Seven Practices of Successful Organizations

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Effectively management of people can produce substantially enhanced economic performance. A plethora of terms have been used to describe such management practices: high commitment, high performance, high involvement, and so forth. I use these terms interchangeably, as they all tap similar ideas about how to obtain profits through people. I extract from the various studies, related literature, and personal observation and experience a set of seven dimensions that seem to characterize most if not all of the systems producing profits through people.

- Employment security.
- Selective hiring of new personnel.
- Self-managed teams and decentralization of decision making as the basic principles of organizational design.
- Comparatively high compensation contingent on organizational performance.
- Extensive training.
- Reduced status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels.
- Extensive sharing of financial and performance information throughout the organization.

This list is somewhat shorter than my earlier list of sixteen practices describing "what effective firms do with people,"[1] for two reasons. First, this list focuses on basic dimensions, some of which, such as compensation and reduction of status differences, have multiple components that were previously listed separately. Second, some of the items on the previous list have more to do with the ability to implement high-performance work practices—such as being able to take a long-term view and to realize the benefits of promoting from within—than with describing dimensions of the practices themselves. It is, however, still the case that several of the dimensions of high-performance work arrangements listed, for instance employment security and high pay, appear to fly in the face of conventional wisdom. This article outlines these practices, provides examples to illustrate both their implementation and their impact, and explains their underlying logic.

Employment Security

In an era of downsizing and rightsizing—or, as Donald Hastings, CEO of Lincoln Electric, called it in a speech to the Academy of Management in 1996, "dumbsizing"—how can I write about employment security as a critical element of high-performance work arrangements? First, because it is simply empirically the case that most research on the effects of high-performance management systems have incorporated employment security as one important dimension in their description of these systems. That is because "one of the most widely accepted propositions . . . is that innovations in work practices or other forms of worker-management cooperation or productivity improvement are not likely to be sustained over time when workers fear that by increasing productivity they will work themselves out of their jobs."[2]

This was recognized long ago by Lincoln Electric, the successful arc welding and electric motor manufacturer that has dominated its markets for decades. Years ago, it began offering guaranteed employment to workers after two (and now three) years on the job. It has not had a layoff since 1948. Nor is it the case that this is just because the company has never faced hard times. In the early 1980s, a recession and high interest rates caused Lincoln's domestic sales to fall about 40 percent over an eighteen-month period. Nevertheless, it did not resort to layoffs. One thing the company did to avoid laying off people was to redeploy them. Factory workers who had made Lincoln's products were put in the field with the task of selling them, in the process actually increasing Lincoln's market share and penetration. Over the years, Lincoln has enjoyed gains in productivity that are far above those for manufacturing as a whole, and its managers believe that the assurance workers have that innovations in methods will not cost them or their colleagues their jobs has significantly contributed to these excellent results. Similarly, when General Motors wanted to implement new work arrangements in its innovative Saturn plant in the 1990s, it guaranteed its people job security except in the most extreme circumstances. When New United

Motors was formed to operate the Fremont automobile assembly plant, it offered its people job security. How else could it ask for flexibility and cooperation in becoming more efficient and productive?

Many additional benefits follow from employment assurances besides workers' free contribution of knowledge and their efforts to enhance productivity. One advantage to firms is the decreased likelihood that they will lay off employees during downturns. How is this a benefit to the firm? In the absence of some way of building commitment to retaining the work force—either through pledges about employment security or through employment obligations contractually negotiated with a union—firms may lay off employees too quickly and too readily at the first sign of financial difficulty. This constitutes a cost for firms that have done a good job selecting, training, and developing their work force: Layoffs put important strategic assets on the street for the competition to employ. When a colleague and I interviewed the Vice President for People at Southwest Airlines, she noted that the company had never had a layoff or furlough in an industry where such events were common. When we asked why, she replied, "Why would we want to put our best assets, our people, in the arms of the competition?" Seeing its people as strategic assets rather than as costs, Southwest has pursued a careful growth strategy that avoided overexpansion and subsequent cuts in personnel.

Employment security policies will also lead to more careful and leaner hiring, because the firm knows it cannot simply let people go quickly if it has overestimated its labor demand. Leaner staffing can actually make the work force more productive, with fewer people doing more work. The people are often happy to be more productive because they know they are helping to ensure a result that benefits them—having a long-term job and a career. Furthermore, employment security maintained over time helps to build trust between people and their employer, which can lead to more cooperation, forbearance in pressing for wage increases, and better spirit in the company. Herb Kelleher, the CEO of Southwest, has written:

> Our most important tools for building employee partnership are job security and a stimulating work environment. . . . Certainly there were times when we could have made substantially more profits in the short term if we had furloughed people, but we didn't. We were looking at our employees' and our company's longer-term interests. . . . [A]s it turns out, providing job security imposes additional discipline, because if your goal is to avoid layoffs, then you hire very sparingly. So our commitment to job security has actually helped us keep our labor force smaller and more productive than our competitors'.[3]

For organizations without the strategic discipline or vision of Southwest, a guarantee of employment security can help the firm avoid making a costly decision to lay people off that has short-term benefits and long-term costs.

If you want to see just how costly such layoff decisions can be, consider Silicon Valley. Executives from the semiconductor and electronics industries often write newspaper and magazine articles and testify before Congress in favor of permitting immigration of skilled workers. These executives favor immigration because they manage companies that are frequently short of necessary talent. The executives complain about their difficulty in recruiting qualified personnel in their expanding industry.

What you won't see in their articles or testimony, but what you will find if you look at newspapers from a few years ago, is that many of these very same firms laid off engineers, technicians, and other skilled workers in some instances just two or three years—or even less—before subsequently complaining about labor scarcity. Think about it. My friends in the valley have perfected the art of buying high and selling low. When times are tough in the industry, common sense suggests that that is exactly the time to recruit and build your work force. Competition for talented staff will obviously be less, and salaries need not be bid up in attempts to lure people from their existing jobs. By hiring when times are poor and developing a set of policies, including assurance that people will be retained, a firm can become an employer of choice, and the organization will not have to enter the labor market at its very peak to acquire the necessary work force. Instead, many firms do exactly the opposite. They lay people off in cyclical downturns and then, when the entire industry is booming and staff is scarce, they engage in often fruitless bidding contests to rehire the skills that they not that long ago sent packing.

Employment security can confer yet another benefit, in that it encourages people to take a longer-term perspective on their jobs and organizational performance. In a study of the financial performance of 192 banks, John Delery and Harold Doty observed a significant relationship between employment security and the bank's return on assets, an important measure of financial performance: "The greater the employment security given to loan officers, the greater the returns to banks."[4] Why might this be? In a bank that hires and lays off loan officers quickly to match economic fluctuations, the typical loan officer will worry only about booking loans—just what they have typically been rewarded for doing. With employment security and a longer-term perspective on the job, the bank officer may be more inclined to worry as well about the repayment prospects of the loan and about building customer relationships by providing high levels of service. Although a specific loan officer's career may prosper by being a big loan producer and moving quickly from one bank to another, the bank's profitability and performance are undoubtedly enhanced by having people who take both a longer term and a more comprehensive view of their jobs and of the bank's financial performance. This is likely to occur, however, only with the prospect of long-term continuity in the employment relationship.

