After studying this chapter, you should be able to

1. **Outcome** Discuss the underlying principles of high-performance work systems.
2. **Outcome** Identify the components that make up a high-performance work system.
3. **Outcome** Describe how the components fit together and support strategy.
4. **Outcome** Recommend processes for implementing high-performance work systems.
5. **Outcome** Discuss the outcomes for both employees and the organization.
So, you have finished reading 15 chapters on HRM. Congratulations—textbooks do not always make for the most gripping reading. But before you close this book, think about the following question: What is more difficult—designing effective HR practices or managing them all together as one system?

In the past, HR textbooks simply ended after each individual aspect of HRM was introduced and explained. But in today’s competitive environment, many organizations are discovering that it is how the pieces are combined that makes all the difference. After all, managers typically do not focus on staffing, training, and compensation practices in isolation from one another. These HR practices are combined into an overall system to enhance employee involvement and performance. So now that we have talked about the individual pieces, we thought it might be useful to spend some time talking about how they fit together into HPWSs.

A **high-performance work system (HPWS)** can be defined as a specific combination of HR practices, work structures, and processes that maximizes the knowledge, skills, commitment, flexibility, and resilience of employees. The key concept is based on the system. HPWSs are composed of many interrelated parts that complement one another to reach the goals of an organization, large or small.

We will start by discussing the underlying principles that guide the development of HPWSs and the potential benefits that can occur as a result. Then we will outline the various components of the system, the work-flow design, HR practices, management processes, and supporting technologies (see Figure 16.1). We will also describe the ways in which organizations try to tie all the pieces of the system together and link them with strategy. We end the chapter with a discussion of the processes organizations use to implement HPWSs as well as the outcomes that benefit both the employee and the organization as a whole.

**FUNDAMENTAL PRINCIPLES**

In Chapter 1, we noted that organizations face a number of important competitive challenges such as adapting to greater global competition, embracing technology, managing change, responding to customers, developing intellectual capital, and containing costs. We also noted some very important employee concerns that must be addressed, such as managing a diverse workforce, recognizing employee rights, adjusting to new work attitudes, and balancing work and family demands. We now know that the best organizations go beyond simply balancing these sometimes competing demands; they create work environments that blend these concerns to simultaneously get the most from their employees, contribute to their needs, and meet the short-term and long-term goals of the organization. The notion of HPWSs was originally developed by David Nadler to capture an organization’s “architecture,” which integrates technical and social aspects of work. Edward Lawler and his associates at the Center for Effective Organization at the University of Southern California have worked with Fortune 1000 corporations to identify the primary principles that support HPWSs. There are four simple but powerful principles, as shown in Figure 16.2.

- Egalitarianism and engagement
- Shared information
- Knowledge development
- Performance–reward linkage

In many ways, these principles have become the building blocks for managers who want to create HPWSs. We will use them as a framework for the rest of the chapter. In addition, it should be noted that in a 2006 review and statistical analysis
of 92 studies involving more than 19,000 organizations, researchers James Combs, Yongmei Liu, Angela Hall, and David Ketchen identified a number of major findings related to HPWSs. First, the systems have a larger influence on the performance of organizations than other highly visible governance practices such as the independence of a firm’s board of directors. Second, because of their synergistic effects, the elements of the systems have a larger impact when they are implemented as a bundle. Third, the systems have a significant effect regardless of whether the performance of firms is measured in operational terms or financial terms. Finally, although HPWSs seem to have a bigger effect in manufacturing than in service organizations, they can be successfully implemented in all types of organizations.

EGALITARIANISM AND ENGAGEMENT

People want a sense that they are members, not just workers, in an organization. Status and power differences tend to separate people and magnify whatever disparities exist between them. The “us-versus-them” battles that have traditionally raged between managers, employees, and labour unions are increasingly being replaced by more cooperative approaches to managing work. More egalitarian work environments eliminate status and power differences and, in the process, increase collaboration and teamwork.

When this happens, productivity can improve if people who once worked in isolation from (or in opposition to) one another begin to work together.

Nucor Steel has an enviable reputation not only for establishing an egalitarian work environment, but also for the employee loyalty and productivity that stem
from that environment. Upper-level managers do not enjoy better insurance programs, vacation schedules, or holidays. In fact, certain benefits such as Nucor’s profit-sharing plan, scholarship program, employee stock purchase plan, extraordinary bonus plan, and service awards program are not available to Nucor’s officers at all. Senior executives do not enjoy traditional perquisites such as company cars, corporate jets, executive dining rooms, or executive parking places. On the other hand, every Nucor employee is eligible for incentive pay and is listed alphabetically on the company’s annual report.

Moving power downward in organizations—that is, empowering employees—frequently requires structural changes. Managers often use employee surveys, suggestion systems, quality circles, employee involvement groups, and/or union management committees that work in parallel with existing organizational structures. In addition, work flow can be redesigned to give employees more control and influence over decision making. At Old Home Foods, all employees are involved in the decision-making process of the business. “It’s part of the Old Home Foods culture,” says owner Peter Arthur “P. A.” Hanson. “To be a successful independent, you need to empower your employees and let them know they are critical to success.”

Job enlargement, enrichment, and self-managing work teams are typical methods for increasing the power of employees to influence decisions, suggest changes, or act on their own.

Involving employees in decision making and giving them the power to act also tends to increase what HR professionals refer to as employee engagement. Engaged employees are employees who consistently perform at high levels, are enthusiastic about what they do, and look for better, more efficient ways of
doing things. However, according to the research organization Gallup, only 29 percent of employees are actively engaged on the job, 15 percent are actively disengaged, and 54 percent are somewhere in the middle—not disengaged, but not engaged either.

Disengaged employees and employees who are only semiengaged can cost a company dearly, as the French bank Société Générale recently learned after a junior-level trader lost billions of the company’s money making illicit trades. Some experts believe that a number of Société Générale employees were perhaps aware that there was a problem but did not report it perhaps because of poor employee engagement.

**SHARED INFORMATION**

The principle of shared information is critical to the success of employee empowerment and involvement initiatives in organizations. In the past, employees traditionally were not given—and did not ask for—information about the organization. People were hired to perform narrowly defined jobs with clearly specified duties, and not much else was asked of them. One of the underlying ideas of HPWSs is that workers are intimately acquainted with the nature of their own work and are therefore in the best position to recognize problems and devise solutions to them. Today organizations are relying on the expertise and initiative of employees to react quickly to incipient problems and opportunities. Without timely and accurate information about the business, employees can do little more than simply carry out orders and perform their roles in a relatively perfunctory way. They are unlikely to understand the overall direction of the business or contribute to organizational success.

On the other hand, when employees are given timely information about business performance, plans, and strategies, they are more likely to make good suggestions for improving the business and to cooperate in major organizational changes. They are also likely to feel more committed to new courses of action if they take part in the decision making. The principle of shared information typifies a shift in organizations away from the mentality of command and control toward one more focused on employee commitment. It represents a fundamental shift in the relationship between employer and employee. If executives do a good job of communicating with employees and create a culture of information sharing, employees are perhaps more likely to be willing (and able) to work toward the goals for the organization. They will “know more, do more, and contribute more.”

