



**CIMA**

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# Human resource policies, accounting and organisational performance

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## 1. Project overview

This project examined the relationship between human resource management (HRM), management accounting and organisational performance in six case study companies (two in Canada, two in Japan and two in the UK) and in 100 telephone interviews (40 in Japan, 30 in Canada and 30 in the UK).

The companies studied in this project made great efforts to link specific HR policies with organisational performance. In all six cases, HR managers and management accountants were working closely together to develop strategic plans and annual budgets. In four of the cases, they also developed performance related bonus schemes in close collaboration and were involved in frequent communication on decision making.

Through interviews with executives in each of the six cases, the researchers found five areas of HR policy that were cited as having an impact on organisational performance, namely:

1. recruitment
2. training
3. job for life
4. teamwork
5. organisational culture.

Whilst the link between HR policies and organisational performance was not always easy to establish, in the six cases the most common method of attempting to make links between HR policies and organisational performance was the use of employee surveys combined with benchmarking over a number of years.

This project did find support, amongst at least 50% of the telephone interviewees, for the following nine findings that emerged from the six cases:

1. A mix of financial and non-financial measures leads to improved organisational performance.
2. The role of employees is critical in achieving an organisation's targeted performance.
3. Teamwork has a major impact on an organisation's performance.
4. Organisational culture (with regards to employees) has a major impact on an organisation's performance.
5. When employees are viewed as assets rather than simply costs, there is a positive impact on an organisation's performance.

6. There is a link between training and an organisation's performance.
7. Benchmarking is a useful technique for exploring the relationship between HR policies and an organisation's performance.
8. Specific HR policies can be linked to an organisation's performance.
9. Statements could be made in an organisation's published report about the impact of HR policies on an organisation's performance.

## 2. Objectives

The purpose of the project was to build on the results of a previous project funded by CIMA on management accounting and strategic human resource management (Innes, Kouhy and Vedd, 2001) by:

- Extending the research into the relationship between different HR policies and organisational performance and, in particular, how management accountants help to establish links between HR policies and organisational performance.
- Extending the research into Japanese companies to give a different perspective and another point of comparison.
- Testing the case study results in a telephone survey.

The research was carried out on the basis of six case studies and 100 telephone interviews (40 in Japan, 30 in Canada and 30 in the UK). The six case studies covered building materials, consumer products, electronics, software development, timber products and a utility company. Details of the six cases are given in Table 1 in the appendix. Each case study concentrated on three general areas:

1. Performance measures
2. Links between HR managers and management accountants
3. Links between HR policies and organisational performance.

The telephone interviews were used to test key findings identified by the project team during their research of the six cases.

## 3. Findings

### 3.1 Performance measures used

All six cases used a mix of financial and non-financial performance measures including the following:

- Case A – achievement of budget, growth, market share and sales per employee.
- Case B – cash flow, customer satisfaction, economic value added (EVA - a registered trade mark of Stern, Stewart and Co.), morale, social contribution and sustainable growth.
- Case C – customer satisfaction, economic value added, productivity, quadruple bottom line, quality and safety.
- Case D – delivery, environment, productivity, return on net assets and safety.
- Case E – cash flow, customer satisfaction, delivery, quality and sales.
- Case F – customer service, profitability, safety and total shareholder return.

### 3.2 Links between HR managers and management accountants

In all six cases, HR managers and management accountants co-operated very closely on the strategic plans and the annual budget (such as number of employees, the mix of skills and the budgeted salaries). There were also regular meetings to discuss comparisons of actual results against budgeted results.

In four cases (A, B, C and F), HR managers and management accountants worked closely together on a performance related bonus scheme. The management accountants discussed the financial and non-financial performance measures with HR managers before the proposed bonus scheme was finalised and later interpreted the actual results from the bonus scheme. However, the most frequent communication between managers and management accountants was about decision making.

### 3.3 HR policies and organisational performance

The HR policies mentioned by the interviewees as affecting organisational performance in at least three of the six case studies included:

1. Recruitment
2. Training
3. Job for life
4. Teamwork
5. Organisational culture (with regard to employees).

#### Recruitment

It was commonly thought among the interviewees that recruitment decisions were critical for their organisation's future performance, in order to hire the necessary quality and mix of employees. In all six case studies the employees were regarded as 'assets' who created additional value rather than 'costs' that the organisation had to recover. In the short-term, viewing employees as assets led to increased expenditure on training and other costs. The interviewees, however, said that viewing employees as assets had a positive impact on their organisation's long-term performance.

