

DOCUMENT RESUME

ED 378 422

CE 068 141

AUTHOR Kerka, Sandra
TITLE High Performance Work Organizations. Myths and Realities.
INSTITUTION ERIC Clearinghouse on Adult, Career, and Vocational Education, Columbus, Ohio.
SPONS AGENCY Office of Educational Research and Improvement (ED), Washington, DC.
PUB DATE 95
CONTRACT RR93002001
NOTE 4p.
PUB TYPE Information Analyses - ERIC Clearinghouse Products (071)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Adult Education; *Employment Practices; *Job Performance; Organization; *Organizational Change; *Organizational Development; Organizational Objectives; *Personnel Management; Productivity; Total Quality Management; Trend Analysis; *Work Environment
IDENTIFIERS *High Performance Work Organizations

ABSTRACT

Organizations are being urged to become "high performance work organizations" (HPWOs) and vocational teachers have begun considering how best to prepare workers for them. Little consensus exists as to what HPWOs are. Several common characteristics of HPWOs have been identified, and two distinct models of HPWOs are emerging in the United States. The lean production model relies on centralized coordination, top-down total quality management, and reengineering. The team production model calls for empowered workers making decisions and producing innovations. Estimates of the number of HPWOs vary widely from one study to the next. Perhaps one-fourth to one-third of U.S. firms have made some type of high performance changes. Another point of controversy is whether HPWOs are effective. Different studies have demonstrated different effects of HPWO practices on productivity, pay, and workers themselves. A few statements can safely be made about HPWOs, however. A growing minority of firms appears to be following the HPWO path. No one best way of becoming an HPWO is emerging, however, because not all high performance techniques apply to all types of work. Despite the various controversies surrounding HPWOs, the consensus is that workers should be prepared for them. (Contains 14 references.) (MN)

* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *

High Performance Work Organizations Myths and Realities

Sandra Kerka

ERIC Clearinghouse on Adult, Career, and Vocational Education
Center on Education and Training for Employment
College of Education
The Ohio State University
1900 Kenny Road
Columbus, OH 43210-1090

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)

☒ This document has been reproduced as
received from the person or organization
originating it

☐ Minor changes have been made to
improve reproduction quality

• Points of view or opinions stated in this
document do not necessarily represent
official OERI position or policy

HIGH PERFORMANCE WORK ORGANIZATIONS

Since the Secretary's Commission on Achieving Necessary Skills (SCANS) issued its report in 1991, organizations have been urged to become "high performance workplaces" and vocational educators are considering how best to prepare workers for them. What are high performance work organizations (HPWOs)? Do they exist? Are they really the wave of the future and the best hope for organizational survival into the next century? The myths and realities of HPWOs are explored in this publication.

I'll Know It When I See It

The first problem in clarifying the reality of HPWOs is trying to find consensus about what they are. Theorists and researchers of the phenomenon use various phrases to describe its features: "high skills, high wages," self-managed teams, restructuring, reengineering, reinventing. The most common characteristics appear to be as follows (Byrne 1993; Galagan 1994; Marschall 1991; SCANS 1991):

- Flatter, horizontal structure instead of vertical hierarchy
- Work done by teams organized around processes; teams empowered to make decisions so management is decentralized and participative
- Empowered workers with high skill levels and cross-training; rewards for team performance
- Collaboration among teams, between labor and management, with suppliers
- Focus on customers, quality, and continuous improvement
- Flexible technologies

The new work organizations described in "Reinventing America" (1992) are networked and interdependent; they feature inspirational leadership rather than micro-management. White (1994) characterizes them as "extraordinarily capable people working in teams, equipped with proper technology, focused on satisfying customers and improving performance" (p. 162). However, according to "The New Work Order" (1994), "the basic aims of the high performance workplace—to move away from mass production by improving efficiency and service—are broad enough for the phrase to mean different things to different managers" (p. 76). Two distinct models are emerging in the United States: lean production, which relies on centralized coordination, top-down total quality management, and reengineering; and team production, in which empowered workers make decisions and produce innovations.

Will the Real HPWO . . .