**KNOWLEDGE DEVELOPMENT**

Knowledge development is the twin sister of information sharing. As Richard Teerlink, former CEO of Harley-Davidson, noted, “The only thing you get when you empower dummies is bad decisions faster.” Throughout this text, we have noted that the number of jobs requiring little knowledge and skill is declining, while the number of jobs requiring greater knowledge and skill is growing rapidly. As organizations attempt to compete through people, they must invest in employee development. This includes both selecting the best and the brightest candidates available in the labour market and providing all employees opportunities to continually hone their talents.

HPWSs depend on the shift from touch labour to knowledge work. Employees today need a broad range of technical, problem-solving, and interpersonal skills to work either individually or in teams on cutting-edge projects. Because of the speed of change, knowledge and skill requirements must also change rapidly. In today’s work environment, employees must learn continuously. Stopgap training programs may not be enough. Companies have found that employees in HPWSs need to learn
in “real time,” on the job, using innovative new approaches to solve novel problems. At Ocean Spray’s plant, making employees aware of the plant’s progress has been a major focus. A real-time scoreboard on the Henderson plant floor provides workers with streaming updates of the plant’s vital stats, including average cost per case, case volumes filled, filling speeds, and injuries to date. When people are better informed, they do better work. “We operate in real time, and we need real-time information to be able to know what we have achieved and what we are working towards,” says an Ocean Spray manager.

PERFORMANCE–REWARD LINKAGE

People may intentionally or unintentionally pursue outcomes that are beneficial to them but not necessarily to the organization as a whole. A corollary of this idea, however, is that things tend to go more smoothly when there is some way to align the interests of an organization and its employees. When companies reward their employees based on their performance, workers naturally pursue outcomes that are mutually beneficial to themselves and the organization. When this happens, some amazing things can result. For example, supervisors do not have to constantly watch to make sure that employees do the right thing. But in fact, employees may go out of their way—above and beyond the call of duty—to make certain that coworkers are getting the help they need, systems and processes are functioning efficiently, and customers are happy.

As Case Study 2 at the end of the chapter explains, every four weeks, natural foods grocery Whole Foods calculates the profit per labour hour for every team in every store. Teams that exceed a certain threshold get a bonus in their next paycheque. Performance-based rewards such as these ensure that employees share in the gains that result from any performance improvement. This also ensures fairness and tends to focus employees on the organization. In fact, at Whole Foods, each employee has access to what other employees make in terms of their compensation.

ANATOMY OF HIGH-PERFORMANCE WORK SYSTEMS

We said at the beginning of this chapter that HPWSs combine various work structures, HR practices, and management processes to maximize employee performance and well-being. Although we outlined the principles underlying such systems, their specific characteristics have not as yet been described in detail. Although it may be premature to claim that there is a foolproof list of “best practices” that can be implemented by every organization for every work situation, some clear trends in work design, HR practices, leadership roles, and information technologies tell us what HPWSs look like. Some of these are summarized in Figure 16.3.

WORK-FLOW DESIGN AND TEAMWORK

HPWSs frequently begin with the way work is designed. Total quality management (TQM) and re-engineering have driven many organizations to redesign their work flows. Instead of separating jobs into discrete units, most experts now advise managers to focus on the key business processes that drive customer value—and then create teams that are responsible for those processes. FedEx, for example, re-designed its delivery process to give truck drivers responsibility for scheduling their own routes and for making necessary changes quickly.
Because the drivers have detailed knowledge of customers and routes, FedEx managers empowered them to inform existing customers of new products and services. In so doing, drivers now fill a type of sales representative role for the company. In addition, FedEx drivers also work together as a team to identify bottlenecks and solve problems that slow delivery. To facilitate this, advanced communications equipment was installed in the delivery trucks to help teams of drivers balance routes among those with larger or lighter loads. By redesigning the work flow around key business processes, companies such as FedEx have been able to establish a work environment that facilitates teamwork, takes advantage of employee skills and knowledge, empowers employees to make decisions, and provides them with more meaningful work.

COMPLEMENTARY HUMAN RESOURCES POLICIES AND PRACTICES

Work redesign, in and of itself, does not constitute a HPWS. Neither does TQM or re-engineering. Other supporting elements of HRM are necessary. Several recent studies suggest that both the performance of employees as well as their satisfaction are much higher when organizations combine their changes in workflow design with HR practices that encourage skill development and employee involvement.
Staffing Practices

Many HPWSs begin with highly directive recruitment and selection practices. The recruitment tends to be both broad and intensive in order to get the best pool of candidates from which to choose. Human resources information systems have made it easier for firms to compile an inventory of their talent and search for employees with the specific skills they need. Talented employees “come up to speed” more quickly and take less time to develop. At General Motors’ Saturn division, and Weyerhaeuser, team members select their teammates. This practice gives employees more control over decisions about who their coworkers will be and forges relationships more quickly than if new members were simply assigned to a team.8

Too often, however, organizations try to save money by doing a superficial job of hiring. As a consequence, they run the risk of hiring the wrong people and spending more on training and/or outplacement, severance, and recruitment of replacements. Other hiring pitfalls include simply looking for skills and experience in candidates and not looking for cues to see if they are truly an engaged employee capable of contributing adequately to a HPWS. Kris Dunn, a human resources executive and writer, suggests asking candidates behavioural questions such as the following: Tell me about a time in a past job that you got really excited about something you were working on. Now tell me about a situation at work in which you got bored. If a candidate struggles to come up with relevant examples, there is no reason to think the person will be a fully engaged employee in your company.9

Training and Development

Like recruitment and selection, training focuses on ensuring that employees have the skills needed to assume greater responsibility in a high-performance work environment. For example, Schindler Elevator Corporation, the world’s second-largest manufacturer of elevators, provides a 60-hour pre-hire training program of instruction and testing in subjects such as orientation/company history, safety, plant policies and procedures, just-in-time (JIT) techniques, and basic shop math. The company also has an apprenticeship program that focuses on key areas based on its specific business needs. Apprentices are hired as machinists, tool and die makers, welders, electricians, mechanics, and so forth. In addition, Schindler gives each of its employees at least five days of classroom training every year. Similarly, team members at Saturn receive up to several hundred hours of training in their first few months. Typically, the training focuses on technical, problem-solving, and interpersonal skills. Emphasis on teamwork, engagement, and continuous improvement requires that employees develop a broader understanding of work processes performed by others around them rather than rely on just knowing their own jobs. To accomplish this, organizations increasingly use cross-training, discussed earlier in the book. Recall that this involves training employees in jobs in areas closely related to their own. Beyond individual training, Eastman Chemical Company has established a training certification process that helps ensure that its teams progress through a series of maturity phases. The teams certify their abilities to function effectively by demonstrating knowledge and skills in areas such as customer expectations, business conditions, and safety. Because these skills must be continually updated, Eastman Chemical requires that even certified teams periodically review their competencies.10

Compensation

Another important piece of a HPWS is the compensation package. Because HPWSs ask many different things from employees, it is difficult to isolate one single approach to pay that works for everyone. As a consequence, many companies are
experimenting with alternative compensation plans. In order to link pay and performance, HPWSs often include some type of employee incentives. For example, an average of 10 percent of Saturn employees’ pay is linked to goals for quality and training. Other organizational incentives such as gain sharing, profit sharing, and employee stock ownership plans focus employee efforts on outcomes that benefit both themselves and the organization as a whole. The Scanlon Plan and Improshare, discussed in Chapter 10, as well as the Rucker Plan, have been used by companies such as TRW, Weyerhaeuser, and Whole Foods to elicit employee suggestions and reward them for contributions to productivity.