The idea of employment security does not mean that the organization retains people who don't perform or work effectively with others—that is, performance does matter. Lincoln Electric has very high turnover for employees in their first few months on the job, as those who don't fit the Lincoln culture and work environment leave. Southwest will fire people who don't provide the level of customer service the firm is well-known for delivering and don't want to improve. Employment security means that employees are not quickly put on the street for things, such as economic downturns or the strategic mistakes of senior management, over which they have no control. The policy focuses on maintaining total employment, not on protecting individuals from the consequences of their individual behavior on the job.

The idea of providing employment security in today's competitive world seems somehow anachronistic or impossible and very much at variance with what most firms seem to be doing. But employment security is fundamental to the implementation of most other high-performance management practices, such as selective hiring, extensive training, information sharing, and delegation. Companies are unlikely to invest the resources in the careful screening and training of new people if those people are not expected to be with the firm long enough for it to recoup these investments. Similarly, delegation of operating authority and the sharing of sensitive performance and strategic information requires trust, and that trust is much more likely to emerge in a system of mutual, long-term commitments.

Selective Hiring

Organizations serious about obtaining profits through people will expend the effort needed to ensure that they recruit the right people in the first place. This requires several things. First, the organization needs to have a large applicant pool from which to select. In 1993, for example, Southwest Airlines received about 98,000 job applications, interviewed 16,000 people, and hired 2,700. In 1994, applications increased to more than 125,000 for 4,000 hires. Some organizations see processing this many job inquiries as an unnecessary expense. Southwest sees it as the first step toward ensuring that it has a large applicant pool from which to select its people. Similarly, Singapore Airlines—frequently listed as one of Asia's most admired companies, one of the most profitable airlines in the world, and consistently ranked quite high in ratings of service quality—is extremely careful and selective in its recruiting practices. Flight attendants are an important point of contact with the customer and one way in which Singapore Airlines differentiates its service. Consequently, senior management becomes personally involved in flight attendant selection. Prospective generalist staff, from which the ranks of managers will come, must pass a series of tests and clear two rounds of interviews, including interviews with a panel of senior management. "From an initial pool of candidates, about 10 percent are shortlisted and only 2 percent [one out of 50] are selected."[5]

Nor is such selectivity confined to service organizations. When Subaru-Isuzu opened its automobile assembly plant in the United States in the late 1980s, it received some 30,000 applications for employment. The Japanese automakers have consistently emphasized selecting good people as critical to their success, and they have been willing to expend the resources required on the selection process. It has always fascinated me that some people see selectivity on the part of elite universities or graduate schools as a mark of the school's prestige but see the same selection ratios on the part of companies as a waste of resources. It isn't.

Second, the organization needs to be clear about what are the most critical skills and attributes needed in its applicant pool. The notion of trying to find "good employees" is not very helpful—organizations need to be as specific as possible about the precise attributes they are seeking. At Southwest Airlines, applicants for flight attendant positions are evaluated on the basis of initiative, judgment, adaptability, and their ability to learn. These attributes are assessed in part from interviews employing questions evoking specific instances of these attributes. For instance, to assess adaptability, interviewers ask, "Give an example of working with a difficult co-worker. How did you handle it?"[6] To measure initiative, one question asks, "Describe a time when a co-worker failed to pull their weight and what you did about it."

Third, the skills and abilities hired need to be carefully considered and consistent with the particular job requirements and the organization's approach to its market. Simply hiring the "best and the brightest" may not make sense in all circumstances. Enterprise Rent-A-Car is today the largest car rental company in the United States, with revenues in 1996 of $3 billion, and it has expanded at a rate of between 25 and 30 percent a year for the past eleven years. It has grown by pursuing a high customer service strategy and emphasizing sales of rental car services to repair garage customers. In a low wage, often unionized, and seemingly low employee skill industry, virtually all of Enterprise's people are college graduates. But these people are hired primarily for their sales skills and personality and for their willingness to provide good service, not for their academic performance. Dennis Ross, the chief operating officer commented "We hire from the half of the college class that makes the upper half possible. . . . We want athletes, fraternity types . . . people people." Brian O'Reilly interpolates Enterprise's reasoning:

> The social directors make good sales people, able to chat up service managers and calm down someone who has just been in a car wreck. . . . The Enterprise employees hired from the caboose end of the class have something else going for them . . . a chilling realization of how unforgiving the job market can be.[7]

Fourth, organizations should screen primarily on important attributes that are difficult to change through training and should emphasize qualities that actually differentiate among those in the applicant pool. An important insight on the selection process comes from those organizations that tend to hire more on the basis of basic ability and attitude than on applicants' specific technical skills, which are much more easily acquired. This has been the practice of Japanese organizations for some time. "Japanese recruitment seeks to find the individual with the 'proper character whom it can train.' . . . Instead of searching for applicants with necessary skills for the job, the focus is on social background, temperament, and character references."[8]

Sophisticated managers know that it is much more cost-effective to select on those important attributes that are difficult or impossible to change and to train people in those behaviors or skills that are more readily learned. At Southwest Airlines, a top pilot working for another airline who actually did stunt work for movie studios was rejected because he was rude to a receptionist. Southwest believes that technical skills are easier to acquire than a teamwork and service attitude. Ironically, many firms select for specific, job-relevant skills that, while important, are easily acquired. Meanwhile, they fail to find people with the right attitudes, values, and cultural fit—attributes that are harder to train or change and that are quite predictive of turnover and performance. To avoid having to retrain or resocialize people that have acquired bad habits at their previous employers, companies like Southwest prefer to hire individuals without previous industry experience. Many also prefer to hire at the entry level, obtaining individuals who are eager to prove themselves and who don't know what can't be done.

It is tempting to hire on the basis of ability or intelligence rather than fit with the organization—so tempting that one occasionally observes firms trying to differentiate among a set of individuals who are basically similar in intelligence or ability while failing to try to distinguish those that will be well suited to the organization from those that will not. One of my favorite examples of this is recruitment at Stanford Business School. Stanford has a class of about 370 MBAs, selected from an initial applicant pool that in recent years has exceeded six thousand. These are obviously talented, motivated, and very intelligent individuals. Distinguishing among them on those criteria would be difficult, if not impossible. But many firms seek to do the impossible—they try to get around the school's policy of not releasing grades in an effort to figure out who are the smartest students and to assess differences in ability among a set of applicants through interviewing techniques such as giving them problems or cases to solve. Meanwhile, although many job recruits will leave their first job within the first two years, and such turnover and the requirement to refill those positions are exceedingly expensive, few firms focus primarily on determining fit—something that does vary dramatically.