Like the story of the blind men and the elephant, the numbers of HPWOs vary depending on which part of the animal is being grasped. For example, a 1990 survey of 645 large companies found 13% using self-managed groups (Marschall 1991). Appelbaum and Batt's (1994) case studies of 185 Fortune 1000 firms revealed 47% using at least one self-directed team, 66% at least one quality control practice. A University of Southern California study (Dumaine 1994)

showed that 68% of the Fortune 1000 use self-directed teams (SDTs). Galagan (1994) cites survey results indicating that 59% of 400 executives are conducting three or more major performance improvement projects. Osterman (1994) challenged the Commission on the Skills of the American Workforce's claim that only 5% of U.S. companies are HPWOs. He studied the existence in 875 establishments of 4 core high performance practices: SDTs, job rotation, quality circles, and total quality management (TQM). Over half use teams, 33.5% TQM. He decided an organization is "high performance" if it uses at least 2 practices involving 50% of its employees. By this definition, 36.6% of the overall sample, 43% of nonmanufacturing firms, and 35.9% of manufacturing firms are HPWOs.

Examples of companies using high performance practices include the following (Byrne 1993; "Reinventing America" 1992; Stewart 1993): AT&T reorganized its Network Services Division around processes and awards bonuses based on customer evaluations; Eastman Chemical's Kodak unit has over 1,000 self-directed teams; Saturn's small self-directed units manage their own budgets, inventory, purchasing, and hiring; GTE redesigned its customer contact process to provide "one-stop shopping"—sales, billing, and repair linked through one phone number, cutting down on the number of times a problem is passed on. HPWOs are not all large corporations: Universal Dynamics is a small Virginia machinery firm cited in 1994 as a model high performance company by the National Association of Manufacturers (Galagan 1994).

Perhaps one-fourth to one-third of U.S. firms have made some kind of high performance changes. However, although most of Appelbaum and Batt's (1994) Fortune 1000 cases used these practices, often only 5-10% of their work forces were affected. Similarly, among Dumaine's (1994) 68% using teams, only 10% of their work forces participated. Carnevale (cited in Galagan 1992) claims that only 2% of the U.S. work force is affected by these practices, and Byrne (1993) suggests that the most dramatic changes are still only at the division or subsidiary level. Gordon (1993) agrees that "companies on the high-performance path still represent a small minority of American organizations" (p. 25). Osterman (1994) concludes that possibly a few highly publicized examples distort the real picture.

Do High Performance Workplaces Work?

The payoff of restructuring for high performance is supposed to be improvements for all of an organization's stakeholders: for the company itself, productivity and greater competitiveness; for customers, better service and quality; and for workers, empowerment and high wages. Is this true or false? "The New Work Order" (1994) takes the cynical view that in "reinvented workplaces" the changes are marginal and "do not always live up to the claims made on their behalf" (p. 76). For example, high costs forced the closing of Volvo's innovative Uddevalla plant in 1993 (ibid.), and despite Saturn's

highly publicized innovations, each car still takes 35 hours of labor to produce ("Reinventing" 1992). Stewart (1993) asserts that 50-70% of reengineering efforts fail.

On the other hand, Stewart cites gains in cost, service, and time made by restructuring at Union Carbide and GTE. Federal Express and IDS have boosted productivity up to 40% with SDTs (Dumaine 1994). Xerox's team production reduced defects from 10,000 parts per million in 1980 to 360 in 1989 (Appelbaum and Batt 1994), and Bell Atlantic now fills in hours some orders that once took 15-25 days ("Reinventing" 1992). According to Appelbaum and Batt, there is some evidence of efficiency and quality improvements, but there has not yet been a systematic assessment of outcomes and impact for all stakeholders.

The effect on workers themselves is particularly controversial. Whether HPWOs pay better has yet to be proved. Some people are uneasy with the concept of pay for team performance, although Dumaine (1994) finds that the most successful teams pay individually but make teamwork a criterion in performance reviews. According to Gordon (1993), high performance workplaces usually pay better for the higher skills and greater responsibility demanded of workers. However, "significant portions of the compensation . . . are often 'at risk'" (p. 24). Gain sharing, profit sharing, skill-based and knowledge-based pay, individual and team performance incentives are all highly variable and can depend on factors out of worker control. A more serious problem is that the key virtue of HPWOs is their key flaw (ibid.): flatter organizations with sophisticated technologies need fewer people. But those lean and mean, highly productive organizations continually need new markets and more customers; at the same time, layoffs, downsizing, and stagnant compensation shrink the overall pool of consumers to buy their products and services. Another effect of smaller work forces is that they demand more effort and pace and increase stress for individuals; workers have less autonomy under the lean production model (Cappelli and Rogovsky 1994). The trust and labor-management collaboration necessary for successful teams are difficult to sustain when downsizing saps morale (Dumaine 1994).