HPWSs can also incorporate skill-based pay plans. By paying employees based on the number of different job skills they have, organizations such as Shell Canada, Nortel Networks, and Honeywell hope to create both a broader skill base among employees and a more flexible pool of people to rotate among interrelated jobs. Both of these qualities are beneficial in a high-performance work environment and may justify the added expense in compensation. Honeywell has even experimented with what it calls “intracapital”—a pool of money employees can spend on capital improvements if the company meets profitability goals.11

Recall that in addition to linking pay and performance, HPWSs are also based on the principle of egalitarianism. To reinforce this principle in plants utilizing HPWSs, Monsanto, AES, and Honeywell recently implemented an all-salaried workforce. The open pay plan, in which everyone knows what everyone else makes, is yet another feature of compensation systems used to create a more egalitarian environment that encourages employee involvement and commitment.12

MANAGEMENT PROCESSES AND LEADERSHIP

Organizations such as Motorola and Reebok International found that the success of any HPWS depends on first changing the roles of managers and team leaders. With fewer layers of management and a focus on team-based organization, the role of managers and supervisors is substantially different in an environment of HPWSs. Managers and supervisors are seen more as coaches, facilitators, and integrators of team efforts.13 Rather than autocratically imposing their demands on employees and closely watching to make certain that the workers comply, managers in HPWSs share responsibility for decision making with employees. Typically, the term manager is replaced by the term team leader. In a growing number of cases, leadership is shared among team members. Kodak, for example, rotates team leaders at various stages in team development. Alternatively, different individuals can assume functional leadership roles when their particular expertise is needed most.

SUPPORTIVE INFORMATION TECHNOLOGIES

Communication and information technologies are yet one more piece to be added to the framework of HPWSs. Technologies of various kinds create an infrastructure for communicating and sharing information vital to business performance. FedEx, for example, is known for its use of information technology to route packages. Its tracking system helps employees monitor each package, communicate with customers, and identify and solve problems quickly. Sally Industries uses information technology to assign employees to various project teams. The company specializes in animatronics, the combination of wires and latex that is used to make humanoid creatures such as those found in Disney’s Hall of Presidents. Artisans employed by Sally Industries work on several project teams at once. A computerized system developed by the company helps budget and track the employee time spent on different projects.
But information technologies need not always be so high-tech. The richest communication occurs face to face. The important point is that HPWSs cannot succeed without timely and accurate communications (recall the principle of shared information). Typically the information needs to be about business plans and goals, unit and corporate operating results, incipient problems and opportunities, and competitive threats.\(^{14}\)

**FITTING IT ALL TOGETHER**

Each of these practices highlights the individual pieces of a HPWS. While we have emphasized throughout this text that certain HR practices are better than others, recall that in HPWSs the pieces are particularly valuable in terms of how they help the entire system function as a whole. As we discussed in Chapter 2, careful planning helps ensure that the pieces fit together and are linked with the overall strategic goals of the organization. This philosophy is reflected in the mission statement of Saturn Motors, a model organization for HPWSs. Saturn’s mission is to “Market vehicles developed and manufactured that are world leaders … through the integration of people, technology, and business systems.” Figure 16.4 summarizes the internal and external linkages needed to fit HPWSs together.

**ENSURING INTERNAL FIT**

Recall from Chapter 2 that **internal fit** occurs when all the internal elements of the work system complement and reinforce one another. For example, a first-rate selection system may be of no use if it is not working in conjunction with a firm’s training and development activities. If a new compensation program elicits and reinforces behaviours that are directly opposed to the goals laid out in the firm’s performance plan, the two components would be working at cross purposes.

This is the true nature of systems. Changes in one component affect all the other components. Because the pieces are interdependent, a new compensation system may have no effect on performance if it is implemented on its own. Horizontal fit means testing to make certain that all of the HR practices, work designs, management processes, and technologies complement one another. The synergy achieved through overlapping work and human resources practices is at the heart of what makes a high-performance system effective.

**ESTABLISHING EXTERNAL FIT**

To achieve **external fit**, HPWSs must support the organization’s goals and strategies. This begins with an analysis and discussion of competitive challenges, organizational values, and the concerns of employees and results in a statement of the strategies being pursued by the organization.\(^{15}\)

Xerox, for example, uses a planning process known as “Managing for Results,” which begins with a statement of corporate values and priorities. These values and priorities are the foundation for establishing three-to-five-year goals for the organization. Each business unit establishes annual objectives based on these goals, and the process cascades down through every level of management. Ultimately, each employee within Xerox has a clear “line of sight” to the values and goals of the organization so he or she can see how individual effort makes a difference.\(^{16}\)

Efforts such as this to achieve vertical fit help focus the design of HPWSs on strategic priorities. Objectives such as cost containment, quality enhancement, customer
service, and speed to market directly influence what is expected of employees and the skills they need to be successful. Terms such as involvement, flexibility, efficiency, problem solving, and teamwork are not just buzz-words. They are translated directly from the strategic requirements of today’s organizations. HPWSs are designed to link employee initiatives to those strategies.

ASSESSING STRATEGIC ALIGNMENT: THE HR SCORECARD

In Chapter 2, we introduced the balanced scorecard as a tool that helps managers evaluate the link between strategic goals and operational activities. Professors Brian Becker, Mark Huselid, and Dave Ulrich have adapted that model to create a HR Scorecard that helps managers assess the strategic alignment of their work systems.17

The HR Scorecard can be used to diagnose internal fit and external fit in a relatively straightforward way. First, managers diagnose internal fit by assessing whether particular HR practices reinforce one another or work at cross purposes (see Highlights in HRM 16.1A). Second, managers assess whether the HR practices significantly enable key workforce deliverables such as employment stability and teamwork (see Highlights in HRM 16.1B). Third, the degree of external fit is evaluated by assessing the degree to which the workforce deliverables are connected with key strategic performance drivers (see Highlights in HRM 16.1C). These three assessments are extremely useful for not only deriving measures of internal and external fit of HPWSs, but also engaging a broader set of managers and employees in the discussion of how to best implement the

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**FIGURE 16.4**

Achieving Strategic Fit

[Diagram showing the relationship between strategy, competitive advantages, company values, employee concerns, high-performance work systems, internal fit, external fit, work-flow design, HR practices, technologies, and leadership.]
In the following chart, please estimate the degree to which the various HR management subsystems work together harmoniously or “fit” together. Think of the degree of fit and internal consistency as a continuum from –100 to +100, and assign a value in that range to each relationship. Examples of the extremes and midpoints on that continuum are as follows:

−100: The two subsystems work at cross purposes.
0: The two subsystems have little or no effect on one another.
+100: Each subsystem is mutually reinforcing and internally consistent.
DNK: Don’t know or have no opinion.

