

Understanding HRM financial value from obtaining more star performers:

Introduction on a paper and commentary collection

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Introduction

In 2022, Harry Joo, Herman Aguinis, Joowon Lee, Hannah Kremer and Isabel Villamor published an article entitled *HRM's financial value from obtaining more star performers* in *the International Journal of Human Resource Management (HRM)*. In this article, the authors demonstrated the financial value of acquiring star performers by using utility analysis on 206 samples of individual performance encompassing 824,924 workers. The analyses showed that HRM adds greater financial value by obtaining more star performers. Four (teams of) scholars, Michael Sturman, Xueging Fan, and Hanbo Shim, Michal Biron, Carol Kulik, and Mark Huselid responded to an invitation to comment on this article.

The article of Joo et al. and the four commentaries set the scene for a new initiative of *the International Journal of HRM*. In this new initiative one or two interesting (maybe controversial) articles that were recently accepted for publication are identified, followed by the invitation to eminent scholars to write a commentary about the topic of the article (not necessarily about the article). These short commentaries go through a light-touch, friendly review from the (associate) editors of *the International Journal of HRM* and are aimed to give scholars a large degree of freedom to express their insights, opinions and assessment of the field's direction.

In this introduction of the first commentary collection, we discuss this new initiative, and provide short summaries of the Joo et al. article and the four commentaries. The focal article was published in Volume 33 no 21, 2022 and the four commentaries can be found in Volume 34, no 13, 2023. The aim of this introduction is to discuss what we learned from this first commentary collection and discuss future research.

Purpose of this new initiative

We live in times in which we are flooded by information and many stakeholders compete for attention. The issues that this raises are familiar to our readers from their daily general, family and professional lives – they are also featured in academic journals such as *The International Journal of Human Resource Management* (IJHRM). For several years now we have received well over 1,000 submissions and have published around 150 articles per annum. We, the team at IJHRM, know that the typical reader searches for his area of interest when exploring the new insights that can be accessed in our journal.

Nevertheless, when we look at a year in our work on the journal, we are excited to find so many outstanding papers. While it is impossible to highlight these all, we have begun to draw attention to a few exceptional pieces of work. One strand is our annual awards – The Michael Poole Award for the best overall articles and the Dave Lepak Award for the best articles authored by at least one young scholar – with which we want to celebrate their achievements and draw special attention to them. A second strand are our review issues in which we present papers that explore available evidence on a topic. The editors' introduction then gives a flashlight on some of the key trends or discussions in the field. Another strand is one that we are beginning with the commentary issues. The focal paper of the commentaries is one that simply strikes us as interesting, noteworthy or controversial either through its

central argument or through its choice of topic. By asking eminent scholars and renowned experts to present their ideas in relation to the broad topic or the specific paper we hope to trigger the interest of our readers and to deepen, broaden and advance the relevant discourse.

The first commentary collection: focus on star performance and HRM's financial value

The article

In their article *HRM's Financial Value from Obtaining More Star Performers*, Harry Joo, Herman Aguinis, Joowon Lee, Hannah Kremer and Isabel Villamor assessed the financial value of human resource management (HRM) as a function of obtaining more star performers. Star performers are employees who produce disproportionately larger amount of cumulative output compared to their peers (Asgari et al, 2021; Kehoe et al, 2018; Morris et al, 2021; O'Boyle & Aquinis, 2012; Taylor & Bendickson, 2021). The research question for this study was formulated as follows: *How does the financial value of HRM vary as a function of obtaining more star performers?* The authors of this paper argue that most HRM research assumes that individual output is normally distributed, effectively denying the presence of stars who create heavy right-tails in individual output distributions. Specifically, Joo et al. implemented utility analysis procedures on 206 samples of individual performance (i.e., output) encompassing 824,924 workers. Utility analysis assesses the degree to which HRM processes and procedures can contribute to firms financially (Ock & Oswald, 2018; Oprea et al, 2019; Seijts et al. 2020). Because utility analysis studies often explicitly assume that individual output distributions follow normality (Cascio & Ramos, 1986; Schmidt et al, 1979), Joo et al. examined different ways of calculating parameters in the utility analysis to reflect inclusion of star performers.

Their results show that previous methods of assessing financial value underestimated the value brought by obtaining more star performers, suggesting that star performers can add significant value to organizations. They also identified nonlinear effects in this relationship, indicating diminishing returns at the highest levels of the talent – firm performance relationship. By doing this, Joo et al. argue to offer several specific contributions to HRM theory. First, regarding *how* HRM produces greater value by obtaining more stars, their evidence points to a nonlinear model of HRM's value, where HRM generates significant yet diminishing returns by increasingly obtaining the most productive ones. Second, regarding *when*, their results show that diminishing returns from HRM are stronger when output differences among top stars are relatively small. Third, regarding *why*, their study explains that small output differences among top stars may create various costs which diminish the returns from obtaining the most productive stars. Their explanation of HRM's nonlinear pattern contributes to the star literature by helping integrate a variety of specific explanations for stars' curvilinear influence discussed in past research. They highlight the need to use utility analysis procedures that more fully consider the existence of star performers, and the financial value of these star performers.

