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How Does Leadership Structure Affect the Bottom Line?

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Abstract

Key Findings

- Investment in High-commitment HR practices lead to key employee-based outcomes. When companies invest in employees with a system of high-commitment HR practices (see examples of these practices below) they are able to build a workforce with higher human capital and motivation to exert discretionary effort for the benefit of the organization. In particular, higher use of these high-commitment HR (HCHR) practices were significantly related to higher levels of employee education, company tenure/experience, collaboration, and helping behaviors.

- Higher employee human capital and motivation are resources that lead to competitive advantage. In return, these employee outcomes appear to be key organizational resources for driving competitive advantage. Specifically, higher levels of employee company tenure (i.e., firm-specific experience and knowledge), collaboration, and helping behaviors were all significantly related to higher company sales growth and perceived performance (performance relative to competitors as rated by the company CEO).

- Leaders make a diff in the extent to which these employee-based resources lead to competitive advantage. In general, these employee-based resources were related to higher performance, but CEOs with greater levels of human capital seemed to be able to leverage these resources for even greater performance. Compared to companies with CEOs with less experience, companies with CEOs with higher average industry and company experience and higher levels of employee human capital and motivation had significantly higher performance, suggesting that CEOs with higher experience seem to understand how to take advantage of the employee-based resources that have been built through the investment in HCHR practices.

Keywords

talent management, talent, management, leadership structure, leadership, CEO, human capital, leadership development, performance, performance management, high commitment HR, knowledge, knowledge management, motivation, collaboration, bottom line, employee experience, competitive advantage, unit leaders, business unit, HR business, HRBU

Disciplines

Training and Development

Comments

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ResearchLink

No. 2

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HOW DOES LEADERSHIP STRUCTURE AFFECT THE BOTTOM LINE?

Key Findings

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been built through the investment in HCHR practices.

Investing in Employees Through Human Resources Practices

Researchers are increasingly focusing on the strategic use of HR resources to improve organizations' competitiveness and performance, including productivity, service and product quality, bottom line, and turnover. Such HCHR practices demonstrate a firm's investment in its employees, enhancing workers' skills, and leading to an increase in the firm's competitive advantage.

A high-commitment HR (HCHR) system of practices typically includes:

- a focus on internal labor markets, i.e., emphasizing employee movement and promotion from within the company;
- attracting and choosing employees based on their fit with the company culture and values and their long-term ability to contribute to the company;
- providing significant opportunities for training and development along with learning and growth opportunities, i.e. rotations through a range of different jobs to build skill sets;
- higher overall salaries compared to market with a focus on pay for performance – a compensation based on both individual performance as well as bonuses tied to how the company is performing as a whole;
- encouraging high levels of employee participation,
- autonomy to get the job done without direct oversight, and
- developmentally-oriented performance appraisals which are used to plan skill development and training for future advancement in the company.

The Study

In the current study, the researchers looked specifically at how the use of

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HCHR practices increase employees' human capital (the collective experience and knowledge of the workforce, specifically years of experience and education) and employee motivation to carry out discretionary behaviors (willingness to collaborate with and help one another). In addition, the researchers examined the role of the firm's leader in putting these employee resources to best use for driving company competitive advantage and performance.

The researchers collected data from small firms (each employing 100 to 250 people) that had recently contracted with a publicly traded company that provides a wide range of HR services to small organizations. In year one of the study, the researchers collected data from CEOs — background information on the company and measures of CEO human capital — and from employees — measures of HR practices, employee human capital, and employee motivation. In year two of the study, the researchers collected multiple measures of company performance — year over year sales growth and the CEOs' perception of performance relative to their competitors. Overall, the researchers collected data from 234 companies.

Employee human capital was measured by adding employees' years of education plus years of company experience. To measure collaboration and helping, the researchers asked the designated key employees to rate, on a five-point scale, several questions about their coworkers' tendency to work together and aid each other. For CEO human capital, the researchers measured the firms' CEOs' average years of industry and company experience. The researchers controlled for

The Results

industry, firm size, firm age, prior performance, and employee response rate.

- **Investing in HCHR practices results in greater levels of employee-based resources.** Firms that invest in a higher level of practices within the HCHR systems have a workforce that is more educated and experienced and these firms have employees that more regularly collaborate and help each other compared to companies that invest in implementing fewer of these practices.

- **Employee motivation seems to be a key differentiator in company performance.** Companies with high levels of employee collaboration and helping behaviors far outperformed those with lower levels of these

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Figure 1

employee-based resources. For example, as shown in Figure 1 on page 4, the top 25% of companies with employee collaboration showed significantly higher levels of sales growth compared to companies in lower quartiles of collaboration — on average, companies in the top quartile of employee collaboration had sales growth at more than twice the rate of companies that were in the bottom quartile of employee collaboration. Results were similar in pattern when looking at helping behaviors or when comparing performance differences when looking at relative perceived performance.