<table>
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<tr>
<th></th>
<th>HR Planning</th>
<th>Recruiting and Selection</th>
<th>Training and Development</th>
<th>Performance Management and Appraisal</th>
<th>Compensation and Benefits</th>
<th>Work Organization (e.g., Teams)</th>
<th>Communication Systems</th>
<th>Cost</th>
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### Highlights in HRM 16.1B

#### Testing the Alignment of the HR System with HR Deliverables

Please indicate the degree to which the following elements of the HR system facilitate the HR deliverables shown, on a scale of −100 to +100. Examples of the extremes and midpoints on that continuum are as follows:

−100: This dimension is counterproductive for enabling this deliverable.

0: This dimension has little or no effect on this deliverable.

+100: This dimension significantly enables this deliverable.

DNK: Don’t know or have no opinion.

<table>
<thead>
<tr>
<th></th>
<th>HR Planning</th>
<th>Recruitment and Selection</th>
<th>Training and Development</th>
<th>Management and Appraisal</th>
<th>Compensation and Benefits</th>
<th>Work Organization (e.g., Teams)</th>
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<td>Team-based behaviours</td>
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<td>Strategy-focused behaviours</td>
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</table>

### Highlights in HRM 16.1C

#### Testing the Alignment of HR Deliverables

Please indicate the degree to which each HR deliverable in the following chart would currently enable each strategic driver, on a scale of −100 to +100. Empty cells indicate this is not a key deliverable for a particular driver. Examples of the extremes and midpoints on that continuum are as follows:

−100: This deliverable is counterproductive for enabling this driver.

0: This deliverable has little or no effect on this driver.

+100: This deliverable significantly enables this driver.

DNK: Don’t know or have no opinion.

<table>
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<th>Team-Based Behaviours</th>
<th>Strategy-Focused Performance</th>
<th>High-Talent Staffing Level</th>
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</thead>
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<td>−30</td>
<td>+30</td>
<td></td>
</tr>
<tr>
<td>2. Enhance customer focus and responsiveness</td>
<td>−20</td>
<td></td>
<td>−20</td>
<td></td>
</tr>
<tr>
<td>3. Enhance productivity</td>
<td></td>
<td>−10</td>
<td>−50</td>
<td>−40</td>
</tr>
<tr>
<td>4. Develop and successfully manage joint ventures</td>
<td>−10</td>
<td>−50</td>
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</table>
system. In addition to making sure their HR practices are aligned, companies with disparate operations often align the HR scorecards of their various divisions. That is what Borealis, a manufacturer of polyolefin plastics, has done. In addition to an overall corporate HR Scorecard that supports the company’s corporate strategy, Borealis’s foreign HR divisions have created their own scorecards that support both the firm’s corporate-level HR Scorecard and the company’s local business unit scorecards.

IMPLEMENTING THE SYSTEM

So far we have talked about the principles, practices, and goals of HPWSs. Unfortunately, these design issues compose probably less than half of the challenges that must be met in ensuring system success. Much of what looks good on paper gets messy during implementation. The American Society for Training and Development (ASTD) asked managers and consultants to identify the critical factors that can make or break a HPWS. The respondents identified the following actions as necessary for success (see Figure 16.5):

- Make a compelling case for change linked to the company’s business strategy.
- Ensure that change is owned by senior and line managers.
- Allocate sufficient resources and support for the change effort.
- Ensure early and broad communication.
- Ensure that teams are implemented in a systemic context.
- Establish methods for measuring the results of change.
- Ensure continuity of leadership and champions of the initiative.18

Many of these recommendations are applicable to almost any change initiative, but they are especially important for broad-based change efforts that characterize HPWSs. Some of the most critical issues are discussed next.

BUILDING A BUSINESS CASE FOR CHANGE

Change can be threatening because it asks people to abandon the old ways of doing things and accept new approaches that, to them at least, are untested. Managers have to build a case that the changes are needed for the success of the
organization. This can be more readily accomplished if a member of top management plays the role of sponsor/champion and spends a substantial portion of his or her time in that role communicating with employees about the reasons and approaches to change. Major transformation should not be left to middle managers. Rather, the CEO and the senior management team need to establish the context for change and communicate the vision more broadly to the entire organization. For example, executives at Harley-Davidson tried to institute employee involvement groups without first demonstrating their own personal commitment to the program. Not surprisingly, employees were apathetic and in some cases referred to the proposed changes as just “another fine program” put in place by the personnel department. Harley-Davidson executives learned the hard way that commitment from the top is essential in order to establish mutual trust between employees and managers. Similarly, the CEO of a business consulting company was adamant that his 24-vice presidents understand a new initiative and give a short speech at an introductory session. On the day of the program’s launch, however, the CEO himself did not show up. The message to the vice-presidents was clear. The CEO did not think the change was important enough to become an active participant. Not surprisingly, the change was never implemented.19

One of the best ways to communicate business needs is to show employees where the business is today—its current performance and capabilities. Then show them where the organization needs to be in the future. The gap between today and the future represents a starting point for discussion. When executives at TRW wanted to make a case for change to HPWSs, they used employee attitude surveys and data on turnover costs. The data provided enough ammunition to get conversation going about needed changes and sparked some suggestions about how they could be implemented.

ESTABLISHING A COMMUNICATIONS PLAN
While we have emphasized the importance of executive commitment, top-down communication is not enough. Two-way communication can not only result in better decisions, but also may help to diminish the fears and concerns of employees. For example, Solectron Corporation, a winner of the Baldrige National Quality Award, tried to implement HPWSs to capitalize on the knowledge and experience of its employees. A pilot program showed immediate gains in productivity of almost 20 percent after the switch to self-managed teams and team-based compensation. Although Solectron’s rapid growth of more than 50 percent per year made it unlikely that middle managers would be laid off, many of them resisted the change to a HPWS. They resented the loss of status and control that accompanied the use of empowered teams. If Solectron managers had participated in discussions about operational and financial aspects of the business, they might not have felt so threatened by the change.

Open exchange and communication at an early stage pay off later as the system unfolds. Ongoing dialogue at all levels helps reaffirm commitment, answer questions that come up, and identify areas for improvement throughout implementation. Recall that one of the principles of HPWSs is sharing information. This principle is instrumental to success both during implementation and once the system is in place.