Two firms that take a more sensible and pragmatic approach to hiring are Hewlett-Packard and PeopleSoft, a producer of human resource management software. For instance, one MBA job applicant reported that in interviews with PeopleSoft, the company asked very little about personal or academic background, except about learning experiences from school and work. Rather, the interviews focused mostly on whether the person saw herself as team oriented or as an individual achiever; what she liked to do outside school and work; and her philosophy on life. The specific question was "Do you have a personal mission statement? If you don't, what would it be if you were to write it today?" Moreover, the people interviewing the applicant presented a consistent picture of PeopleSoft as a company and of the values that were shared among employees. Such a selection process is more likely to produce cultural fit. A great deal of research evidence shows that the degree of cultural fit and value congruence between job applicants and their organizations significantly predicts both subsequent turnover and job performance.[9]

Firms serious about selection put applicants through several rounds of interviews and a rigorous selection procedure. At Subaru-Isuzu's U.S. manufacturing plant, getting hired involved going through multiple screening procedures including written tests and assessment center exercises and could take as long as six months or more. The fastest hire took nine weeks.[10] Such a lengthy selection process has several outcomes. First, it ensures that those who survive it have been carefully scrutinized. Second, it ensures that those eventually hired into the firm develop commitment. Applicants selected become committed as a consequence of having gone through such a lengthy and rigorous process—if they didn't really want the job, why would they go through it? At Subaru-Isuzu, the selection process "demanded perseverance," ensured that those who were hired had "the greatest desire and determination," and, since it required some degree of sacrifice on the part of the people, encouraged self-elimination and built commitment among those who survived.[11] Third, this type of process promotes the feeling on the part of those who are finally selected that they are part of an elite and special group, a feeling that causes them to enter the organization with a high level of motivation and spirit. Laurie Graham's participant observation study of Subaru-Isuzu concluded that "the fact that so much money, time, and effort went into the selection of employees reinforced the belief that the company was willing to go to great lengths to select the best."[12]

Rigorous selection requires a method, refined and developed over time through feedback and learning, to ensure that the firm can identify the skills it is seeking from the applicant pool. At Southwest Airlines, the company tracks who has interviewed job applicants. When someone does especially well or poorly, the organization can actually try to assess what the interviewers saw or missed, and why. It is puzzling that organizations will ensure the quality of their manufacturing or service delivery process by closing the loop on that process through feedback, while almost no organizations attempt to do the same thing with their recruiting process. Sources of applicants, scores on tests or interview ratings, and other selection mechanisms must be validated against the subsequent performance of the people selected if there is to be any hope of improving the effectiveness of the process over time.

The following list summarizes the main points about how to go about selective hiring to build a high-performance organization.

- Have a large number of applicants per opening.
- Screen for cultural fit and attitude—not for skills that can be readily trained.

- Be clear about what are the most critical skills, behaviors, or attitudes crucial for success; isolate just a small number of such qualities and be as specific as possible. Simply seeking "the best and brightest" frequently doesn't make sense.
- Use several rounds of screening to build commitment and to signal that hiring is taken very seriously.
- To the extent possible, involve senior people as a signal of the importance of the hiring activity.
- Close the loop by assessing the results and performance of the recruiting process.

Self-Managed Teams and Decentralization as Basic Elements of Organizational Design

Organizing people into self-managed teams is a critical component of virtually all high-performance management systems. Numerous articles and case examples as well as rigorous, systematic studies attest to the effectiveness of teams as a principle of organization design. One researcher concluded that "two decades of research in organizational behavior provides considerable evidence that workers in self-managed teams enjoy greater autonomy and discretion, and this effect translates into intrinsic rewards and job satisfaction; teams also outperform traditionally supervised groups in the majority of . . . empirical studies."[13]

In a manufacturing plant that implemented high-performance work teams, for example, a 38 percent reduction in the defect rate and a 20 percent increase in productivity followed the introduction of teams.[14] Honeywell's defense avionics plant credits improved on-time delivery—reaching 99 percent in the first quarter of 1996 as compared to below 40 percent in the late 1980s—to the implementation of teams.[15] A study of the implementation of teams in one regional Bell telephone operating company found that "self-directed groups in customer services reported higher customer service quality and had 15.4% higher monthly sales revenues."[16] In the case of network technicians, the implementation of self-directed work teams saved "an average of $52,000 in indirect labor costs for each self-directed team initiated."[17] Moreover, membership in self-directed work teams positively affected employee job satisfaction, with other factors that might also affect satisfaction statistically controlled. "More than 75% of surveyed workers who are currently in traditional work groups say they would volunteer for teams if given the opportunity. By contrast, less than 10% who are now in teams say they would like to return to traditional supervision."[18]

Teams offer several advantages. First, teams substitute peer-based for hierarchical control of work. "Instead of management devoting time and energy to controlling the workforce directly, workers control themselves."[19] Peer control is frequently more effective than hierarchical supervision. Someone may disappoint his or her supervisor, but the individual is much less likely to let down his or her work mates. At New United Motor Manufacturing (NUMMI), the work process is organized on a team basis with virtually no buffers of either in-process inventories or employees. As a consequence, "all the difficulties of one person's absence fall on those in daily contact with the absentee—the co-workers and immediate supervisor—producing enormous peer pressure against absenteeism."[20] Team-based organizations also are largely successful in having all of the people in the firm feel accountable and responsible for the operation and success of the enterprise, not just a few people in senior management positions. This increased sense of responsibility stimulates more initiative and effort on the part of everyone involved.

The tremendously successful natural foods grocery store chain, Whole Foods Markets, organized on the basis of teams, attributes much of its success to that arrangement. Between 1991 and 1996, the company enjoyed sales growth of 864 percent and net income growth of 438 percent as it expanded, in part through acquisitions as well as internal growth, from ten to sixty-eight stores. In its 1995 annual report, the company's team-oriented philosophy is clearly stated.

> Our growing Information Systems capability is fully aligned with our goal of creating a more intelligent organization—one which is less bureaucratic, elitist, hierarchical, and authoritarian and more communicative, participatory, and empowered. The ultimate goal is to have all Team Members contributing their full intelligence, creativity, and skills to continuously improving the company. . . . Everyone who works at Whole Foods Market is a Team Member. This reflects our philosophy that we are all partners in the shared mission of giving our customers the very best in products and services. We invest in and believe in the collective wisdom of our Team members. The stores are organized into self-managing work teams that are responsible and accountable for their own performance.[21]

Each store is a profit center and has about ten self-managed teams in it, with team leaders and clear performance targets. Moreover, "the team leaders in each store are a team, store leaders in each region are a team, and the company's six regional presidents are a team."[22] Although store leaders recommend new hires, teams must approve hires for full-time jobs, and it takes a two-thirds vote of the team members to do so, normally after a thirty-day trial period. Through an elaborate system of peer store reviews, Whole Foods encourages people to learn from each other. By sharing performance information widely, the company encourages peer competition. "At Whole Foods, pressure for performance comes from peers rather than from headquarters, and it comes in the form of internal competition."[23]

Second, teams permit employees to pool their ideas to come up with better and more creative solutions to problems. The idea, similar to brainstorming or group problem solving, involves pooling ideas and expertise to increase the likelihood that at least one member of the group will come up with a way of addressing the problem. In the group setting, each participant can build on the others' ideas, particularly if the members are trained in effective group process and problem solving. Teams at Saturn and at the Chrysler Corporation's Jefferson North plant "provide a framework in which workers more readily help one another and more freely share their production knowledge—the innumerable 'tricks of the trade' that are vital in any manufacturing process."[24]

Third, and perhaps most importantly, by substituting peer for hierarchical control, teams permit removal of layers of hierarchy and absorption of administrative tasks previously performed by specialists, avoiding the enormous costs of having people whose sole job it is to watch people watch people who watch other people do the work. Administrative overhead is costly because management is typically well-paid. Eliminating layers of management by instituting self-managing teams saves money. Self-managed teams can also take on tasks previously done by specialized staff, thus eliminating excess personnel and, just as important, putting critical decisions in the hands of individuals who may be closer to the relevant information.

