

Graziadio Business Review

Graziadio School of Business and Management

Pepperdine University

High Performance Work Systems

Building Commitment to Increase Profitability

By [Cam Caldwell, PhD](#) and [Larry Floyd](#)

[2014 Volume 17 Issue 3](#)

In their quest to compete successfully in today's difficult economic times, many business leaders have opted to cut labor costs, hire part-time employees to avoid costly fringe benefits, and adopt a "lean and mean" management approach to running their organizations. While it is foolish for companies to spend money unwisely in managing human capital, a growing body of research evidence also confirms that "high performance work systems" (HPWS) are worth the investment of time and effort. Aligning human resource practices to treat employees as valued owners and partners adds value and optimizes opportunities to create and maintain competitive advantage.

Seven Practices of High Performance Work Systems (HPWS)

The focus of this article is to explain the key elements of HPWS and to identify why creating partnerships with employees makes economic sense for employers in today's knowledge-, wisdom-, and information-based economy. Understanding the findings of recent research about this high trust and high empowerment management philosophy may enable business practitioners to avoid the mistakes that "conventional wisdom" can lead to and that have been increasingly acknowledged as the cause of much organizational dysfunction and decline.[1]



HPWS systems emphasize employee involvement and reflect a commitment to creating an organizational culture based upon commitment rather than control. At the same time, the cultures of high performance organizations emphasize the pursuit of excellence and expect employees to be well-qualified, highly competent, and constantly engaged in improving the organization.[2] Management experts have extensively researched HPWS and have identified common management practices that create competitive advantage and enhance organizational performance.[3] The following is a summary of seven human resource practices for producing higher profits through engaging employees as full owners and partners in an organization's success.[4]

1. Ensuring Employee Security

Despite the trend of many businesses to engage in downsizing and hiring part-time and contract employees to avoid creating obligations to employees, the evidence has shown that organizations who engage in these practices have rarely created new wealth or improved the long-term bottom line of their organizations.[5] HPWS systems advocate creating high-trust partnerships with

employees that build commitment and promote extra-mile and extra-role behavior that are critical for success in the modern organization.

Lincoln Electric, a successful electric company, adopted a program years ago that guaranteed employment to workers after three years on the job. Employment security policies that demonstrate a commitment to employees and their welfare work best when combined with the careful selection and hiring of employees who fit the needs of organizations and who match their job requirements. A number of scholars have reported evidence that organizations that implement policies that ensure employee security build trust with the people who are hired and find that their employees perform better and are more committed to their organization's success.[6]

2. Selective Hiring

Carefully evaluating new hires requires that organizations are precise in identifying the critical skills and attributes of their employees in the first place.[7] Hiring to fit requirements of the job makes more sense than simply hiring candidates with the best academic pedigrees or who look the best on paper. Identifying attributes like character, respect for others, and a service orientation that do not change through training actually improve employee retention and long-term fit.[8]

Enterprise Rent-A-Car, now the largest car rental company in the United States, has successfully used selective hiring to identify "people people" from "the half of the college class that makes the upper half possible." [9] Their focus on hiring former college athletes and fraternity or sorority members with excellent interpersonal skills has helped Enterprise to succeed in creating its superb customer service reputation which has helped the company to earn its top position in the car rental industry.[10] Focusing on hiring the right people has been cited by management scholar Jim Collins as a key difference in those companies that are "great" rather than simply "good." [11]

3. Decentralized Decision-Making

Organizations that establish HPWS cultures recognize the importance of clearly identifying goals and objectives. In implementing those goals, HPWS companies delegate decision-making throughout the organization and empower their employees to deliver outstanding service to customers and achieve optimal organization results.[12] Incorporating well-trained and supported self-managed teams that enjoy autonomy and broad discretion in making decisions demonstrates the high trust in employees that characterizes HPWS.

Creating teams can lead to greater initiative, but effective self-managed teams require extensive training, accountability in reporting the progress of assignments, and ongoing support to optimize their effectiveness. Effectively using company work teams that are well trained and supported by an organization's top management team creates accountability at the organizational level. This is where accountability among interdependent team members is most important and where vital customer-related work gets done.[13] Creating a culture of collaborative accountability reinforces organizational values and increases personal ownership at all levels.[14]

The Ritz-Carlton Hotel chain is famous for the quality of its customer service. Ritz-Carlton's management approach achieves service excellence by decentralizing decision-making to all of its employees. Those employees each have the discretion to spend up to \$2,500 when they believe doing so best serves the customer and meets with the hotel's mission. A compelling body of

evidence about organizations that excel in providing great service confirms that decentralizing decision-making and empowering employees can pay off with increased customer satisfaction and higher profits.[15]