Figure 2

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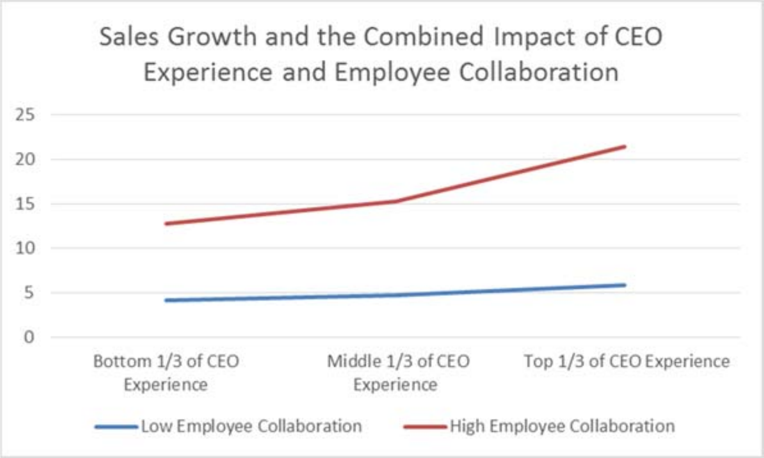
- **Employee experience is also important.** The researchers also found that employee experience was also a significant predictor of company performance but years of employee education was not significantly related to performance (see Figure 2 on page 4). Further, while employee experience was significant, the differences in performance across companies based on levels of employee experience was not quite as large as the differences across levels of employee motivation.

Figure 3



- **Experienced leaders make a difference in putting employee-based resources to best use for company competitive advantage and performance.** Results of the study strongly suggest CEOs with more industry and firm experience seem to know how to better take advantage of the employee-based resources of collaboration, helping, and employee experience to drive higher firm performance. For example, the impact of employee collaboration on sales growth was far higher in companies with CEOs in the top third of experience compared to those in the middle or those with CEOs in the bottom third of combined company and industry experience (see Figure 3 above). Results were similar when comparing the impact of employee helping behaviors and experience across companies with different levels of CEO experience.

Implications for Larger Companies

The study was limited to a group of small United States firms and their CEOs. The focus on small firms provides a relevant sample, as 99.8 percent of U.S. firms employ fewer than 1,000 workers. However, the researchers suggest that their

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findings may have similar implication for medium to large companies. For example, most larger organizations are structured into divisional or regional structure where higher level middle managers play similar roles to the CEOs of smaller companies in which they set the business/competitive strategy for the unit and look to align their employee-based resources to drive competitive advantage in their particular market environments. Thus, the researchers would expect to see similar relationships play out within business units of larger companies and would suggest that the following would hold true for larger companies:

- HCHR practices yield a tangible return on investment by helping business units to build a workforce with higher employee human capital and employee motivation to contribute their discretionary efforts for the good of the organization.

- Employee-based resources of human capital and motivation will help business units to achieve higher levels of competitive advantage in their unique markets leading to higher financial performance. Higher levels of employee human capital can lead to higher performance through the creation of new ideas and products, greater levels of efficiency, and providing better customer service. Similarly, higher levels of employee motivation, particularly in the form of discretionary behaviors like collaboration and helping also lead to better customer service and customer solutions, greater creativity and potential for innovation, and greater labor efficiencies.

- Large companies may benefit from putting deploying Unit-level leaders with greater experience in their market or the company as these leaders may be better able to leverage the employee-based resources that are created through an investment in HCHR practices. Potentially these unit or departmental leaders should stay in their role long enough to understand their market and leverage employee resources, rather than quickly transferring to a different assignment after only one or two years — certainly companies should be wary of rapidly moving leaders through different rotations, which can diminish these individuals' ability to drive firm performance.

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- Leaders and HR professionals should consider how HCHR systems can help key groups of employees, i.e. those groups that benefit from higher employee human capital and collaboration and helping, to meaningfully enhance their organization's competitive advantage. Because firms don't have unlimited resources, they should strategically allocate their investment in HCHR programs to those employee groups that are most crucial to performance and competitive advantage.

- Leaders and HR practitioners should not underestimate their employees' motivation and willingness to work together as a source of competitive advantage to their firms.

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The Center for Advanced Human Resource Studies (CAHRS) is an international center serving corporate human resources leaders and their companies by providing critical tools for building and leading high performing HR organizations. CAHRS' mission is to bring together partners and the ILR School's world-renowned HR Studies faculty to investigate, translate and apply the latest HR research into practice excellence.

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