The AES Corporation is an immensely successful global developer and operator of electric power and steam plants, with sales of more than $835 million and six thousand employees in 1996. A 1982 investment in the company of $10,000 would be worth more than $10 million in 1996. The company "has never formed corporate departments or assigned officers to oversee project finance, operations, purchasing, human resources, or public relations. Instead, such functions are handled at the plant level, where plant managers assign them to volunteer teams."[25] Front-line people develop expertise in these various task domains, including finance, and receive responsibility and authority for carrying them out. They do so effectively. Of course, mistakes get made, but learning follows. The AES structure saves on the costs of management—the organization has only five levels—and it economizes on specialized staff. The company developed a $400 million plant in Cumberland, Maryland, with a team of just ten people who obtained more than thirty-six separate permit approvals and negotiated the complex financing, including tax-exempt bonds and ten lenders. Normally, projects of this size require "hundreds of workers, each with small specific tasks to perform within large corporations."[26] The savings and increased speed and flexibility of the AES team-based approach are clear and constitute an important source of the firm's competitive advantage.

At Vancom Zuid-Limburg, a joint venture in the Netherlands that operates a public bus company, the organization has enjoyed very rapid growth in ridership and has been able to win transport concessions by offering more services at the same price as its competitors. The key to this success lies in its use of self-managed teams and the consequent savings in management overhead.

> Vancom is able to [win transport contracts] mainly because of its very low overhead costs. . . . [O]ne manager supervises around forty bus drivers. . . . This management-driver ratio of 1 in 40 substantially differs from the norm in this sector. At best, competitors achieve a ratio of 1 in 8. Most of this difference can be attributed to the self-managed teams. Vancom . . . has two teams of around twenty

> drivers. Each team has its own bus lines and budgeting responsibilities. . . . Vancom also expects each individual driver to assume more responsibilities when on the road. This includes customer service (e.g., helping elderly persons board the bus); identifying problems (e.g., reporting damage to a bus stop), and active contributions (e.g., making suggestions for improvement of the services).[27]

How can moving to self-managed teams, possibly eliminating layers of administration and even specialized staff, be consistent with the earlier discussion of employment security? Eliminating positions need not entail the elimination of the people doing these jobs—those individuals can be redeployed to other tasks that add more value to the organization. In the case of Lincoln Electric, recall that, at least temporarily, factory workers became salespeople, something that Mazda Motors also did when it faced a production employee surplus because of low sales in the 1980s. At SAS Airlines, staff that formerly did market research and planning were moved to positions where they had a more direct effect on customer service and operations. At Solectron, a contract manufacturer of electronics, institution of self-managed teams meant that managers, who typically had engineering degrees, could spend more time rethinking the overall production system and worrying about the technology strategy of the company —activities that added a lot more value than directly supervising $7 per hour direct labor. Often many tasks, such as the development of new products and new markets and the evaluation and introduction of new production technologies, require the time and strategic talents of managers, and these activities and decisions add much more value to the organization by using the knowledge and capabilities of the people. Consequently, a move to self-managed teams is consistent with maintaining employment when other, often more important, things are found for supervisors and specialized staff to do.

Even organizations for which working in formal teams is not sensible or feasible can benefit from one of the sources of team success: decentralization of decision making to front-line people, who have the knowledge and ability to take effective action. The Ritz-Carlton Hotel chain, winner of the Malcolm Baldrige National Quality Award in 1992, provides each of its people with discretion to spend up to $2,500, without any approval, in order to respond to guest complaints. Hampton Inn Hotel, a low-priced hotel chain, instituted a 100 percent Satisfaction Guarantee policy for its guests and permitted employees to do whatever was required to make the guests happy.

> A few years ago while working as a guest services representative at a Hampton Inn Hotel, I overheard a guest at our complimentary continental breakfast complaining quite loudly that his favorite cereal was not available. Rather than dismiss the person as just another disgruntled guest, I looked at the situation and saw an opportunity to make this guest happy. I gave him his money back—not for the continental breakfast, but for the cost of one night's stay at our hotel. And I did it on the spot, without checking with my supervisor or the general manager of the hotel.[28]

These policies may seem wasteful, but they're not. Ritz-Carlton managers will tell you that a satisfied customer will talk to ten people and an unhappy customer to one hundred. Spending money to keep clients satisfied is a small price to pay for good advertising and encouraging guests to return. Similarly, at the Hampton Inn, "company research suggests that the guarantee strongly influences customer satisfaction and loyalty to Hampton Inn, and that guests who have experienced the guarantee are more likely to stay with Hampton Inn again in the future."[29] It is important to realize that successful implementation of guest satisfaction programs or, for that matter, programs to use the ideas and knowledge of the work force require decentralizing decision making and permitting people at all levels to exercise substantial influence over organizational decisions and processes. All of this requires trust, a commodity in short supply in many organizations that have become accustomed to operating with an emphasis on hierarchical control.

High Compensation Contingent on Organizational Performance

Although labor markets are far from perfectly efficient, it is nonetheless the case that some relationship exists between what a firm pays and the quality of the work force it attracts. It is amusing to see firms announce simultaneously that first, they compete on the basis of their people and that their goal is to have the very best work force in their industry, and second, that they intend to pay at (or sometimes slightly below) the median wage for comparable people in the industry. The level of salaries sends a message to the firm's work force—they are truly valued or they are not. After all, talk is cheap and many organizations can and do claim that people are their most important asset even as they behave differently.

I sometimes hear the statement that high compensation is a consequence of organizational success, rather than its progenitor, and a related comment that high compensation (compared to the average) is possible only in certain industries that either face less competition or have particularly highly educated employees. But neither of these statements is correct. Obviously, successful firms can afford to pay more and frequently do so, but high pay can also produce economic success.

When John Whitney assumed the leadership of Pathmark, a large grocery store chain in the Eastern United States in 1972, the company had about ninety days to live according to its banks and was in desperate financial shape. Whitney looked at the situation and discovered that 120 store managers in the chain were paid terribly. Many of them made less than the butchers, who were unionized. He decided that the store managers were vital to the chain's success and its ability to accomplish a turnaround. Consequently, one of the first things he did was to give the store managers a substantial raise—about 40 to 50 percent. The subsequent success of the chain was, according to Whitney, because the store managers could now focus on improving performance instead of worrying and complaining about their pay. Furthermore, in a difficult financial situation, the substantial raise ensured that talent would not be leaving for better jobs elsewhere, thereby making a turnaround more difficult. Whitney has consistently tried to pay a 15 percent wage premium in the many turnaround situations he has managed, and he argues that this wage premium and the resulting reduced turnover *facilitates* the organization's performance.

The idea that only certain jobs or industries can or should pay high wages is belied by the example of many firms including Home Depot, the largest home improvement and building supply company in the United States, with about 8 percent of the market and approximately 100,000 employees. The company has been successful and profitable, and its stock price has shown exceptional returns. Even though the chain emphasizes everyday low pricing as an important part of its business strategy and operates in a highly competitive environment, it pays its staff comparatively well for the retail industry, hires more experienced people with building industry experience, and expects its sales associates to provide a higher level of individual customer service.