INVOLVING UNIONS
We mentioned in Chapter 14 that autocratic styles of management and confrontational approaches to labour negotiations are being challenged by more
enlightened approaches that promote cooperation and collaboration. Given the sometimes radical changes involved in implementing HPWSs, it makes good sense to involve union members early and to keep them as close partners in the design and implementation process. Figure 16.6 shows how to “build a bridge” toward a cooperative relationship with unions in implementing HPWSs.20

Cultivating Mutual Gains

In order to establish an alliance, managers and union representatives should try to create “win-win” situations, in which all parties gain from the implementation of HPWSs. Organizations such as Shell and Weyerhaeuser have found that “interest-based” (integrative) negotiation rather than positional bargaining leads to better relationships and outcomes with union representatives. Trust is a fragile component of an alliance and is reflected in the degree to which parties are comfortable sharing information and decision-making responsibilities. Manitoba Telecom Services has involved union members in decisions about work practices, and because of this, company managers have been able to build mutual trust and respect with the union. This relationship has matured to a point at which union and company managers now design, select, and implement new technologies together. By working hard to develop trust upfront, in either a union or a nonunion setting, it is more likely that each group will understand how HPWSs will benefit everyone. The organization will be more competitive, employees will have a higher quality of work life, and unions will have a stronger role in terms of representing employees.21

Formalizing the Commitment

Most union–management alliances are made legitimate through some tangible symbol of commitment. This might include a policy document that spells out the union’s involvement, letters of understanding, clauses in a collective bargaining

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**FIGURE 16.6**

Building Cooperation with Unions

Source: The Conference Board of Canada. Used by permission.
agreement, or the establishment of joint forums with explicit mandates. MacMillan Bloedel, a Canadian wood products company now owned by Weyerhaeuser, formed a joint operations committee of senior management and union representatives to routinely discuss a wide range of operational issues related to HPWSs. These types of formal commitments, with investments of tangible resources, serve two purposes: (1) They are an outward sign of managers’ commitment, and (2) they institutionalize the initiative so that it keeps going even if key project champions leave.22

Gaining the Support of Other Key Groups
In addition to union leaders, it is critical for the firm to gain the support of other key groups. Leaders must ensure that understanding and support are solid at all levels, not just among those in the executive suite. To achieve this commitment, some organizations have decentralized the labour relations function, giving responsibility to local line managers and human resources generalists, to make certain that they are accountable and are committed to nurturing a high-performance work environment. Nortel Networks, for example, formally transferred accountability for labour relations to its plant managers through its collective bargaining agreement. Giving line managers responsibility for employee relations helps them establish a direct working relationship with the union.

Similarly, multinational firms need to gain the support of their key groups abroad. For example, Celestica, Inc., a Canadian-based provider of electronics manufacturing services and products, started out as a single, wholly owned subsidiary of IBM. Today, however, the spin-off company has 40 electronics manufacturing and design centres around the world. Being sensitive to different cultures and their ways of doing business as well as building relationships with them has been critical to the success of Celestica’s HPWS.

Adhering to Procedures
Once processes, agreements, and ground rules are established, they are vital to the integrity of the relationship. As Ruth Wright, manager of the Council for Senior Human Resource Executives, puts it, “Procedure is the ‘rug’ on which alliances stand. Pull it out by making a unilateral management determination or otherwise changing the rules of the game, and the initiative will falter. Procedure keeps the parties focused, and it is an effective means of ensuring that democracy and fairness prevail.”23

In most cases, a “home-grown” process developed by a firm’s managers and employees works better than one adopted from elsewhere. Each organization has unique circumstances, and parties are more likely to commit to procedures they create and own. But this can give a firm a competitive advantage because home-grown, or unique, processes are harder for competitors to imitate.

NAVIGATING THE TRANSITION TO HIGH-PERFORMANCE WORK SYSTEMS
Building and fostering HPWSs is an ongoing activity. Perhaps the job is never fully completed. As with any change activity, there will be missteps during the system’s implementation. One reason for this is because in already existing organizations the pieces of the system often have to be changed incrementally rather than as a total program. Xerox Corporation found that when it implemented teams without also changing the compensation system to support teamwork, it got caught in a bad transition. The teams actually showed poorer performance than did employees working in settings that supported their individual contributions. Xerox’s executives concluded that they needed
to change the entire system at once because piecemeal changes were actually detrimental. The other mistake organizations often make is to focus on either top-down changes driven by executives or bottom-up changes cultivated by the employees. In reality, firms such as Champion International, now a part of International Paper, and ASDA, a low-cost British retailer, are among the many companies that have found that the best results occur when managers and employees work together. The top-down approach communicates manager support and clarity, while the bottom-up approach ensures employees accept and are committed to the approach.24

Building a Transition Structure

Different organizations implement HPWSs in different ways. In start-up firms, managers have the advantage of being able to put everything in place at once. However, when organizations have to be retrofitted, the process can be a bit more cumbersome. For example, when Honeywell switched to HPWSs in its plant in Chandler, Arizona, employees attended training programs and participated in the redesign of their jobs while the plant was shut down to be reequipped with new technology. When the new plant was reopened, self-managing teams were put in place, and a new pay system was implemented for the high-performance workforce.25 Not every organization has the luxury of suspending operations while changes are put in place. Nevertheless, establishing an implementation structure keeps everyone on track and prevents the system from bogging down. The structure provides a timetable and process for mapping key business processes, redesigning the work flow, and training employees.

Incorporating the HR Function as a Valuable Partner

Although line managers typically own the responsibility for implementing high-performing work systems, a firm’s HR department can be an invaluable partner because the group is the key enabler of a company’s human capital. Moreover, as we explained in Chapter 2, global competition in many industries has led to the commoditization of products based on price, making talent the “great differentiator” among firms. Thus, the recruiting, evaluation, and reward systems devised by HR groups can have a huge impact on how well HPWSs are implemented. In addition, because change is difficult, HR managers need to understand what employees in transition are going through and help them handle it. When the “old ways” of doing things are abandoned, many experienced employees begin to feel like “beginners” again on the job. This can be stressful and sometimes polarizes employees. As a coping mechanism, many are likely to fall back on older routines. Texas Instruments created its High Performance Organization Development unit to facilitate the transition to a HPWS. Other organizations such as Merck, Ford, and Deutsche Bank have also developed special HR units to manage organizational change. Unilever created a transition team of senior line and HR managers to oversee the implementation of high-performance teams and develop an implementation road map.26

EVALUATING THE SUCCESS OF THE SYSTEM AND SUSTAINING IT

Once HPWSs are in place, they need to be monitored and evaluated over time. Several aspects of the review process should be addressed. First, there should be a process audit to determine whether the system has been implemented as it was
designed and whether the principles of HPWSs are being reinforced. Questions such as the following might be included in the audit:

- Are employees actually working together, or is the term *team* just a label?
- Are employees getting the information they need to make empowered decisions, and are they engaged?
- Are training programs developing the knowledge and skills employees need?
- Are employees being rewarded for good performance and useful suggestions?
- Are employees treated fairly so that power differences are minimal?

Second, the evaluation process should focus on the goals of HPWSs. To determine whether the program is succeeding, managers should look at issues such as the following:

- Are desired behaviours being exhibited on the job?
- Are quality, productivity, flexibility, and customer service objectives being met?
- Are quality-of-life goals being achieved for employees?
- Is the organization more competitive than in the past?

