

Tesco, the UK's largest food retailer, has emerged as the star turn in a sector that has otherwise been sluggish in recent years. Our research has once again found that management behaviour, operating to an overarching set of values, seems to have made the difference.

In 1995 the company underwent considerable changes in an attempt to improve its market position. With a strategy of improving customer service and lowering prices, it increased turnover, profits and market share. As one senior manager told us, that year saw "the evolution of a customer-focused business. With quality and prices being much the same across the sector, our people and our service were seen as the differentiator."

Tesco developed its own version of the balanced scorecard to achieve the desired culture change. It took the form of a "steering wheel" with four quadrants - people, finance, customers and operations - against which every store's performance is now measured. The "people quadrant" covers issues such as recruitment and retention, employee development and morale. These measures are updated each quarter, and employees can monitor the performance of their own stores. This approach has encouraged a sharper focus on people and customer issues in the stores, which had previously been driven by financial and operational results.

We interviewed section managers, who are responsible for handling the recruitment, training and performance appraisal of around a dozen general assistants. Like the staff at Selfridges, they displayed some of the highest levels of organisational commitment of any of our case studies. They also showed significantly higher levels of commitment compared with national data from the national Workplace Employee Relations Survey. Around 90 per cent said they worked very hard and felt that their job was challenging. One section manager said: "I believe in the organisation. It looks after staff well, although it expects a great deal and stretches people."

Each store is governed by a routines handbook that goes into minute detail on how every task should be performed. All HR policies are highly centralised and controlled by head office. The wages budget, for example, is fixed for each supermarket and there is very little local flexibility on pay. Store managers are responsible for implementation and their behaviour is therefore key to how a store performs.

"The routines should be viewed as providing a focus and structure," one store manager told us. "They are necessary in terms of delivering best practice, but it's the way in which they are implemented that makes them effective and brings them to life."

Tesco asked us to study four of its supermarkets - two average performers, one good and one poor - but didn't tell us which was which. Our staff survey (see chart, right) found significant differences between the four stores in terms of the employees' satisfaction with the HR policies, their line managers and the level of influence they had over their own jobs, as well as their overall commitment. Employees in store B were generally the most satisfied and committed, followed by those in stores D and A, while those at store C were least satisfied.

How can we explain this discrepancy when there is so much standardisation? It seems that, as local managers exercise discretion in how they put the policies into practice, this is clearly reflected in the views of their staff.

"We have to interpret what head office wants, and there is a lot of room for discretion," another store manager told us. "The key is how you apply its policies - that's very different."

Not surprisingly, one of the regional directors reported to us that "getting the right managers into the right stores is the biggest issue I have to deal with".

Tesco uses a range of measures of operational efficiency and financial success as part of its steering-wheel system. Some of the most important categories are wastage (resulting from known losses, such as out-of-date goods); "shrinkage" (unknown losses, such as theft or stocktaking errors); operating expenses as a percentage of sales; and the profit contribution of each store. When we compared the performance of the stores with the average for the region, we found that store B was the best performer on all four measures and C was consistently the worst. This is a very similar pattern to the results of our staff attitude survey.

Our findings from Tesco are clear: even though it's a highly standardised organisation, there are still variations in how store managers implement its HR policy and in how employees rate the way they are managed. This pattern of results repeats through the different kinds of data linking how store managers use their discretion, the

attitudes of their staff and their stores' operational and financial performance. Given that the stores in the study are located in four similar towns and a common policy is being implemented, the most credible factor behind the variations in performance is the difference in the way that people are being managed.