The Bottom Line?

What can safely be said about the high performance workplace? A growing minority appears to be following this path, but no one best way is emerging. Not all high performance techniques apply to all types of work. Vertical organization may actually suit some types of industries better, and most organizations may be hybrids (Byrne 1993). The most successful HPWOs seem to be those that have combined the best features of lean and team production with innovative human resource and labor relations practices (Appelbaum and Batt 1994). Whether high performance practices are adopted by a firm depends on a number of factors: the state of international competition in an industry, how the new flexible technologies apply to the work, and the existence of a highly skilled work force. "Only a few organizations have achieved major transformations and the accompanying performance improvements, and these have done so under unique circumstances" (ibid., p. 8). What matters most is the particular combination of practices and the context in which they are applied (Galagan 1994), so a strong sense of an organization's unique culture is the first step.

Some of the obstacles to becoming a high performance organization are ingrained in the U.S. system (Appelbaum and Batt 1994): the infrastructure still supports mass production, incentives keep managers focused on the short term and the bottom line, and many organizations remain more accountable

to stockholders than to more broadly defined stakeholders (customers, employees, suppliers). There is also the very human resistance to change. Many horizontal organizations are still being managed with a vertical mindset, and when things get tight (such as in a recession), the pendulum swings back to autocratic management (Galagan 1992).

No prototype of the HPWO may exist because the most successful companies are protean—even as we look at them they are changing and adapting to the environment of today and tomorrow ("Reinventing" 1992). However, on the question of whether workers should be prepared for them the consensus is yes. "The fundamental resource of any economy is people" (Gordon 1993, p. 29). The qualities demanded of high performance workers—the ability to create, extend, and apply knowledge; sophisticated skills; adaptability and flexibility; change management; the ability to work in teams of diverse people—are also those needed to solve the economic and social problems they raise. Although the benefits of HPWOs may not yet be a reality, doing nothing to prepare workers for them seems the best way to ensure that they remain a myth.

References

- Appelbaum, E., and Batt, R. *The New American Workplace*. Ithaca, NY: ILR Press, 1994. (ED 364 739)
- Byrne, J. A. "The Horizontal Corporation." *Business Week*, December 20, 1993, pp. 76-81.
- Cappelli, P., and Rogovsky, N. "New Work Systems and Skill Requirements." *International Labour Review* 133, no. 2 (1994): 205-220. (EJ 485 953)
- Dumaine, B. "The Trouble with Teams." *Fortune*, September 5, 1994, pp. 86-92. (EJ 487 492)
- Galagan, P. A. et al. "Beyond Hierarchy: The Search for High Performance." *Training and Development* 46, no. 8 (August 1992): 20-35. (EJ 448 138)
- Galagan, P. A. "Reinventing the Profession." *Training and Development* 48, no. 12 (December 1994): 20-27.
- Gordon, J. "Into the Dark." *Training* 30, no. 7 (July 1993): 21-29.
- Marschall, D., ed. *High Performance Work and Learning Systems*. Washington, DC: AFL-CIO, 1992. (ED 349 434)
- "The New Work Order." *Economist* 331 (April 9, 1994): 76.
- Osterman, P. "How Common Is Workplace Transformation and Who Adopts It?" *Industrial and Labor Relations Review* 47, no. 2 (January 1994): 173-188.
- "Reinventing America. 1992 Special Bonus Issue." *Business Week*, 1992, pp. 10-225.
- Secretary's Commission on Achieving Necessary Skills. *What Work Requires of Schools*. Washington, DC: U.S. Department of Labor, 1991. (ED 332 054)
- Stewart, T. A. "Reengineering: The Hot New Managing Tool." *Fortune*, August 23, 1993, pp. 41-48.
- White, B. J. "Developing Leaders for the High-Performance Workplace." *Human Resource Management* 33, no. 1 (Spring 1994): 161-168.

Developed with funding from the Office of Educational Research and Improvement, U.S. Department of Education, under Contract No. RR93002001. Opinions expressed do not necessarily reflect the position or policies of OERI or the Department. *Myths and Realities* may be freely reproduced.



**CENTER ON EDUCATION
AND TRAINING FOR EMPLOYMENT**
THE OHIO STATE UNIVERSITY
1900 KENNY ROAD • COLUMBUS, OHIO 43210