> At Home Depot, clients can expect to get detailed instruction and advice concerning their building, renovation, and hardware needs. This requires a higher level of knowledge than is typical of a retail sales worker. Management considers the sales associates in each department as a team, with wide discretion over department operations. Associates also receive above average pay for this retail segment.[30]

Contingent compensation also figures importantly in most high-performance work systems. Such compensation can take a number of different forms, including gain sharing, profit sharing, stock ownership, pay for skill, or various forms of individual or team incentives. Wal-Mart, AES Corporation, Southwest Airlines, Whole Foods Markets, Microsoft, and many other successful organizations encourage share ownership. When employees are owners, they act and think like owners. Moreover, conflict between capital and labor can be reduced by linking them through employee ownership. Since 1989, Pepsico has offered a broad-based stock option plan available to 100,000 people, virtually its entire full-time labor force. Publix, a supermarket chain with 478 stores in the Southeastern United States, earned 2.75 percent on net sales in 1995 in an industry where the average is 1 percent. The company has enjoyed rapid expansion. It is important to note that the sixty-four-year-old company "has always been owned entirely by its employees and management, and the family of its late founder. . . . Employees become eligible for stock after working one year and one thousand hours. . . . [E]mployees . . . wear name badges proclaiming that each is a stockholder."[31] Home Depot, the number one rated *Fortune 500* service company for profit growth, makes sure its managers own stock in the company. At Starbucks, the rapidly growing coffee outlet chain, 100 percent of the employees, even those working part-time, receive stock options in the company.[32] But such wide-spread encouragement of stock ownership remains quite rare. Hewitt Associates, a compensation consulting firm, estimated that in 1993 "only 30 large companies now have stock option plans available to a broad range of employees. Instead, most companies simply give stock options to employees once they reach a certain level in the corporation. Many workers then exercise the options and sell the stock in a single transaction. . . . They do not acquire a stake in the company."[33]

As various schemes for encouraging employee stock ownership have become increasingly trendy, in part because they frequently have tax advantages and, more importantly, are relatively straightforward to implement, it is critical to keep two things in mind. First, little evidence suggests that employee ownership, by itself, affects organizational performance. Rather, employee ownership works best as part of a broader philosophy or culture that incorporates other practices as well.

> An employee ownership culture is . . . a high-performance workplace in which each employee becomes an owner who is afforded certain rights in exchange for assuming new responsibilities. Such a culture is achieved by following the "working for yourself" thrust of employee ownership in conjunction with a battery of practices intended to create a non-bureaucratic, less hierarchical organization focused on performance.[34]

Merely putting in ownership schemes without providing training, information sharing, and delegation of responsibility will have little effect on performance because even if people are more motivated by their share ownership, they don't necessarily have the skills, information, or power to do anything with that motivation.

Second, many organizations treat stock options and share ownership as psychologically equivalent, but they are not. An option is just that—the potential or option to acquire shares at some subsequent point in time, at a given price. If the stock price falls below the option price, the option has no value. As Bill Gurley, one of Wall Street's premier technology analysts, has argued, "The main problem with stock options is that they do not represent true ownership." Gurley goes on to describe the two potential negative effects that follow from the option holder's being given the upside but protected from the downside:

> There is a huge incentive for option holders to take undue risk [and] there is an incentive for [people] to roam around. Try your luck at one job, and if it doesn't pan out, move on to the next one. . . . [A]n aggressive stock-option program has many of the same characteristics as leverage. When times are good, they are doubly good . . . when times turn bad, the effects of stock-option compensation can be quite devastating.[35]

If, by contrast, someone purchases stock, even at a slightly discounted price, that person has made a behavioral commitment with much more powerful psychological consequences. The person remains an owner, with psychological investment in the company, even when the stock price falls. Consequently, share ownership builds much more powerful commitments and psychologically binds people to their organizations more than do options, even when the economic consequences of the two schemes are largely similar.

One worry I sometimes hear voiced about share ownership concerns inevitable declines in stock price. When I asked AES people working at the power plant in Thames, Connecticut, specifically about this issue, I was told that people do watch the stock price, but when it goes down, most employees want to buy more. One person stated, "We feel we're part of the entrepreneurs. The fluctuations in stock price reinforces the fact that we're responsible. If there were only upside, we're taking a free ride. The fact that the stock price fluctuates and that people gain and lose accordingly makes people feel like they are more of an owner of the company."

A number of organizations use profit sharing to great effect, particularly when it extends throughout the organization. At Southwest Airlines, profit sharing causes its people to focus on costs and profits because they receive a percentage of those profits. At Hewlett-Packard, quarterly profit-sharing payments are greeted with anticipation and excitement. The enthusiasm of vice presidents and secretaries alike, the excited talk pervading the organization, makes it clear that when profit sharing covers all employees the social pressure to continue producing good results becomes both powerful and widespread.

Profit sharing also makes compensation more variable, permitting adjustments in the labor bill without layoffs. At Lincoln Electric, profit sharing averages around 70 percent of individual employee salaries. When business falls, profit-sharing payments fall and labor expenses decrease—without having to break the firm's commitment to employment security. This variable component of wage costs, achieved through profit sharing, has permitted Lincoln to ride out a substantial sales decrease without laying off anyone covered by its guaranteed employment policy.

Paying for skill acquisition encourages people to learn different jobs and thereby to become more flexible. Gain sharing differs from profit sharing in that it is based on incremental improvements in the performance of a specific unit. Levi Strauss, for instance, has used gainsharing in its U.S. manufacturing plants. If a plant becomes more efficient in its use of labor and materials, the people share in the economic gains thereby achieved. They share in these gains even if profits in the firm as a whole are down. Why should employees in a plant in which they have achieved efficiency gains be penalized for problems in the general economy that have adversely affected sales or, for that matter, by the performance of other parts of the organization over which they have no control?

For a number of reasons, contingent compensation is important. First, simply, it is a matter of equity and fairness. If an organization produces greater returns by unharnessing the power of its people, justice suggests that some proportion of those gains should accrue to those who have produced the results as opposed to going solely to the shareholders or management. If people expend more effort and ingenuity, observe better results as a consequence of that effort, but then receive nothing, they are likely to become cynical and disillusioned and to stop trying.

Second, contingent compensation helps to motivate effort, because people know they will share in the results of their work. At Whole Foods, a gainsharing program "ties bonuses directly to team performance—specifically, sales per hour, the most important productivity measurement."[36] Teams, stores, and regions compete on the basis of quality, service, and profitability, with the results translating into bonuses. At Solectron, the implementation of self-managed teams positively affected quality and productivity. But when bonuses based on team performance were instituted, productivity and quality improved yet again.

Managers sometimes ask how to prevent employment security from turning into something resembling the civil service, with people just marking time. The answer is by coupling employment security with some form of group-based incentive, such as profit or gainsharing or share ownership. The organization thus unleashes the power of the team, whose economic interests are aligned with high levels of economic performance. Explaining Whole Foods' exceptional performance record, their CEO, John Mackey, stated the following:

> Whole Foods is a social system. . . . It's not a hierarchy. We don't have lots of rules 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.[37]

Peer pressure is stimulated by profit sharing and stock ownership that encourages team members to identify with the organization and to work hard on its behalf.