#### Training

In all six cases the interviewees emphatically endorsed the positive effect that training had on organisational performance, albeit that this effect came with a time lag. In Japanese Case B, interviewees expressed their belief that training had increased the knowledge and skills of employees leading to increased customer satisfaction that in turn led to improved performance. In Canadian Case C, existing employees were trained to develop new skills (including leadership and soft skills) so that employees could become multi-skilled.

The company linked training to organisational performance by compiling a list of required skills for the future and monitored such skills emerging from its training programme. They also required all employees to write a report both 30 days and 90 days after their training programme, to analyse how well that specific training met the employee's own personal development training contract that was linked to the performance of that particular individual.

In Japanese Case A, several interviewees considered that its improving financial performance was directly linked to the investments the company had made in training a few years ago. To evaluate the effect of training on organisational performance, the company conducted a number of surveys with employees. By comparing the results of these surveys over a number of years, the company was attempting to link the effects of specific HR

policies (such as training) with its performance, taking into account any time lag.

#### Job for life

The two Japanese companies had a job for life policy, although this policy had come under increased pressure from international competition and other factors. One British company (the utility) had a similar job for life policy. Employees did leave voluntarily, but the average length of service was 15 years. When jobs disappeared (for example, after restructuring), employees were not made redundant but went into a resource centre where other parts of the business would look first when job vacancies arose. Employees were paid in this resource centre (sometimes for several months) and were also offered further training or retraining (to develop the skills required by this utility). In the monthly performance report for top management there was a section on the employees in this resource centre and job vacancies available.

The interviewees in the two Japanese cases and the British utility considered that their job for life policy encouraged employees to take a long term view on decision making. It also increased employee motivation and organisational loyalty, and had a positive effect on organisational long-term performance, although the policy involved additional short-term costs.

#### Teamwork

In Cases B, D, E and F interviewees emphasised the importance of teamwork and its positive effect on organisational performance. For interviewees in Japanese Case B, teamwork was considered to be the second most positive impact on their organisation's performance after their job for life policy. In the case of the British utility, interviewees considered that the strong ethos of cross-functional teams had undoubtedly improved the overall performance of their organisation.

#### Organisational culture

In Canadian Case D the change from the 'bad' culture of the 1990s to its existing 'good' culture was cited by interviewees as one of the major reasons for the recent improvement in its organisational performance.

The good culture included:

- open communication
- low absenteeism
- good union relations
- excellent employee relations.

Canadian Case C was trying explicitly to change its culture. Its 'leader for tomorrow' programme involved more employee empowerment to develop a more performance orientated culture. British Case E, which was relatively

small in size, had developed a family culture that helped the organisation to improve its performance. In British Case F all the interviewees mentioned its family culture, despite the relatively large size of the organisation, and emphasised its important contribution to organisational performance.

### 3.4 Cross-case analysis of the six case studies

After the six case studies were completed, a cross-case analysis of these companies was undertaken and the following ten findings were tested during the telephone interviews in Canada, Japan and the UK:

- **A mix of financial and non-financial measures leads to improved performance**

Companies in the telephone survey used a variety of financial and non-financial performance measures. These included: actual versus budget, cash flow, customer satisfaction, economic value added, employee satisfaction, employee turnover, environmental impact, gross profit percentage, market share, number of new customers, productivity, profitability, quality, safety, sales and shareholders' total return.

83% of the interviewees agreed that the use of a mix of financial and non-financial measures led to improved organisational performance (see Table 2 - Appendix).

- **The role of employees is critical in achieving an organisation's targeted performance**

Nearly all of the interviewees (97%) agreed with this statement (see Table 3 - Appendix).

- **Teamwork has a major impact on an organisation's performance**

Again, nearly all of the interviewees (93%) agreed with this statement (see Table 4 - Appendix).

- **Organisational culture (with regard to employees) has a major impact on an organisation's performance**

75% of all interviewees agreed with this statement, with a further 20% neutral (see Table 5 - Appendix). However, of the Japanese interviewees, 85% considered that organisational culture and, in particular the way the employees were treated (for example, with a job for life policy) had a major impact on their organisation's performance.