Implementing a HPWS is one thing; sustaining it is another. Because the work teams in such a system are performing at their peak, burnout can be an issue, as can employee poaching by competitors. Motorola’s Indian division discovered this first-hand. The division strategically recruited its employees and put together a HPWS, thereby capturing a significant amount of India’s mobile device business. Later the division discovered that its employees were being hotly sought by other companies such as Nokia. Consequently, Motorola had to look for new ways to retain and motivate the division’s workforce.

Finally, HPWSs should be periodically evaluated in terms of new organizational priorities and initiatives. Because HPWSs are built on key business processes that deliver value to customers, as these processes and customer relationships change, so too should the work system. The advantage of HPWSs is that they are flexible and, therefore, more easily adapted. When change occurs, it should be guided by a clear understanding of the business needs and exhibit a close vertical fit to strategy.

**OUTCOMES OF HIGH-PERFORMANCE WORK SYSTEMS**

In addition to the large corporations we have mentioned, HPWSs can be used by small- and medium-sized organizations. The philosophies, principles, and techniques that underlie HPWSs are equally appropriate to the management of enterprises of all sizes. Progressive organizations of all sizes have successfully implemented team-based work systems, implemented staffing practices that select high-quality employees, developed training programs that continually update employee skills, and utilized compensation practices that support specific organizational goals. (The women’s clothing design company Eileen Fisher Inc., discussed in Case Study 1 at the end of the chapter, is an example of such an organization.) The key is that the firms have done these things in a coordinated, integrative manner. These smaller organizations have simply achieved a systematic approach to organizational design that combines HR practices, work structures, and processes that effectively utilize the competencies of their employees.
Organizations achieve a wide variety of outcomes from HPWSs and effective human resources management. We have categorized these outcomes in terms of either employee concerns such as quality-of-work-life issues and job security or competitive challenges such as the firm’s performance, productivity, and profitability. Throughout the text, we have emphasized that the best organizations find ways to achieve a balance between these two sets of outcomes and pursue activities that improve both.

EMPLOYEE OUTCOMES AND QUALITY OF WORK LIFE

HPWSs offer employees a myriad of potential benefits. In high-performing workplaces, employees have greater latitude to decide how to achieve their goals. Because the systems emphasize learning, people can take more risks, generate new ideas, and make mistakes, which in turn can actually lead to new products, services, and markets. As Richard Carlton, a former executive of 3M, put it, “You can’t stumble if you’re not in motion.” Because employees are more informed and empowered, they are likely to feel that they have a fuller role to play in the organization and that their opinions and expertise are valued more. As a result, they are likely to be more satisfied and find that their needs for career growth are being met. With higher skills and greater potential for contribution, they are likely to have more job security as well as be more marketable to other organizations, as employees in Motorola’s Indian division discovered.

Conversely, when employees are underutilized, the performance of an organization suffers, and employees develop poor work attitudes and habits. Some years ago, the British Land Rover Company, a manufacturer of four-wheel-drive vehicles, found itself saddled with a notorious reputation for poor quality and productivity. Then it underwent a fundamental transformation. The company instituted extensive training (including giving every employee a personal training fund to be used on any subject), implemented more team-based production methods, reduced the number of separate job classifications, developed more cooperative relations with the unions, and began a total quality program. As a result of these changes, productivity, quality, and the company’s sales soared. However, despite massive evidence documenting the effectiveness of the new system, BMW, which later bought the company, began to dictate changes after taking over Land Rover—changes that ultimately undid its transformation.

ORGANIZATIONAL OUTCOMES AND COMPETITIVE ADVANTAGE

Several organizational outcomes also result from using HPWSs. These include higher productivity, lower costs, better responsiveness to customers, greater flexibility, and higher profitability. Highlights in HRM 16.2 provides a sample of the success stories that companies have shared about their use of HPWSs. Benchmarks such as these are not enough. Recall that in Chapter 2 we said that organizations can create a sustainable competitive advantage through people if they focus on four criteria. They must develop competencies in their employees that have the following qualities:

- **Valuable.** HPWSs increase value by establishing ways to increase efficiency, decrease costs, improve processes, and provide something unique to customers.
- **Rare.** HPWSs help organizations develop and harness skills, knowledge, and abilities that are not equally available to all organizations.
The Impact of High-Performance Work Systems

- Ames Rubber Corporation, a manufacturer of rubber products and office machine components, experienced a 48-percent increase in productivity and five straight years of revenue growth.
- Sales at Connor Manufacturing Services grew by 21 percent, while new orders rose 34 percent and the company’s profit on operations increased 21 percent to a record level.
- Over a seven-year period, Granite Rock, a construction material and mining company, experienced an 88-percent increase in market share, its standard for on-time delivery grew from 68 to 95 percent, and revenue per employee was 30 percent above the national average.
- At One Valley Bank employee turnover dropped by 48 percent, productivity increased by 24 percent, return on equity grew 72 percent, and profits jumped by 109 percent in three years.

- The Tennessee Eastman Division of the Eastman Chemical Company experienced an increase in productivity of nearly 70 percent, and 75 percent of its customers ranked it as the top chemical company in customer satisfaction.
- A study by John Paul MacDuffie of 62 automobile plants showed that those implementing HPWSs had 47-percent better quality and 43-percent better productivity.
- A study by Jeff Arthur of 30 steel minimills showed a 34-percent increase in productivity, 63 percent less scrap, and 57 percent less turnover.
- A study by Mark Huselid of 962 firms in multiple industries showed that HPWSs resulted in an annual increase in profits of more than $3,800 per employee.


- **Difficult to imitate.** HPWSs are designed around team processes and capabilities that cannot be transported, duplicated, or copied by rival firms.
- **Organized.** HPWSs combine the talents of employees and rapidly deploy them in new assignments with maximum flexibility.\(^{29}\)

These criteria clearly show how HPWSs, in particular, and human resources management, in general, are instrumental in achieving competitive advantage through people.

However, for all their potential, implementing HPWSs is not an easy task. The systems are complex and require a good deal of close partnering among executives, line managers, HR professionals, union representatives, and employees. Ironically, this very complexity can lead to a competitive advantage. Because HPWSs are difficult to implement, successful organizations are difficult to copy. The ability to integrate business and employee concerns is indeed rare, and doing it in a way that adds value to customers is especially noteworthy. Organizations such as Google and Southwest Airlines have been able to do it, and as a result they enjoy a competitive advantage.
SUMMARY

OUTCOME 1
HPWSs are specific combinations of HR practices, work structures, and processes that maximize the knowledge, skills, commitment, and flexibility of employees. The systems are TQM oriented and based on the principles of shared information, knowledge development, performance-reward linkages, and egalitarianism and employee engagement.

OUTCOME 2
HPWSs are composed of several interrelated components. Team members are carefully selected and undergo extensive training, including cross training, and often share leadership duties. Typically, the system begins with designing empowered work teams to carry out key business processes. Integrated information technology systems can help ensure that employees have the information they need to make timely and productive decisions. To align the interests of employees with those of the organization, the reward systems associated with HPWSs are performance-based and often include group and organizational incentive pay and sometimes skill-based pay.