Training

Virtually all descriptions of high-performance management practices emphasize training, and the amount of training provided by commitment as opposed to control-oriented management systems is substantial. Training in steel minimills, for example, was almost 75 percent higher in mills relying on commitment as opposed to those relying on control. The previously cited study of automobile assembly plants showed that training was substantially higher in flexible or lean compared to mass production systems. Training is an essential component of high-performance work systems because these systems rely on front-line employee skill and initiative to identify and resolve problems, to initiate changes in work methods, and to take responsibility for quality. All of this requires a skilled and motivated work force that has the knowledge and capability to perform the requisite tasks.

> [H]aving a work force that is multiskilled, adaptable to rapidly changing circumstances, and with broad conceptual knowledge about the production system is critical to the operation of a flexible production system. The learning process that

TABLE 1. Amount of Training for Production Workers in Automobile Assembly Plants

Ownership/Location	Hours of Training in the First Six Months for New Workers	Hours per Year for Those with > 1 Year Experience
Japanese/Japan	364	76
Japanese/North America	225	52
U.S./North America	42	31
U.S./Europe	43	34
European/Europe	178	52
Newly industrialized countries	260	46
Australia	40	15

Source: John Paul MacDuffie and Thomas A. Kochan, "Do U.S. Firms Invest Less in Human Resources? Training in the World Auto Industry," *Industrial Relations* 34 (1995): 156.

generates these human capabilities is an integral part of how the production system functions, not a separate training activity.[38]

Training is often seen as a frill in many U.S. organizations, something to be reduced to make profit goals in times of economic stringency. Data from the worldwide automobile assembly plant study, in this instance, from fifty-seven plants, are particularly instructive in illustrating the extent to which U.S. firms, at least in this industry, underinvest in training compared to competitors based in other countries. Table 1 presents information on the amount of training provided in automobile assembly plants operating in various countries and with different ownership.

The data in the table are startling. In terms of the amount of training provided to newly hired production workers, U.S. firms operating either in the U.S. or in Europe provide by far the least. Japanese plants in North America provide about 700 percent more training, and plants in newly industrialized countries such as Korea, Taiwan, and Brazil provided more than 750 percent more training than do U.S. plants. Only the amount of training provided in Australia compares with U.S. levels. Similar, although not as dramatic, differences exist in the training provided for experienced production workers. Once again, the United States and Australia lag, with Japanese firms operating in Japan providing more than twice as much training to experienced workers. It is, of course, possible that U.S. firms' training is so much better and so much more efficient that it accomplishes just as much with a small fraction of the effort. This explanation cannot be definitively ruled out because the study did not measure (which would be almost impossible in any event) the consequences or the effectiveness of training. Although this explanation for the differences is possible, it is not very plausible. Rather, the differences in training reflect the different views of people held by the different firms and their corresponding production systems.

"The Japanese-owned plants appear to train a lot because they rely heavily on flexible production, while the U.S.-owned plants in Europe and the Australian plants appear to train very little because they follow traditional mass production practices and philosophies."[39] U.S. automobile plants serious about pursuing profits through people show substantially larger training expenditures. Workers coming to Saturn initially "receive between 300 and 600 hours of training and then at least 5 percent of their annual work time (92 hours)" goes to training.[40]

The differences in training levels also reflect differences in time horizon—the Japanese firms and Saturn, with their policies of employment security, intend to keep their people longer, so it makes more sense for them to invest more in developing them. This illustrates a more general point—that the returns from any single high-performance management practice depend importantly on the entire set of practices that have been implemented. A firm that invests a lot in training but considers its people to be expendable costs to be quickly shed in times of economic difficulty will probably see little return from its training investment.

Studies of firms in the United States and the United Kingdom consistently provide evidence of inadequate levels of training and training focused on the wrong things: specialist skills rather than generalist competence and organizational culture. For instance, a case study of eight large organizations operating in the United Kingdom found one, W. H. Smith, a retailing and distribution organization, in which less than half of the people received *any* training at all in the past year. Furthermore, in only two of the organizations "did more than half the respondents indicate that they thought they received the training they needed to do their jobs well,"[41] and less than half of the organizations had a majority of employees who felt they were encouraged to develop new skills. What training is provided frequently focuses narrowly on specific job skills. "One Lloyds Bank senior manager said, 'People's perceptions of development would be that it is inadequate. But of course they are looking at being developed as generalists and I want them to be specialists more and more.'"[42] And all of this is occurring in a world in which we are constantly told that knowledge and intellectual capital are critical for success. Knowledge and skill *are* critical—and too few organizations act on this insight.

Training can be a source of competitive advantage in numerous industries for firms with the wisdom to use it. Consider, for instance, the Men's Wearhouse, an off-price specialty retailer of men's tailored business attire and accessories. Because four of the ten occupations expected to generate the most job growth through 2005 are in the retail trade sector, and in 1994, 17.9 percent of all American workers were employed in retail trade, this industry has some importance to the U.S. economy.[43] Yet the management of people in retailing is frequently abysmal. Turnover is typically high, as is the use of part-time employees, many of whom work part-time involuntarily. Employees are often treated poorly and subjected to arbitrary discipline and dismissals. Wages in retailing are comparatively low and are falling compared to other industries, and skill and career development and training are rare. The industry is characterized by both intense and increasing competition, with numerous bankruptcies of major retailing chains occurring in the last decade.

The Men's Wearhouse went public in 1991 and in its 1995 annual report noted that since that time it had achieved compounded annual growth rates in revenues and net earnings of 32 and 41 percent respectively. The value of its stock increased by approximately 400 percent over this period. In 1995, the company operated 278 stores with a total revenue of $406 million. The key to its success has been how it treats its people and particularly the emphasis it has placed on training, an approach that separates it from many of its competitors. The company built a 35,000 square-foot training center in Fremont, California, its headquarters. In 1994, some 600 "clothing consultants" went through Suits University, and that year the company added "Suits High and Selling Accessories U to complement our core program."[44] "New employees spend about four days in one of about thirty sessions held every year, at a cost to the company of about $1 million."[45] During the winter, experienced store personnel come back to headquarters in groups of about thirty for a three- or four-day retraining program.

The Men's Wearhouse has invested far more heavily in training than have most of its competitors, but it has prospered by doing so.

> Our shrink is 0.6 percent, only about a third of the industry average. And we spend zero on monitors in our stores. We have no electronic tagging and we spend nothing on security. . . . We feel that if you create a culture and an environment that is supportive of employees, you don't have to spend money on security devices. . . . My sense is that our rate of turnover is significantly lower than elsewhere.[46]

Not only does the typical U.S. firm not train as much, but because training budgets often fluctuate with company economic fortunes, a perverse, procyclical training schedule typically develops: Training funds are most plentiful when the firm is doing well. But, when the firm is doing well, its people are the busiest and have the most to do, and consequently, can least afford to be away for training. By contrast, when the firm is less busy, individuals have more time to develop their skills and undertake training activities. But that is exactly when training is least likely to be made available.