The Commentaries

Four (teams of) scholars reflect on this article. In the following, in a random order, we summarize their arguments. In their commentary, entitled *The Theoretical Value of Understanding HRM's Financial Value*, Michael C. Sturman, Xueqing Fan and Hanbo Shim comment on the Joo et al. (2022) article. They argue that the contribution of Joo et al. lies especially in the demonstration of the use of utility analysis as a strong theory, implemented with computational modeling, instead of a demonstration of the value of acquiring more star

performers, as Joo et al. argue. Sturman et al. do not dispute the analytical approach or mathematical findings from the study of Joo et al. -in fact they applaud them-, but they argue that the findings are not suited for making claims about the validity of the proposed method (utility analysis). In their view, the article contributes to how researchers can develop more precise theory about the nature of employee performance. In fact, they argue that the conclusion of Joo et al., that stars do contribute greater value, is not supported as there is simply no way to validate the financial predictions made by these utility analyses. They see this as a limitation of the utility analysis technique (Sturman, 2012) and not a particular fault of Joo et al. So, they do not see the contribution of Joo et al. in terms of utility analysis, but in terms of developing and refining a strong theory of employee (star) performance value. In their commentary they build further on this argument, introduce the modeling of employee value, and elaborate further on the question why the value (function) matters. Finally, they show that in addition to HRM research on stars, there is other HRM research that could be examined to consider their implications for employee value.

In her commentary, entitled *Star Performers; Strategy with a few Grains of Salt*, Carol Kulik focusses more on the concept of performance. Performance can be defined in terms of behaviour (how people do their work) or results (the output of people's work) (Aquino & O'Boyle, 2014). Kulik follows Joo et al. and supports the conclusion that "... HRM creates greater financial value by obtaining more stars." However, she argues that even useful tools should not be applied indiscriminately and without proper precautions. The grains of salt presented in her commentary identify the limitations of a star performer strategy. A star performer focus may be better suited to boosting an organization's short-term performance rather than building an organization's long-term sustainability. A star performer strategy that focusses on objective individual level performance without keeping an eye on

organizational citizenship and organization inclusion could make an organization a less desirable place to work for both stars and non-stars.

Kulik, therefore, argues the importance of examining the implications of a star performer strategy on the well-being and resilience of the entire workforce. Any strategy should take into account the effects on these employee outcomes for the people the strategy is focused on as well as the other employees in the organization, especially in the post pandemic situation. According to Kulik, a star performer strategy should be monitored, for instance, by means of pulse surveys, to receive early warnings if an organization is attracting too many “brilliant jerks” who focus on individual outcomes at the expense of team members.

The commentary of Michal Biron is entitled *Conceptual and macro-level consideration for understanding the talent advantage: A Commentary on Joo, Aquinis, Lee, Kremer and Villamor (2021) “HRM's financial value from obtaining more star performers”*. In this commentary, Biron relates the Joo et al. article to talent management. Talents can be defined as employees with superior performance and produce disproportionately larger amounts of cumulative output compared to peers (Joo et al., p. 8). Research examines their contribution to various firm-level outcomes. Biron argues that despite the powerful and rigorous analysis of Joo et al., the following important pieces are still missing from the puzzle: 1) discussions around the financial value of talents, often refer to talent as a static construct, and 2) studies exploring the value of talent, including Joo et al, focus mainly on individual- or organizational level data, more or less ignoring the external, macro-level factors such as external labor market, and socio-technical trends, that might influence the returns that a firm gains from top performers.

Regarding these two important pieces, Biron argues that organizations differ in their definitions of talent, with many of them lacking a definition (Thunnissen, Boselie, & Fruytier,

2013). In addition to talents, organizations also have 'key' positions, defined as organizational roles that have direct, disproportionality high impact on a firm's ability to execute its strategy (McDonnell, Collings, Mellahi, & Schuler, 2017). It may be obvious that such positions are best filled by talents. However, this is not always the case as organizations are not always defining their talents, nor their strategic 'key' positions. Also, the question if talents are identified and communicated to the workforce is a challenge on its own (Sumelius & Smale, 2021).

