High performance work systems: the sum really is greater than its parts

Keith Denton

Keith Denton is a Professor at Missouri State University, Springfield, Missouri, USA.

Summary

Purpose – *This article seeks to highlight the importance of creating a systematic approach to work measurement and performance improvements. It is not the people or innovative practices that are most critical to success but rather how they are connected.*

Design/methodology/approach – *The paper looks at some of the components of high performance work systems and examples of organizations that are employing a systematic approach to performance improvement.*

Practical implications – *The paper shows why consistency is more important than the tool or innovative practice one employs. If one wants long-term performance improvements one must connect all the dots. One must make sure there is a consistent theme or thread that draws all the pieces together. Employing innovative work practices will not succeed unless one ''bundles'' one's work practices together under a cohesive theme.*

Originality/value – *Everyone knows one has to approach problems systematically to be consistently successful. This article cites research and practical examples of how one can improve organizational performance by bundling innovative practices. The whole is greater than the parts.*

Keywords *Performance measures, Business improvement, Performance management systems, Human resources management, Knowledge sharing*

Paper type *General review*

A misconception many people have is that they believe that their people are their most important asset. The most important asset of an organization is not its people, nor its technology or even its managers. Each can be an important asset but each is simply a tool. Even the most gifted personnel will fail if they operate in a work system that is implemented piecemeal.

In a survey of US manufacturing establishments with 50 or more employees, managers were asked about how much they were using flexible work practices like self-directed work teams, job rotation, employee problem-solving groups and total quality management. What the survey found was that only about 36 percent were using two or more of those four practices with 50 percent of their employees. There was not a single dominant practice nor dominate cluster of practices. (*Training & Development*, 1995) This piecemeal approach to management is about the only dominating thing you can expect. It is the high performance organizations such as American Express, Federal Express, and Shenandoah Life Insurance that tend to be those that have developed systemic performance measurement systems.

High-performance work systems (HPWS) are those organizations that employee a fundamentally different approach to managing than the traditional piecemeal approach. These work systems (HPWS), sometimes go by other names like high involvement or high commitment organizations. Normally the essential characteristics of such organizations primarily include the seven key dimensions identified by Jeffrey Pfeffer in *The Human Equation* (Pfeffer, 1998, chapter 3). These include systems use of these components:

  ISSN 1368-3047 DOI 10.1108/13683040610719236

- employment security;
- selective hiring of new personnel;
- use of self-managed teams and decentralization of decision making;
- relatively high compensation that is contingent on organizational performance;
- extensive training of personnel;
- reduced status distinctions and barriers, including dress, office arrangements, and wage differences across all levels; and
- extensive sharing of financial and performance information within the organization.

Each piece is important but it is the integration of the components that makes the process effective. It is a theme that runs throughout many successful performance measurement approaches. For instance, Mark Huselid surveyed 968 firms in many industries. He consistently found that companies that used systems of high performance work practices resulted in less turnover and increase in both productivity and corporate financial performance (Huselid, 1995).

John Paul MacDuffie (1995) examined the relationship between ''bundles'' of interrelated and internally consistent human resource practices (not individual practices) and productivity and quality in 62 auto assembly plants throughout the world. MacDuffie (1995, pp. 217-218) found strong, statistically significant evidence demonstrating that innovative bundles of HR practices are positively related to both productivity and quality. Likewise studies by Ichniowski *et al.* (1997) for steel production lines found similar results. Their evidence, which controlled for all relevant differences in the production lines, indicated that systems of innovative HRM practices have a statistically significant large and positive association with workers' productivity, while changes in individual HRM practices have little or no effect (Ichniowski *et al.*, 1997, p. 311). Research clearly shows that it is the use of comprehensive systems of work practices in firms that is the key to higher productivity and stronger financial performance. it is the work system that organizes these work practices that is most important, not the pieces.

Focusing efforts

American Express was one of those companies cited as an example of a systemic approach. They adopted a system focusing on ''customer-based transactions'' that was built around external customer requests. They identified key customer transactions and then built a delivery system to support it. For instance, one performance measure was based on a service ''billing'' while another measure might be creating ''new accounts''. Once they identified their key customer transactions were identified they proceeded to isolate all of the key functions that were needed to deliver quality service to those customers.

The idea was to create a logical system of information flowing from one internal supplier to internal customer rather than the haphazard approach common in many organizations. With their system each internal supplier and customer knows where each fits within the total customer transaction process.

It was not completely systematic approach because American Express managers still maintained most of their old organizational structure but they did approach it more systematically than most. Now there is a direct connection between internal suppliers performing an action and internal customers responded to those actions. Generally they are able to measure the outcome of a service person's performance and their effect upon an individual customer, allowing individuals the privilege of seeing their direct impact on their individual customer.

The thread that ties the whole process together is individual customer transactions. It creates a cohesive focus because it makes it easy to see where you fit in and your impact on decisions. Using the customer as a unifying force is only possible because American Express measures 100 customer transaction-related measures! Performance wise, they expect results to be greater than 97 percent of the established standard. Individuals and departments know at a glance how they are doing and where they fit in – and perhaps most importantly why they are important. Knowing where you are going and who you are does not occur unless you address the issues of rewards for performance so they set up systems for rewarding people that exceed customer expectations.