- **A pension scheme can have a major impact on an organisation's performance**

Less than half of the interviewees (46%) agreed with this statement – with a further 40% neutral (see Table 6 - Appendix). The difference in the responses between the three countries was significant at the 1%

level. 90% of Canadian interviewees agreed that a pension scheme can have a major impact on an organisation's performance against 33% of the Japanese interviewees and just 20% of the UK interviewees. Some interviewees cited the problem of the rising cost of funding final salary pension schemes.

- **When employees are viewed as assets rather than simply costs, this has a positive impact on an organisation's performance**

77% of interviewees considered employees as assets, 16% as costs and 7% as both (see Table 7 - Appendix). Overall, those interviewees who considered employees as assets were in no doubt that this view helped to improve their organisation's performance in the long-term.

- **There is a link between training and an organisation's performance**

77% of all interviewees agreed with this statement (see Table 8 - Appendix). However, of the Japanese interviewees only 43% agreed with this statement. It appeared that Japanese interviewees placed more emphasis on organisational culture and their treatment of employees (such as a job for life policy) than on other issues such as training.

- **Benchmarking is a useful technique for exploring the relationship between HR policies and an organisation's performance**

52% of interviewees said that their organisation benchmarked its performance measurement within the organisation (see Table 9 - Appendix). However, there was a significant difference between the three countries, with 70% of UK interviewees benchmarking internally against 50% of Japanese interviewees and just 37% of the Canadian interviewees.

In the case of external benchmarking, again 52% of interviewees said that their organisation compared its performance measures against other organisations (see Table 9 - Appendix). This time 90% of UK interviewees confirmed that their organisation benchmarked externally against 40% of the Canadian interviewees and 33% of the Japanese interviewees.

In terms of benchmarking as a technique for exploring the relationship between HR policies and their organisation's performance, 53% of the interviewees considered that benchmarking was useful (see Table 10 - Appendix). The highest support for benchmarking was in Canada (67%) and the UK (60%), whereas in Japan only 38% of interviewees thought that the technique was useful for exploring

the relationship between HR policies and their organisation's performance.

- **Specific HR policies can be linked to an organisation's performance**  
62% of the interviewees responded that their organisation tried to link specific HR policies with their organisation's performance (see Table 11- Appendix). Japanese companies were at the forefront of this approach, with 88% of Japanese interviewees responding that their organisations tried to make the link between specific HR policies and organisational performance. This compares to 53% of the Canadian interviewees and 37% of the UK interviewees. This finding again highlighted the emphasis given by the Japanese interviewees to human resource issues.
- **Statements can be made in an organisation's published report about the impact of HR policies on an organisation's performance**  
50% of interviewees agreed that statements could be made in their organisation's published report about the impact of their HR policies on their organisation's performance – with a further 42% neutral (see Table 12 - Appendix). The Canadian interviewees showed the most support (63%) for such a statement against 50% of the Japanese and 37% of the UK interviewees. Although some of this information would be quantitative (such as employee turnover) and monetary (such as investment in training), most of this information would be qualitative (such as a summary of new skills developed by existing employees).

#### 4. Conclusion

This research project found three main findings of particular interest to HR managers and management accountants. Firstly that recruitment, training, teamwork and organisational culture were the four HR policies mentioned by most interviewees in the six case studies as affecting organisational performance.

Secondly, it was found that management accountants were working closely with their HR colleagues to support the HRM function in improving organisational performance. Areas of collaboration included strategic planning, budgeting, development of performance related bonus schemes and decision making.

Thirdly, it was evident that the companies in this study had made great efforts to link specific HR policies with organisational performance – despite the problem of the number of other factors affecting organisational performance. For example, one of the case studies, a British company, had entered into an HR benchmarking scheme with other organisations and the management accountants and HR managers combined the results from this HR benchmarking scheme with the results from their own annual surveys of employees' opinions.

The company analysed these combined results over several years so that it could establish relationships between specific HR policies and organisational performance, taking into account issues such as time lags. This breakthrough for the company in linking the effects of specific HR policies to organisational performance was achieved by very close co-operation between its HR managers and management accountants.