Training is an investment in the organization's staff, and in the current business milieu, it virtually begs for some sort of return-on-investment calculations. But such analyses are difficult, if not impossible, to carry out. Successful firms that emphasize training do so almost as a matter of faith and because of their belief in the connection between people and profits. Taco Inc., for instance, a privately owned manufacturer of pumps and valves, with annual sales of under $100 million, offers its 450 employees "astonishing educational opportunities—more than six dozen courses in all,"[47] in an on-site learning center. It cost the company $250,000 to build the center and annual direct expenses and lost production cost about $300,000. Asked to put a monetary value on the return from operating the center, however, the company's chief executive, John Hazen White, said "It comes back in the form of attitude. People feel they're playing in the game, not being kicked around in it. You step to the plate and improve your work skills; we'll provide the tools to do that."[48]

Even Motorola does a poor job of measuring its return on training. Although the company has been mentioned as reporting a $3 return for every $1 invested in training, an official from Motorola's training group said that she did not know where these numbers came from and that the company is notoriously poor at evaluating their $170 million investment in training. The firm mandates forty hours of training per employee per year, and believes that the effects of training are both difficult to measure and expensive to evaluate. Training is part and parcel of an overall management process and is evaluated in that light.

Reduction of Status Differences

The fundamental premise of high-performance management systems is that organizations perform at a higher level when they are able to tap the ideas, skill, and effort of all of their people. One way in which they do this is by organizing people in work teams, a topic already briefly covered here. But neither individuals nor teams will feel comfortable or encouraged to contribute their minds as well as their physical energy to the organization if it has sent signals that they are not both valuable and valued. In order to help make all organizational members feel important and committed to enhancing organizational operations, therefore, most high-commitment management systems attempt to reduce the status distinctions that separate individuals and groups and cause some to feel less valued.

This is accomplished in two principal ways—symbolically, through the use of language and labels, physical space, and dress, and substantively, in the reduction of the organization's degree of wage inequality, particularly across levels. At Subaru-Isuzu, everyone from the company president on down was called an Associate. The company's literature stated, "SIA is not hiring workers. It is hiring Associates . . . who work as a team to accomplish a task."[49] It is easy to downplay the importance of titles and language in affecting how people relate to their organization—but it is a mistake to do so.

> The title "secretary" seems subservient, Wilson [a consultant at Miss Paige Personnel agency in Sherman Oaks, California] said, "whereas administrative assistant sounds more career-oriented, and they like that." . . . Paul Flores . . . said employees at the Prudential Insurance Co. of America treat him better because of his new title. . . . When he moved to the supply unit, he became a SIMS (supply inventory management system) technician. . . . [I]nstead of people saying, "I want it now," they say, "Get it to me when you can."[50]

At NUMMI, everyone wears the same colored smock; executive dining rooms and reserved parking don't exist. Lincoln Electric also eschews special dining rooms—management eats with the employees—as well as reserved parking and other fancy perquisites. Anyone who has worked in a manufacturing plant has probably heard the expression, "The suits are coming." Differences in dress distinguish groups from each other and, consequently, help to inhibit communication across internal organizational boundaries. At Kingston Technology, a private firm manufacturing add-on memory modules for personal computers, with 1994 sales of $2.7 million per each of its three hundred people (a higher level of revenue per employee than Exxon, Intel, or Microsoft), the two co-founders sit in open cubicles and do not have private secretaries.[51] Solectron, too, has no special dining rooms and the chief executive, Ko Nishimura, does not have a private office or a reserved parking space. Parking has become quite tight as the company has expanded, and shuttle buses ferry employees in from more distant parking lots. Ko Nishimura rides these same shuttles and has said that he learns more riding in with the employees than from almost anything else he does. The reduction of status differences encourages open communication, necessary in an organization in which learning and adaptation are encouraged.

Status differences are reduced and a sense of common fate developed by limiting the difference in compensation between senior management and other employees. Whole Foods Markets, whose sales in 1996 were over $800 million and which has enjoyed substantial growth and stock price appreciation, has a policy limiting executive compensation. "The Company's publicly stated policy is to limit annual compensation paid to any executive officer to eight times the average full-time salary of all Team Members."[52] In 1995, the CEO, John Mackey, earned $130,000 in salary and a bonus of $20,000. Nor does Whole Foods circumvent this restriction on executive compensation through grants of stock options or by giving executives shares in the company. In 1995, Mr. Mackey received options at the market price on four thousand shares of stock.

Herb Kelleher, the CEO of Southwest Airlines who has been on the cover of *Fortune* magazine with the text, "Is he America's best CEO?" earns about $500,000 per year including base and bonus. Moreover, when in 1995 Southwest negotiated a five-year wage freeze with its pilots in exchange for stock options and occasional profitability bonuses, Kelleher agreed to freeze his base salary at $395,000 for four years.

> Southwest's compensation committee said the freeze, which leaves Mr. Kelleher's salary unchanged from his 1992 contract, "is pursuant to a voluntary commitment made by Mr. Kelleher to the Southwest Airlines Pilots' Association." . . . The . . . compensation committee said the number of options granted Mr. Kelleher, at his recommendation, was "significantly below" the number recommended by an independent consultant as necessary to make Mr. Kelleher's contract competitive with pay packages for rival airline chief executives.[53]

Sam Walton, the founder and chairman of Wal-Mart, was typically on Graef Crystal's list of one of the most underpaid CEOs. These individuals are, of course, not poor. Each of them owns stock in the companies they manage. But stock ownership is encouraged for employees in these companies. Having an executive's fortune rise and fall together with those of the other employees differs dramatically from providing them large bonuses and substantial salaries even as the stock price languishes and people are being laid off.

Clearly, practices that reduce status differences are consistent with rewards contingent on performance—as long as these contingent rewards are applied on a group or organizational level so that the benefits of the performance of the many are not awarded to the few. Reducing status differences by reducing wage inequality does limit the organization's ability to use individual incentives to the extent that the application of individual rewards increases the dispersion of wages. But this is not necessarily a bad thing. Many managers and human resource executives mistakenly believe that placing *individual* pay at risk increases overall motivation and performance, when it is actually the contingency of the reward itself, not the level at which it is applied (individual, group, or organizational) that has the impact. Contingent rewards provided at the group or organizational level are at least as effective, if not more so, than individual incentives and, moreover, they avoid many of the problems inherent in individual merit or incentive pay.

Sharing Information

Information sharing is an essential component of high-performance work systems for two reasons. First, the sharing of information on things such as financial performance, strategy, and operational measures conveys to the organization's people that they are trusted. John Mackey, the chief executive of Whole Foods Markets, has stated, "If you're trying to create a high-trust organization, . . . an organization where people are all-for-one and one-for all, you can't have secrets."[54] Whole Foods shares detailed financial and performance information with every employee—things such as sales by team, sales results for the same day last year, sales by store, operating profits by store, and even information from its annual employee morale survey—so much information, in fact, that "the SEC has designated all 6,500 employees 'insiders' for stock-trading purposes."[55] AES Corporation also shares detailed operational and financial information with its employees to the extent that they are all insiders for purposes of securities regulation. But Whole Foods goes even further, sharing individual salary information with every employee who is interested.

> The first prerequisite of effective teamwork is trust. . . . How better to promote trust (both among team members and between members and leaders) than to eliminate a major source of distrust—misinformed conjecture about who makes what? So every Whole Foods store has a book that lists the previous year's salary and bonus for all 6,500 employees—by name.[56]

This idea may at first seem strange. But think about your organization. If it is anything like mine, where salaries are secret, when it's time for raises people spend time and effort attempting to figure out what others got and how their raise (and salary) stacks up. This subtle attempt to find out where you stand takes time away from useful activities. Moreover, individuals frequently assume the worst—that they are doing worse than they actually are—and in any event, they don't have enough information to trust the salary system or, for that matter, the management that administers it. John Mackey of Whole Foods instituted the open salary disclosure process to signal that, at least this company had nothing to hide, nothing that couldn't be seen—and questioned—by any team member.