Motorola is another shinning example of how to set up a systematic approach to management. In Motorola's case, it's not individual customer transactions, but rather their common measurement system, called defect per unit that ties the whole process together. Their Six Sigma objective is to ''do it right the first time'' without defects or errors. Statistically speaking, they expect to have less than four defects or defectives occurring in one million opportunities.

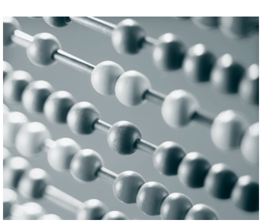
Each person at Motorola knows that their primary objective is to eliminate variability. Motorola is committed to cementing the concepts and puts its money where its mouth is with about 2.4 percent of their budget going to help train their people in methods to eliminate variability.

A systematic approach is better than the piece meal approach often used by many organizations. But not all systemic approaches are of equal value. American Express uses a systematic approach but much of their old hierarchy remains intact. They have overlaid a communication network over their old structure. As such, it is somewhat superficial since it really does not change how decisions are made or who makes them, nor does it create a greater sense of ownership. Their operation people may know where they fit in and it does create stronger linkages between one functional area and another but much of the same decision-making power remains. Motorola and American Express are able to focus their people but some serious drawbacks remain. One of the most serious drawbacks is that their systems do not really change how decisions are made. People may have a clearer focus of where they are supposed to be going but under Motorola's and American Express's approaches real decision-making remains at the top.

Focusing thinking

One company that has been more systematic than most organizations is the Springfield Re-manufacturing Corporation (SRC). The corporation employs about 900 people and rebuilds gasoline and diesel engines probably better than anyone in the world. The company has received a lot of national attention including being featured in the PBS series ''Growing a business''. They have also graced the cover of *INC Magazine* and were seen on a segment of CBS News *Nightly News*. Their particular system for focusing their people's efforts involves using the income statement and balance sheets or more correctly to ''generate wealth''.

SRC has all the components of a HPWS organization. While most companies tend to be a ''need to know'' (and you do not need to know) SRC believes their employees need to know how to make money so they teach them how to do it. They teach even the lowest level person about financial ratios and how to read income statements as well as balance sheets. But most importantly they did not give those same employees some significant control over those financial numbers. Jack Stack, their CEO, often says, ''There's not a financial number we don't share with our people.'' Stack knows their income statement can be a unifying factor, and it can also create a lot of trust between management and employees.



Each supervisor, department, and individual has a single line on those income statements. They know what they contribute to the bottom line. If the financial ratios improved the income statement or balance sheet, you are OK. SRC management makes sure employees get the message by tying financial rewards to the financial health of the company. It is systematic thinking. Individuals can receive a 10 percent bonus if they meet key financial goals, which incidentally are jointly set.

They conduct a weekly financial review meeting every Tuesday. It begins with top management and mid-level personnel and then works its way down the chain of command. Discussion in these meetings revolves around variances on each line item of their projected monthly income statements. Any negative variance between projected and actual expenditures is the source of extended discussions.

Using the income statements as a unifying factor does seem like a good idea. There is no logical reason why organizations could not share their financial information except for one reason – lack of trust and a lack of commitment to extensive training and openness about what is really going on within the organization. Unless we rethink the role of people, there is no way that organizations will be totally transparent and allow open disclosure of sensitive financial information.

Closing thoughts

People are not our most important resource, it is your work system that most influences your competitiveness. Research shows that management tends to use a piecemeal approach, even to the most innovative approaches. Maximizing competitiveness requires that we create a system of work that helps people clearly understand ''who we are'' and ''where we are headed.''

With American Express, they were able to get everyone focused on customer satisfaction by:

- showing their people why it was important and how to do it;
- measured things that directly related to how well they were satisfying them; and
- rewarded employees for performance in relationship to those standards.

Motorola chose to focus their people on quality rather than customer satisfaction by also approaching it in a systematic way. American Express measured individual customer transactions while Motorola's relevant measure was its ''defects per unit''. Appropriate rewards are also given to insure their people know who they were supposed to be (quality focus) and where we are headed (as measured by defects per unit).

SRC, on the other hand, chose to focus their efforts on generating wealth rather than on quality or customer satisfaction. Their means of measurement and training is open disclosure of their income statements and balance sheets.

References

Huselid, M.A. (1995), ''The impact of human resource management practices on turnover, productivity, and corporate financial performance'', *Academy of Management Journal*, Vol. 48 No. 3, pp. 635-72.

Ichniowski, C., Shaw, K. and Prennushi, G. (1997), ''The effects of human resource management practices on productivity: a study of steel finishing lines'', *American Economic Review*, Vol. 87 No. 3, pp. 291-313.

MacDuffie, J.P. (1995), ''Human resource bundles and manufacturing performance: organizational logic and flexible production systems in the world auto industry'', *Industrial and Labor Relations*, Vol. 48 No. 2, pp. 197-221.

Pfeffer, J. (1998), *The Human Equation: Building Profits by Putting People First*, Harvard Business School Press, Boston, MA.

Training & Development (1995), ''High-performance questions and answers'', *Training & Development*, Vol. 49 No. 6, p. 4.

Further reading

Kling, J. (1995), ''High performance work systems and firm performance'', *Monthly Labor Review*, Vol. 118, May, pp. 29-36.

About the author

Keith Denton is a Professor at Missouri State University, Springfield, Missouri, USA. He can be contacted at: dkdenton@missouristate.edu