4. High Results-Based Compensation

Developing a compensation system that rewards employees at all levels when the organization succeeds promotes commitment to shared goals and increases employee awareness of their roles in contributing to profitability. Compensating employees contingent upon organization performance is most effectively adopted as part of a high-performance culture that incorporates profit sharing throughout an organization.[16] The logic of contingent compensation is implicitly equitable and fair and confirms to employees that they will share in the fruits of their work. Group-based profit sharing or gainsharing also creates a social system of accountability to the organization and to other team members.[17]

Whole Foods, an American supermarket chain that specializes in natural and organic food products, is an exceptional example of an organization that has created such a social system as part of its commitment to excellence and high quality.[18] The company has been listed as one of *Fortune's* “100 Best Companies to Work For” every year since that list was created and has received numerous awards for honoring company values. Paying for performance also requires companies to develop far more effective measures of what constitutes excellence, while also communicating to employees how they create value for customers and for the company.

5. Training by Commitment

Virtually every HPWS organization emphasizes training by commitment as contrasted with training focused on control-oriented management systems. Training employees in how to resolve problems, to take responsibility for quality, and to take the initiative in suggesting changes in organization work methods demonstrates trust in the quality of employees hired and an acknowledgement of employee buy-in to a results-based compensation program. In contrast with many organizations that deem training to be a frill that can be eliminated, HPWS systems carefully determine the type of training that is most needed to achieve organizational goals and then invest heavily on helping employees to optimize their ability to succeed. Research evidence suggests that engaging employees in work-related team training increases their ownership and commitment and their ability to contribute to the achievement of critical organizational goals.[19]

The Men's Wearhouse clothing chain is noted for investing far more heavily in employee training than its competitors and creating an employee supportive culture[20] and has prospered by doing so—recently acquiring the Joseph A. Banks brand in 2014. In today's highly competitive global marketplace, great companies understand that they must create a “learning culture” corporate-wide so that all members of the company can contribute to adding value and improving service quality.[21]

6. Reduced Status Barriers

A basic assumption of an HPWS is that good ideas and organizational improvements can come from employees at all levels of the organization. Wage inequality and the use of symbols like language, dress, physical space, and benefits can send a message to employees that an organization views status hierarchically, rather than treating every employee as if he or she is both valued and valuable. Stephen R. Covey repeatedly noted that great organizations seek to build high trust cultures by nurturing and developing people, rather than by controlling them.[22]

Treating employees like valued partners by reducing status barriers, by empowering employees, and by treating employees with dignity and respect builds trust and commitment.[23]

The two co-founders of Kingston Technology, the largest independent producer of DRAM memory modules for personal computers in the world, typify the reduction of status barriers in their highly successful and extremely profitable company by 1) working in open cubicles, and 2) not having private secretaries. Although the artifacts of an organizational culture may send a message about status barriers and how employees are valued, the most important way that leaders demonstrate their attitudes about employees is by creating a culture that values, trusts, and empowers employees.[24] Leaders of organizations communicate the importance of how employees at all levels are valued by the policies, practices, and rewards that are provided throughout the organization.[25]

7. *Sharing Key Information*

The sharing of financial, strategic, and performance information conveys to employees that they are trusted partners who can utilize this important information to assist their organization to achieve its goals. Highly motivated and well-trained employees need information to be able to contribute to their organization's success.

Sharing information and providing the training in how to use it to achieve goals makes implicit sense, yet many traditional organizations refuse to do either and pay the price in lost opportunities and reduced trust.[26]



Springfield ReManufacturing Corporation, the highly successful employee-owned break-off of International Harvester that specializes in remanufacturing transportation products, has developed an “open book management” system that basically equates to sharing information with employees to enable them to perform their jobs, achieve common goals, and achieve greater control over their individual lives.[27] Information shared throughout the organization is critical in a world economy that is based upon the knowledge and wisdom that the organization applies.[28]

Integrating All Seven Practices

Companies that employ HPWS most effectively incorporate all of these seven human resource practices. The research about HPWS has confirmed that companies that attempt to piece-meal the application of these concepts are far less successful than companies that develop an integrated way to build high commitment, high trust, and high performance.[29] Today's organization must be capable of achieving both alignment and adaptability, although simultaneous achievement of these two qualities may seem inherently counterintuitive.[30] Achieving these seemingly mutually exclusive organizational outcomes can be accomplished, however, by incorporating the key human resource management (HRM) elements that make up an HPWS. Organizations that succeed in the modern economy ask employees to *stretch* to achieve challenging goals, demonstrate the *discipline* to meet performance demands, show a willingness to *support* and assist team members in accomplishing assignments, and earn the *trust* of others by demonstrating their commitment to the long-term welfare of the organization and its members.[31]