Contrast that organization with *Fortune* magazine, where a now-retired senior editor told me that after the Time-Warner merger when the company was saddled with debt, senior personnel were called together and told to "cut expenses by 10 percent." When the editor asked to see the expense budget and how it was allocated, he was told he could not. He resigned soon after. What message does an organization send if it says "Cut expenses, but, by the way, I don't trust you (even at senior levels) enough to share expense information with you?"

A second reason for sharing information is this: Even motivated and trained people cannot contribute to enhancing organizational performance if they don't have information on important dimensions of performance and, in addition, training on how to use and interpret that information. The now famous case of Springfield ReManufacturing beautifully illustrates this point. On February 1, 1983, Springfield ReManufacturing Corporation (SRC) was created when the plant's management and employees purchased an old International Harvester plant in a financial transaction that consisted of about $100,000 equity and $8.9 million debt, an 89—1 debt to equity ratio that has to make this one of the most leveraged of all leveraged buy-outs. Jack Stack, the former plant manager and now chief executive, knew that if the plant was to succeed, everyone had to do their best and to share all of her or his wisdom and ideas for enhancing the plant's performance. Stack came up with a system called "open-book management" that has since become a quite popular object of study—so popular that SRC now makes money by running seminars on it. Although the method may be popular as a seminar topic, fewer organizations are actually willing to implement it.

The system has a straightforward underlying philosophy, articulated by Stack:

> Don't use information to intimidate, control or manipulate people. Use it to teach people how to work together to achieve common goals and thereby gain control over their lives. . . . Cost control happens (or doesn't happen) on the level of the individual. You don't become the least-cost producer by issuing edicts from an office. . . . [T]he best way to control costs is to enlist everyone in the effort. That

means providing people with the tools that allow them to make the right decisions.[57]

Implementing the system involved first making sure that all of the company's people generated daily numbers reflecting their work performance and production costs. Second, it involved sharing this information, aggregated once a week, with all of the company's people, everyone from secretaries to top management. Third, it involved extensive training in how to use and interpret the numbers—how to understand balance sheets and cash flow and income statements. "Understanding the financials came to be part of everyone's job."[58]

Springfield ReManufacturing has enjoyed tremendous financial success. In 1983, its first year of operation, sales were about $13 million. By 1992, sales had increased to $70 million, the number of employees had grown from 119 at the time of the buy-out to 700, and the original equity investment of $100,000 was worth more than $23 million by 1993.[59] No one who knows the company, and certainly not Jack Stack or the other managers, believes this economic performance could have been achieved without a set of practices that enlisted the cooperation and ingenuity of all of the firm's people. The system and philosophy of open-book management took a failing International Harvester plant and transformed it into a highly successful, growing business. Similarly impressive results have been reported in case studies of Manco, a Cleveland-based distributor of duct tape, weather stripping, and mailing materials; Phelps County Bank, located in Rolla, Missouri; Mid-States Technical Staffing Services, located in Iowa; Chesapeake Manufacturing Company, a packaging materials manufacturer; Allstate Insurance; Macromedia, a software company; and Pace Industries, a manufacturer of die cast metal parts.[60]

If sharing information makes simple, common sense, you might wonder why sharing information about operations and financial performance is not more widespread. One reason is that information is power, and sharing information diffuses that power. At an International Harvester plant, "the plant manager's whole theory of management was 'Numbers are power, and the numbers are mine.'"[61] If holding performance information is the critical source of the power of a firm's leaders, however, let me suggest that the organization badly needs to find some different leaders.

Another rationale for not sharing information more widely with the work force is managers' fears that the information will leak out to competitors, creating a disadvantage for the organization. When Bob Beck, now running human resources at Gateway 2000, a manufacturer of personal computers sold largely by mail order, was the Executive Vice President of Human Resources at the Bank of America in the early 1980s, he told his colleagues that the organization could never improve customer service or retention until it shared its basic business strategy, plans, and measures of performance with its entire work force. When his colleagues on the executive committee noted that this information would almost certainly leak out to the competition, Beck demonstrated to them what ought to be common knowledge—in most instances, the competition already knows.

When organizations keep secrets, they keep secrets from their own people. I find it almost ludicrous that many companies in the electronics industry in the Silicon Valley go to enormous lengths to try to keep secrets internally, when all you have to do to penetrate them is to go to one of the popular bars or restaurants in the area and listen in as people from different companies talk quite openly with each other. When people don't know what is going on and don't understand the basic principles and theory of the business, they cannot be expected to positively affect performance. Sharing information and providing training in understanding and using it to make better business decisions works.

Conclusion

Firms often attempt to implement organizational innovations, such as those described here, piecemeal. This tendency is understandable—after all, it is difficult enough to change some aspect of the compensation system without also having to be concerned about training, recruitment and selection, and how work is organized. Implementing practices in isolation may not have much effect, however, and, under some circumstances, it could actually be counterproductive. For instance, increasing the firm's commitment to training activities won't accomplish much unless changes in work organization permit these more skilled people to actually implement their knowledge. If wages are comparatively low and incentives are lacking that recognize enhanced economic success, the better trained people may simply depart for the competition. Employment security, too, can be counterproductive unless the firm hires people who will fit the culture and unless incentives reward outstanding performance. Implementing work teams will probably not, by itself, accomplish as much as if the teams received training both in specific technical skills and team processes, and it will have less effect still if the teams aren't given financial and operating performance goals and information. "Whatever the bundles or configurations of practices implemented in a particular firm, the individual practices must be aligned with one another and be consistent with the [organizational] architecture if they are ultimately to have an effect on firm performance."[62] It is important to have some overall philosophy or strategic vision of achieving profits through people, because an overall framework increases the likelihood of taking a systematic, as contrasted with a piecemeal, approach to implementing high-commitment organizational arrangements.

Clearly, it requires time to implement and see results from many of these practices. For instance, it takes time to train and upgrade the skills of an existing work force and even more time to see the economic benefits of this training in reduced turnover and enhanced performance. It takes time not only to share operating and financial information with people, but also to be sure that they know how to understand and use it in decision making; even more time is needed before the suggestions and insights implemented can provide business results. It certainly requires time for employees to believe in employment security and for that belief to generate the trust that then produces higher levels of innovation and effort. Consequently, taking a long-term view of a company's development and growth becomes at least useful if not absolutely essential to implementation of high-performance organizational arrangements. One way of thinking about various institutional and organizational barriers and aids to implementing high-performance management practices is, therefore, to consider each in terms of its effects on the time horizon that characterizes organizational decisions.

Notes

1. See chapter 2 in Jeffrey Pfeffer, *Competitive Advantage Through People: Unleashing the Power of the Work Force* (Boston, MA: Harvard Business School Press, 1994).
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4. John E. Delery and D. Harold Doty, "Modes of Theorizing in Strategic Human Resource Management: Tests of Universalistic, Contingency, and Configurational Performance Predictions," *Academy of Management Journal*, 39 (1996): 820.
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6. "Southwest Airlines," Case S-OB-28, Graduate School of Business, Stanford University, Palo Alto, CA, 1994, p. 29.
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