Does IIP add value to businesses?

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A key issue for organisations that wish to gain, or have gained, the IIP Standard, is whether this adds value to the bottom line. To try to answer this, we analysed a data set of 2,500 UK private sector organisations with a view to establishing whether IIP status makes a difference to performance.

Investors in People (IIP) is the UK national standard which sets out a level of good practice for the development of people to achieve business goals. The Standard provides a national framework for improving business performance and competitiveness, through a planned approach to setting and communicating business objectives and developing people to meet these objectives. The IIP Standard is based on three principles:

- Developing strategies to improve the performance of the organisation
- Taking action to improve the performance of the organisation
- Evaluating the impact on the performance of the organisation

The IIP Standard is a business improvement tool designed to advance an organisation's performance through its people. Employers were involved throughout its development to ensure that it only included things that would benefit an organisation's performance and contribute to the bottom line - whether this was through improved earnings, productivity and profitability, recruitment and retention, increased customer satisfaction and increased competitive advantage.

The big question

IIP and the IIP Standard are widely recognised throughout the public and private sectors in the UK. The implicit assumption behind its development was that improved people management would ultimately lead to better bottom line results. This is assumed to act through improved HR outcomes, higher employee engagement and commitment, more capable employees, and ultimately, through a variety of mechanisms, to enhanced productivity and profitability. Yet we know from numerous studies that not all HR developments, practices and innovations work in the sense that many add nothing to the bottom line. Therefore, the big question remains: does IIP accreditation contribute to the bottom line in an identifiable and measurable way?

It may be that organisations that already have superior performance (and implicitly superior people management practices) simply choose to collect the badge and continue on their higher performance trajectory. If this is the case, then we might falsely attribute this superior performance to IIP.

Why would an organisation want to go through the IIP process? The easy answer is that they expect that it will improve performance. This might occur as organisations seek both a reputational effect (sending out positive signals to external markets, potential employees, suppliers and customers) from having IIP, and also in terms of amortising investments in HR systems and practices and formalising a structure for future development. In very basic economic terms, a profit-maximising organisation will decide to go through the IIP accreditation process if the benefits of doing so exceed the costs associated with securing the IIP Standard. The evidence suggests that the costs of securing IIP accreditation are not trivial and so it is a serious investment decision for an organisation.

Answering the question

In order to answer this question, firstly we needed data on performance, basic organisational characteristics and whether or not a particular organisation has IIP accreditation or not. Fortunately, we had a data set from a recent survey of 2,500 UK private sector organisations. We then needed an econometric means by which we could identify whether or not IIP made a true difference to performance. We have a technique that can establish whether (a) higher performance for organisations might simply be attributed to superior resource endowments or (b) organisational performance, or at least a part of it, is dependent upon IIP status. Importantly, at this stage, we could have potentially found that IIP results in (a) no difference, (b) a positive impact, or (c) a negative impact. The final element we needed before we began our econometric investigation was a measure of performance. We chose gross profits per employee as we used a sample of private sector organisations and profit is, ultimately, the factor that determines their long-term existence.

Findings

The most important finding is that organisations that choose to enter the IIP process and are successful in gaining accreditation generate higher gross profits per employee than would a randomly-selected organisation. Importantly, this is, at least in part, attributed to IIP accreditation, as non-IIP accredited organisations do no better than a randomly-selected organisation. Thus we have established a causal link between IIP and organisational performance measured here by gross profit per employee.

The next question is how large is this difference? Here, it should be borne in mind that the IIP process is not without cost. Using post-estimation procedures, we can predict the basic differences in gross profits between organisations currently with IIP accreditation and those without. Further, we can predict the effect on gross profit per employee if an organisation suddenly decided to go through the IIP process and ultimately gain full accreditation.

Firstly, however, we calculate the unconditional gross profits per employee in the two regimes. Here, we find that in the IIP regime gross profits per employee are £128.38, which is higher then the £34.30 in the non-IIP regime. We also looked at what would happen if organisations in the non-IIP regime switched and gained IIP accreditation. Here, the conditional estimates indicate that the 'average' non-IIP organisation would generate in the region of £176.35 per employee extra in gross profits per annum if it switched into the IIP regime. The interesting feature is that organisations that currently do not have IIP accreditation, on average, have more to gain than those organisations who actually have the IIP accreditation, so they are missing out on foregone profit to a greater extent than their peers who have actually switched into the IIP regime.

Conclusion

The basic results are quite straightforward in that IIP-accredited organisations will generate higher gross profits per employee, all else being equal, and that this superior performance is not the result of self-selection of better performing organisations into IIP. Thus the findings support the idea that IIP adds something to organisations that is captured in superior profit performance. It also appears to be the case that IIP accreditation can act to smooth out differences in performance that are typically observed for non-IIP organisations, depending on their size, their age, and the sectors in which they operate. This suggests that IIP as an accreditation vehicle operates at a strategic level that transcends standard areas of difference between organisations (ie, it is relevant to all organisations), despite the fact that there are substantial differences in the actual characteristics of organisations who choose to obtain this accreditation. Finally, we note that the 'typical' organisation that currently does not have IIP accreditation has the capability to generate an additional £176.35 per employee in gross profits per annum, should they seek and gain IIP accreditation.

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