters) to find the best available talent.

Process and Procedure-based Employee Management

We have a highly formalized compensation system with predetermined pay bands, scales, and ranges
We have formal processes of performance appraisals to provide feedback to employees
Managers follow a regular schedule in providing feedback to employees

Professional Standards-based Employee Management

Managers empower employees to monitor their own work and performance
Managers in this company assume that employees are experts who will get the job done right the first time without oversight
Employees in this company are given the opportunity to complete their work however they see fit

Family-like Community for Fostering Employee Motivation

We sponsor company social events so employees can get to know one another
We offer employees profit- or gain-sharing pay
We regularly hold company wide meetings to share information about the company with employees
We work hard to create a strong social environment at work

Your Company's Results

Study Variable	**Total Possible Score**	**Study Average**
Firm Performance	35	26.2
Product or service quality	5	4.2
New product or service development	5	3.6
Customer satisfaction	5	4.2
Marketing effectiveness	5	3.2
Sales growth	5	3.7
Profitability	5	3.6
Market share	5	3.6
Workforce Alignment	45	30.9
Right types of people	15	9.6
People in the right places at the right times	15	10.9
People doing the right things right	15	10.4
Employee Selection		
Person-job fit	15	10.8
Person-organization fit	15	10.5
Person-future fit	15	8.6
Employee Management		
Formal processes and procedures	15	9.3
Direct Monitoring	15	8.5
Professional standards	15	9.9
Culture and peer pressure	15	7.7
Employee Motivation		
Family-like community	15	8.6
Interesting and rewarding jobs	15	9.1
Fair compensation	15	9.4