Regarding the external, macro-level factors, Biron elaborates on two macro-level factors that warrant consideration in the discussion about the financial benefits that HRM generates from talents. First, the imbalance between talent supply and demand (talent shortage) can influence the value generated from obtaining more talents and may undermined the calculation of the value of talents. According to Biron, this is also the case for socio-technical changes related to talents working remotely. The expansion of remote work arrangements, coupled with potential changes in evaluation criteria, may influence the composition of the talent pool. By eliminating time and space barriers, cross-cultural virtual teams enable organizations to obtain and harness their talents regardless of employee location.

In his commentary, entitled *Integrating Utility: Analysis and Workforce Strategy Research: Suggestion for Future Work*, Mark Huselid presents an overview of his career of answering the recurring HRM question "Do relatively higher or lower levels of employee performance really make a difference for firm level outcomes, and if so, how big is this effect?" and his journey in the world of utility analysis. The question Joo et al. aim to answer is a related question for star performers. Huselid's answer to this question was that talent usually, but not always, matters but also that managers do not always appear to behave in

ways that capture these gains. In comparison to finance and accounting, there is a paucity of workforce data in most organizations. And when they do exist, they are linked to the HR function and less to firm performance, according to Huselid. In addition, Huselid argues that managers often have a clear idea of how much they spend on the workforce, but a much less clear understanding of how those investments create value over the long run. The creation of the HR Scorecard (Becker, Huselid, & Ulrich, 2001), the Workforce Scorecard (Huselid, Becker & Beatty, 2005) and the Differentiated Workforce (Becker, Huselid, & Beatty, 2009) were attempts to help HR and line managers in this way.

Huselid ends his commentary with suggestions for future research, such as aiming to examine the central question “if the returns to star employees are as large as these results suggest, why do these effects persist over time?”, and subsequently, “why don’t managers do a better job managing their workforces to capture these gains?” (p. 7 in the manuscript). Answers and implications for future research should come from the following in Huselid’s view: 1. integrating the HR strategy, star performer, and utility analysis literatures, 2. a focus on the HR system instead of the HR practice, 3. exploring strategic jobs: the differential returns of employee performance by firm strategy and job, 4. exploring nonlinear returns in the HR – firm performance relationship, and 5, linking the utility analysis and stars literatures with the field of workforce analytics.

What did we learn from this first commentary collection, and future research.

The Joo et al.’s (2022) article and the four commentaries provide an excellent overview of an important topic: HRM’s financial value from obtaining more star performers. It also related to a larger topic: the (financial) value of HRM in general. The article not only discusses the financial value of HRM from obtaining more star performers, but the commentaries also

discuss the limitations of utility analyses and the broader implications for both star and non-star performers. In our view, this represents a great kick-off for this first commentary collection. It provides a broader discussion on an important topic in our field and gives us something to think about, reflect on, discuss with colleagues in our corridor conversations and with students in the classrooms. In this final section of our Introduction, we discuss further implications of the paper and the commentaries and suggest further research.

Applications of Computational Modeling

First, we note the importance of addressing the financial value of HRM by using utility analysis and computational modeling techniques more broadly. While Huselid described in his commentary his utility analysis journey throughout his career, for many HRM scholars, utility analysis is not a technique they use every day. Utility analysis fell out of favor when evidence surfaced that it often did not achieve its original purpose, that of communicating more clearly with managers about the value of HR initiatives (i.e., the futility of utility, Latham & Whyte, 1994). In contrast, the Joo et al. article highlights the theoretical contributions of helping understand more about how and why star performers contribute to organizations. While Joo et al. focused on star performers, it seems evident that this type of analysis can be applied to many other HRM challenges such as compensation (Sturman, Trevor, Boudreau, & Gerhart, 2003), succession planning (Seijts, Espinosa & Carswell, 2020), and the use of contingent workers (Fisher & Connelly, 2017). There is currently much discussion about the value of virtual and hybrid work arrangements and the extent to which employers should continue offering this mode of work post-pandemic. Computational modeling could help build theory about virtual work, explicating the total costs and benefits across a range of values (e.g., individual productivity, creativity, knowledge sharing, real estate costs). There is much

added value in quantitatively expressing and clarifying theoretical assumptions. However, we need to be clear that the results of such computational modeling are still subject to testing with organizational data.

Utility analysis and computational modeling can also be viewed as a way to connect industry and academia in a partnership-oriented approach. As demonstrated by Joo et al., using real organizational data such as performance distributions is extremely beneficial for modeling efforts, allowing researchers to develop more realistic estimates of key parameters and even test their models and assumptions in the field. Organizations then receive practically useful information about important HR questions. Empirical models about the value of reducing turnover, increasing promotion options, or providing employees options for hybrid work are all likely to be impacted by factors such as job type, industry, or other contextual features. For example, Fisher and Connelly (2020) developed a model examining the financial costs and benefits of hiring employees with disabilities. They concluded that in a company in the hospitality industry, employees with disabilities added more value to their work unit than employees without disabilities. However, the parameters used in their model could vary with a different kind of job. By building this kind of industry engagement with organizations, researchers can improve their research and truly offer practical implications, beyond the paragraph or two of suggestions that we normally offer at the end of a manuscript.