## 5. Appendix

**Table 1 – Details of six cases**

	Case A	Case B	Case C	Case D	Case E	Case F
Country	Japan	Japan	Canada	Canada	UK	UK
Sector	Electronics	Consumer products	Building materials	Timber products	Software development	Utility
Years in existence	c100	c100	c100	c100	c20	c100
No. of employees in organisation	>100,000	>25,000	>10,000	>5,000	>1,000	>10,000
No. of employees at research sites	1,500	2,000	1,000	300	200	2,000
Turnover	>£10billion	>£5billion	>£5billion	>£1billion	>£100million	>£5billion
Employee costs as % of total costs	30%	30%	35%	30%	70%	40%

**Table 2 – Mix of financial and non-financial performance measures**

Positive impact on organisation's performance	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
Canada	0	0	7	7	16	30
Japan	1	1	8	21	9	40
UK	0	0	0	19	11	30
<b>Total</b>	<b>1</b>	<b>1</b>	<b>15</b>	<b>47</b>	<b>36</b>	<b>100</b>

**Table 3 – Role of employees**

Critical in achieving targeted performance	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
Canada	0	1	0	4	25	30
Japan	0	0	0	15	25	40
UK	1	0	1	7	21	30
<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>26</b>	<b>71</b>	<b>100</b>

**Table 4 - Teamwork**

Major impact on organisation's performance	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
Canada	0	1	0	11	18	30
Japan	0	0	2	22	16	40
UK	0	1	3	9	17	30
<b>Total</b>	<b>0</b>	<b>2</b>	<b>5</b>	<b>42</b>	<b>51</b>	<b>100</b>

Table 5 – Organisational culture

Major impact on organisation's performance	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
Canada	0	3	5	8	14	30
Japan	0	0	6	21	13	40
UK	0	2	9	14	5	30
<b>Total</b>	<b>0</b>	<b>5</b>	<b>20</b>	<b>43</b>	<b>32</b>	<b>100</b>

Table 6 – Pension scheme

Major impact on organisation's performance	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
Canada	0	0	3	14	13	30
Japan	0	9	18	11	2	40
UK	0	5	19	4	2	30
<b>Total</b>	<b>0</b>	<b>14</b>	<b>40</b>	<b>29</b>	<b>17</b>	<b>100</b>

Table 7 – View employees as assets or costs

	Assets	Costs	Both	Total
Canada	24	2	4	30
Japan	28	11	1	40
UK	25	3	2	30
<b>Total</b>	<b>77</b>	<b>16</b>	<b>7</b>	<b>100</b>

Table 8 – Link between training and organisational performance

	No	Yes	Total
Canada	0	30	30
Japan	23	17	40
UK	0	30	30
<b>Total</b>	<b>23</b>	<b>77</b>	<b>100</b>

Table 9 – Benchmark performance measures

Benchmark performance measures	No	Yes	Total
<b>a) Within an organisation:</b>			
Canada	19	11	30
Japan	20	20	40
UK	9	21	30
<b>Total</b>	<b>48</b>	<b>52</b>	<b>100</b>
<b>b) Against other organisations:</b>			
Canada	18	12	30
Japan	27	13	40
UK	3	27	30
<b>Total</b>	<b>48</b>	<b>52</b>	<b>100</b>

Table 10 – Benchmarking, HR policies and organisational performance

Benchmarking is a useful technique for exploring the link between HR policies and organisational performance:	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
Canada	0	2	8	9	11	30
Japan	0	7	18	15	0	40
UK	0	2	10	13	5	30
<b>Total</b>	<b>0</b>	<b>11</b>	<b>36</b>	<b>37</b>	<b>16</b>	<b>100</b>

Table 11 – Links between HR policies and organisational performance

	No	Yes	Total
Canada	14	16	30
Japan	5	35	40
UK	19	11	30
<b>Total</b>	<b>38</b>	<b>62</b>	<b>100</b>

Table 12 – Statements on the HR policies in annual report

Could make statements in annual report about impact of HR policies on organisational performance	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
Canada	0	0	11	6	13	30
Japan	1	4	15	17	3	40
UK	0	3	16	8	3	30
<b>Total</b>	<b>1</b>	<b>7</b>	<b>42</b>	<b>31</b>	<b>19</b>	<b>100</b>

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