OUTCOME 3
The pieces of the system are important only in terms of how they help the entire system function. When all the pieces support and complement one another, HPWSs achieve internal fit. When the system is aligned with the competitive priorities of the organization as a whole, it achieves external fit as well.

OUTCOME 4
Implementing HPWSs within existing organizations often has to be done in stages. The implementation is much more likely to go smoothly if a business case is first made for the HPWS and fully communicated to employees. The support of the firm’s top managers is critical, and so too is the support of union representatives and the company’s other key groups and divisions. Because firms today gain a competitive advantage primarily from the capabilities of their talent, a company HR department can be an invaluable partner when it comes to implementing a HPWS. HR personnel can also help establish a transition structure to shepherd the implementation through its various stages and reassure employees they will...
be successful working in the new system. Once the system is in place, it should be evaluated in terms of its processes, outcomes, sustainability, and ongoing fit with strategic objectives of the organization.

Progressive organizations of all sizes have successfully implemented HPWSs. When implemented effectively, HPWSs benefit both employees and their organizations. Employees become more engaged and empowered to make decisions, experience greater career growth and satisfaction, and become more valuable contributors to their firms. Organizations benefit from higher productivity, quality, flexibility, and customer satisfaction. These features together can provide a company with a sustainable competitive advantage.

KEY TERMS
external fit, 16-10
high-performance work system (HPWS), 16-2
internal fit, 16-10
process audit, 16-10

DISCUSSION QUESTIONS
1. Do you think the four principles of high involvement provide an adequate context for designing HPWSs? What other concerns or guidelines for developing HPWSs would you suggest?
2. In many cases, organizations use teams as a part of their HPWSs. Could a HPWS be useful in an organization that does not use teams? What special concerns might have to be addressed?
3. Although achieving both internal and external fit are important with regard to HPWSs, which do you consider more critical and why?
4. This chapter emphasizes the processes required to implement HPWSs. What are the most critical steps to successful implementation?
5. How do you think employee-related outcomes and organizational outcomes are related to one another? Is it possible to achieve one set of outcomes without the other? Why or why not?

INTERNET EXERCISE
The principle of employee involvement is critical to the success of HPWSs. As a purchaser of this text, you have online access to Canadian HR Reporter. Go to the article on “Employee Engagement,” in Vol. 18, Issue 15, September 12, 2005, and, starting on page 7, read about the five companies described in this article. Compare and contrast the ways in which these organizations involve and empower their employees.

HRM EXPERIENCE
Assessing the Strategic Fit of High-Performance Work Systems

HPWSs are potentially powerful tools. However, ensuring that all of the HR practices support one another—and the principles underlying the HPWS—is not always easy. At times, certain HR practices might support the HPWS while others actually may work against the system’s principles. This can result in failure. It takes only one misaligned practice to crash the whole system. Recall that the HPWS principles include the following:

- Egalitarianism and engagement
- Shared information
- Knowledge development
- Performance–reward linkage

Assignment
The figure on the following page lists the main HR practices used at Egan Clothiers, Ltd. Working in teams of
four to six, assess the extent to which you believe each HR practice supports (or works against) each of the HPWS principles.

1. For each cell in the matrix, insert a number indicating the extent to which you believe the HR practice supports the principle or is counterproductive. The scale runs from –5 (strongly counterproductive) to 5 (very supportive). Zero indicates neither support nor detriment.

2. When you are done filling in each cell, add the numbers across each row to determine how supportive each HR practice is of all of the principles. Which HR practice is most supportive of the HPWS principles? Which HR practice is of most concern?

3. Add each column to see how the overall set of HR practices supports each principle. Which principle is most strongly supported? Which principle is the biggest concern?

4. Add the rows and/or columns to see how well the HPWS is supported overall. What changes would you recommend to improve the system?

### BIZFLIX EXERCISES

**APOLLO 13: HOUSTON, WE HAVE A PROBLEM**

This chapter discussed some principles that underlie HPWSs. Watch for these principles in action while viewing this scene from the film *Apollo 13*.

This superb film dramatically shows a NASA mission to the moon that had an in-space disaster. *Apollo 13* shows many examples of the innovative problem solving and decision making amid massive ambiguity that saved the crew. The zero gravity simulator, a KC-135 four-engine jet aircraft (NASA's “Vomit Comet”), helped create the film’s realistic weightless scenes. These scenes required 600 parabolic loops over ten days of filming.

The chosen scene is an edited version of the “Houston, We Have a Problem...” sequence that appears a third of the way into the film. It starts as Jim Lovell (Tom
Hanks) says, “Houston, we have a problem.” This scene ends after Lovell tells Mission Control that they are venting something into space. The film continues with frenzied activity in Mission Control. Flight Director Gene Krantz (Ed Harris) asks people to work the problem and stop guessing about it.

What to Watch for and Ask Yourself

• Which principles of HPWSs appear in this scene? Note some examples from the scene of the principles you identify. You also can refer to Figure 16.2 while viewing the scene.

• The chapter earlier noted that training and development is a human resource practice that is important for HPWSs. What type of training do you believe the astronauts receive? Does it appear effective for them to carry out their mission? Why or why not?

• Jim Lovell is the commander of the Apollo 13 mission. During this scene, does he show the management and leadership characteristics discussed earlier in the chapter?

CASE STUDY 1

ENGAGING EMPLOYEES “THE EILEEN FISHER WAY”

Passion for the business is integrated into the culture and the creative process at Eileen Fisher Inc., a women’s clothing designer and manufacturer ranked Number 7 among the 2007 Best Medium Companies to Work for in America.

An obsession with the “Eileen Fisher Way” radiates from the founder (“passion” and “obsession” are this entrepreneur’s favorite words) and permeates the organization.

Eileen Fisher herself is a self-described “quantum leap girl” who started the company in 1984 with four designs, $350, and complete confidence that “I know how to do this.” She pulled it off, creating a successful company that “encourages people to discover their passions and who they are, and helps them create their own place here.” The firm’s collaborative leadership style is the opposite of top-down management. “For us, [leadership] comes from the center,” says Susan Schor, the “chief culture officer” who coleads the company while Fisher concentrates on creating new designs.

Fisher, who met Schor at a party, says she “came in and created her own place,” helping to develop a “fluid structure” that defies translation into traditional corporate terms.

Schor guides the “People and Culture” areas: leadership, learning and development, social consciousness, human resources, and internal communications. Working in partnership, she and two colleagues are charged with “holding the whole,” a responsibility akin to that of a chief operating officer. “Everyone works in teams,” says Schor, and “no one reports to anyone. Instead, we ‘connect into’ someone else.” Leadership teams are run by facilitators, who are “not necessarily the ones who make the decisions,” she adds.

HR director Shari Simberkoff says that hiring, too, is a collaborative process that includes multiple team interviews. HR’s job begins with “hiring the right people for this organization,” keeping in mind that the company is not right for everyone. Once a good match has been made, “We try to give people reasons to stay by providing terrific benefits and services, and by helping them develop personally.”