Sustainable HRM

Another potential application of utility analysis and computational modeling in HRM is in the area of sustainability. It would be extremely useful for HRM scholars to be able to offer theoretical frameworks and empirical evidence on how more sustainable HRM practices can add financial value to firms. The triple bottom line framework applied in supply chain

management research for decades, and more recently considered in HRM (Aust, Matthews, & Muller-Camen, 2020), suggests that firms should pay attention not only to the financial results of the firm, but also to the impact on the environment, on people and on society. Research has quite successfully demonstrated that environmental interventions such as reducing energy use in buildings or reducing the number of plastics in packaging can also pay off financially (Soundararajan, Wilhelm & Crane, 2021). However, such evidence is lacking from the people side of the equation. What is the true financial impact of offering safe working conditions throughout the supply chain, making sure that all workers are paid a living wage, or offering employees long-term instead of temporary employment contracts? Will these practices pay off over the long term due to increases in performance and reduced turnover? Or do they cost firms money and reduce their competitiveness? Thus far, research on the impact of decent work has focused on the critical question of the impact on the employees (e.g., Allan, Autin & Wilkins-Yel, 2021), but little on the impact on the hiring firms or other supply chain stakeholders (see Eldor & Capelli, 2020, for an important exception). At the end, the firms are the stakeholders that have the power to make changes in these practices. Using modeling techniques such as those demonstrated by Joo et al. might help provide persuasive evidence about these sustainable HRM practices. Other researchers suggest that what really matters is doing the right and ethical thing as related to sustainable development goals, using a framework of Common Good HRM rather than triple bottom line (Aust, et al. 2020). It is not clear which line of reasoning will be more compelling for managers and policy makers in developing new approaches for sustainable HRM. Huselid, in his commentary, wonders why managers fail to take recommended actions regarding the most effective HR practices when faced with evidence and Latham and Whyte (1994) drew similar conclusions. The business case argument for sustainable and inclusive HR practices may have

limitations, as discussed by Silver et al. (2023), who explored alternative approaches to persuading hiring managers to consider recruiting neurodiverse applicants. If so, we need to consider how we might more effectively communicate results of computational modeling efforts in practice or combine both financial and ethical arguments to build a solid foundation of evidence (Rousseau & ten Have, 2022) upon which to make such decisions and motivate organizational change.

Complexity of HRM Systems

Biron mentioned in her commentary (see also the commentary of Kulik), that in addition to the added value of talents, in terms of creating a culture of excellence, talents in general, and the identification of talents more specific can have a negative impact on firms' success. For example, by being "brilliant jerks", creating conflicts and inflated egos, leading to competition, and discouraging innovation (Call, Campbell, Dunford, Boswell, & Boss, 2021). The calculation of the financial value of obtaining star performers should take this potential negative value of star performers into account, similar to the net value approach taken by Fisher and Connelly (2017) in their analysis of the financial impact of using different types of contingent workers. What is the value of organizational citizenship behaviors, or reactions that non-stars might have to how star performers are treated? Future research is needed to identify the weight of these effects. Also, the degree to which a culture accepts these kinds of "brilliant jerks" is a research field on its own. The identification of 'this kind of talent', and the communication of it to the whole workforce might not be helpful for non-identified employees who work hard to realize a friendly and caring environment. As much as star performers provide added value, employees showing a high amount of helping behavior have added value for an organization. Compensation was also not considered in this analysis.

Depending on the professional, that could have a substantial impact on the overall value of the star performers. How much do you have to pay them in order to attract and retain them?

Related to the previous point, the results of the utility analyses focus mainly on the financial consequences. As we know, there is more than financial value of performance. That implies, for instance, that the value of the wellbeing of employees, managers and other stakeholders should be taken into account. In addition, utility analysis does not normally differentiate between women and men, nor between different age and tenure categories or other demographics. How to refine and apply utility analysis in a more context-sensitive way would be a valuable way forward.

Conclusion

We choose Harry Joo, Herman Aguinis, Joowon Lee, Hannah Kremer and Isabel Villamor's article *HRM's financial value from obtaining more star performers* because of an unusual, intriguing perspective on an important field. Indeed, we hoped that we would gain insightful comments from eminent writers in relation to star performers and utility analysis – we were not disappointed. The authors of our commentary papers raised a host of theoretical, methodological and substance issues that can be a basis for an invigorated, broadened and deepened discussion. We hope that you will enjoy the articles in this, our first, commentary issue.

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