The company’s hiring and retention efforts seem to be working. Simberkoff says it averaged about 15-percent turnover companywide last year, compared with a national turnover rate of 25 to 40 percent in the retail industry. She has been with the company for nine years, and many others have been there longer.

Although the eccentric and highly original culture is “not an easy environment to succeed in,” says Schor, it offers excitement and opportunity to those who “get it.”
For example, the company supports “eco-conscious” practices as well as responsible business activities that demonstrate a strong regard for human rights. Catherine Fordham is a grants coordinator who came up with a great idea—she is quick to say that it was not hers alone, but a group effort by the social consciousness team. “I knew that Eileen wants women to feel good about their bodies,” she says. Deciding that nonprofit organizations that work to raise the female self-image were good candidates for their grants program, she described the idea to Fisher and was given the go-ahead.

A successful “citizen of Eileen Fisher” is a person who is open and flexible and does not “hold on too tightly to what has been,” says Vice-President of Communications Hilary Old.

QUESTIONS

1. Identify the ways in which Eileen Fisher, Inc. engages its employees.
2. What aspects of “the Eileen Fisher Way” resemble HPWSs?
3. Can “eco-consciousness” effectively be incorporated into HPWSs?


CASE STUDY 2

WHOLE FOODS MOTIVATES ITS EMPLOYEES IN INNOVATIVE WAYS

If you have ever shopped at Whole Foods, you know it’s not your grandma’s supermarket. Stuffed full of organic and natural products, a Whole Foods store is a commodious, eye-popping, mouthwatering temple to guilt-free gastronomy. Whole Foods’ business model is built around a simple but powerful premise: people will pay a premium for food that is good for them, good-tasting, and good for the environment.

Ever since cofounder, chairman, and CEO John Mackey opened the original Whole Foods Natural Market, one of the country’s first supermarket-style natural food stores, in Austin, Texas, the company has focused its attentions on health-minded shoppers. Today, Whole Foods operates 194 stores and generates nearly $6 billion a year in sales. It is also America’s most profitable food retailer when measured by profit per square foot. Whole Foods has also done well by its investors. In the 15 years following its IPO in 1992, the company’s stock price rose by nearly 3,000 percent, dramatically outperforming its grocery-sector rivals.

At every turn, this inventive company has taken the road less traveled. Whole Foods’ commitment to organic produce and sustainable agriculture is unmatched by any competitor. Its stores are laid out to make shopping feel less like a chore and more like a culinary adventure.

The basic organizational unit is not the store, but the team. Small, empowered work groups are granted a degree of autonomy nearly unprecedented in retailing. Each store consists of roughly eight teams that oversee departments ranging from seafood to produce to checkout. Every new associate is provisionally assigned to a team. After a four-week work trial, teammates vote on the applicant’s fate; a newbie needs a two-thirds majority vote to win a full-time spot on the team.

This peer-based selection process is used for all new employees, including those hoping to join teams at Whole Foods’ headquarters, such as the national IT or finance squads. The underlying logic is powerful, if unconventional. Whole Foods
believes that critical decisions, such as who to hire, should be made by those who
will be most directly impacted by the consequences of those decisions.

The teams are also responsible for all key operating decisions, including
pricing, ordering, staffing, and in-store promotion. In essence, each team oper-
ates like a profit center and is measured on its labor productivity. While associ-
ates are highly empowered, they are also highly accountable. Every four weeks,
Whole Foods calculates the profit per labor hour for every team in every store.
Teams that exceed a certain threshold get a bonus in their next paycheck.
In addition, each team has access to performance data for every other team within its
store and for similar teams in other stores. The fact that no team wants to end up as a
laggard adds to the motivation to do well. All this explains why the hiring vote is such
a big deal at Whole Foods. Vote in a slacker, and your paycheck may take a beating.

The tight link between autonomy and accountability also diminishes the need for
motivation-sapping, bureaucratic controls. Says Mackey, “We don’t have lots of rules
that are handed down from headquarters in Austin. We have lots of self-examination
going on. Peer pressure substitutes for bureaucracy. Peer pressure enlists loyalty in
ways that bureaucracy doesn’t.” Putting so much authority in the hands of associ-
ates requires that top management trusts them to do the right thing for the business.
Conversely, team members will stay motivated over the long term only if they trust
top management to let them share in the bounty of their own productivity. Whole
Foods builds that trust in a variety of ways. For example, each associate has access
to the compensation data for every other store employee. This transparency makes it
difficult for managers to play favorites or be idiosyncratic in their compensation deci-
sions, since disgruntled associates can challenge the logic of salary discrepancies.

The ability to compare salaries also spurs employees to develop their skills
and take on new responsibilities, since they can easily see which sorts of jobs, and
people, get most generously compensated.

All too often, business leaders blithely tell employees that “we’re-all-in-this-
together,” while simultaneously tolerating Switzerland–Somalia disparities in CEO–
associate pay. The result: a cynical workforce. In contrast, the top team at Whole
Foods puts its money where its mouth is. Believing that 100-to-1 salary differentials
are incompatible with the ethos of a community, and more likely to inspire resent-
ment than trust, Whole Foods’ leaders have set a salary cap that limits any individual’s
compensation to no more than 19 times the company average. (In the average Fortune
500 company, the ratio is more than 400 to 1.) In the same spirit, 93 percent of the
company’s stock options have been granted to nonexecutives. (In most companies, 75
percent of the stock options are distributed to five or fewer senior executives.)

What ultimately binds Whole Foods’ 30,000-plus associates into a community is a
common cause—to reverse the industrialization of the world’s food supply and give
people better things to eat. This is capitalism with a conscience. A few rubber-meets-
the-road examples: Whole Foods has used its buying power to change modern fac-
tory farming, so that animals are treated humanely before slaughter. In January 2006,
Whole Foods made the largest-ever purchase of renewable energy credits from wind
farms—enough, in fact, to cover all of the company’s electric energy consumption.

For many associates, working at Whole Foods is an expression of their own
lifestyle choices and values: they get to sell nutritious food, contribute to sustain-
able farming, and support pesticide-free agriculture. All this is summed up in the
company’s oft-repeated mantra: “Whole Foods. Whole People. Whole Planet.”

Given all of this, it is hardly surprising that Whole Foods has been ranked as
one of Fortune magazine’s “100 Best Companies to Work For” every year since 1998,
when the list was first published. In 2007, Whole Foods was voted as the fifth most
rewarding place to work in America. It turns out that management innovation really
can help a company overcome the disengagement and malaise that is endemic in
traditionally managed workplaces.
QUESTIONS

1. If you were a manager at Whole Foods, what concerns would you have about the company’s HPWS?
2. What role do you think knowledge sharing plays in supporting Whole Foods HPWSs?
3. Why do all companies not treat their employees like Whole Foods does? Do you think they will in the future?


NOTES AND REFERENCES


7. See Lawler, Mohrman, and Ledford, Creating High Performance Organizations; Eileen Appelbaum, Thomas Bailey, Peter Berg, and Narne Kalleberg, Manufacturing