Ultimately, the commitment of the top management team and leadership at the top are responsible for creating an aligned and committed corporate culture that is essential to creating

an effective HPWS organization. A growing body of evidence suggests that organizational leaders who adopt aligned HPWS systems are rewarded by employees who are more committed to their organizations and more willing to engage in the extra-role behaviors that are key to organization profitability and competitive advantage.[32] Those who lead great organizations must understand the complexities that are critical to success in the modern organization, be committed to values that resonate with employees, and embody those values in their own lives.[33] The good news for small and medium-sized organizations is that, when implemented with a focus on a culture-wide integration of values, HPWS systems can benefit those organizations as well as large and more complex companies. Companies and their leaders who fail to incorporate aligned HPWS features are likely to find themselves in a competitive position that rapidly deteriorates in the modern fast-moving economy, ultimately putting those companies out of business as they fail to keep up with an ever-changing world.[34]

[1] Stanford's Jeffrey Pfeffer is the most well-known scholar who has addressed the dangers associated with organizational leaders applying this conventional wisdom in organizations. His description of this recurring error is well articulated in Pfeffer, J., (1998). *The Human Equation: Building Profits by Putting People First*. Boston, MA: Harvard Business School Press.

[2] Stephen R. Covey, noted repeatedly that high commitment and high competence were essential elements of organizations built upon the creation of high trust organization cultures and noted that these organizations had extremely high expectations about their obligations to customers and stakeholders and sought to constantly raise the bar of organization excellence. See Covey, S. R., (2004). *The 8th Habit: From Effectiveness to Greatness*. New York: Free Press.

[3] Among those who have identified those practices are Zhang, M., Fan, D., and Zhu, C. (2014). "High Performance Work Systems, Corporate Social Performance, and Employee Outcomes, Exploring the Missing Links." *Journal of Business Ethics*, Vol. 120, Iss. 3, pp. 423-435; Huselid, M. A, (1995) "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance." *Academy of Management Journal*, Vol. 88, Iss. 3, pp. 635-672; Lawler, J., Chen, S. J., Wu, P. C., Bae, J., and Bai, B., (2011). "High Performance Work Systems in Foreign Subsidiaries of Multinationals: An Institutional Model. *Journal of International Business Studies*, Vol. 42, No. 2, pp. 202-220, and Pfeffer, J., (1998), *op. cit.*

[4] The notion of employees as owners and partners and the role of organizational leaders as stewards who owe a complex set of duties to those employees has been well described in Block, P., (2013). *Stewardship: Choosing Service Over Self-Interest* (2nd Ed.). San Francisco, CA: Berrett-Koehler Publishers.

[5] An often-cited study of the negative effects of downsizing and the importance of creating an organizational culture that treated employees as committed partners in long-term organization improvement is provided by Cameron, K.S., (1994). "Strategies for Successful Organizational Downsizing." *Human Resource Management*, Vol. 33, Iss. 2, pp. 189-211.

[6] Information about employment security and its integration with other integrated HRM programs and practices at Lincoln Electric and other organizations is described in Gramm, C., and Schnell, J., (2013). "Long-Term Employment and Complementary Human Resource Management Practices." *Journal of Labor Research*, Vol. 34, Iss. 1, pp. 120-145. Pfeffer (1998), *op. cit.* also provides evidence about companies that benefit by rewriting the employment contract to provide employees with greater job security.

[7] Carefully evaluating performance expectations and characteristics of new employees is identified as a key to success in Collins, J., (2001). *Good to Great: Why Some Companies Make the Leap . . . and Others Don't*. New York: HarperCollins.

[8] The importance of organization fit and the leader's role in identifying the importance of key elements that determine a candidate's fit within an organization is identified in Bottger, P., and Barsoux, J-L., (2012). "Masters of Fit: How Leaders Enhance Hiring." *Strategy & Leadership*, Vol. 40, Iss. 1, pp. 33-39.

[9] Enterprise's approach to hiring was cited in O'Reilly, B., "The Rent-A-Car Jocks who Made Enterprise #1" *Fortune*, Vol. 134, Iss. 8.

[10] *Ibid*.

[11] Collins, J., (2001), *op. cit*. The importance of identifying and hiring the best people and getting "the right people on the bus" is well explained as a critical characteristic of the best organizations.

[12] The relationship between delegating and empowering employees and creating a high performance organization culture is reported in Catermole, G., Johnson, J., and Roberts, K., (2013). "Employee Engagement Welcomes the Dawn of an Empowerment Culture." *Strategic HR Review*, Vol. 12, Iss. 5, pp. 250-254.

[13] The key elements of creating successful organization teams that are well trained and supported by adequate organizational resources are explained beautifully in Scholtes, P. R., Joiner, B., and Streibel, B. J., (2003). *The TEAM Handbook*. Madison, WI: Oriel, Inc.

[14] This point is well made in Wriston, M. J., (2007). "Creating a High Performance Culture." *Organization Development Journal*, Vol. 25, Iss.1, pp. 8-16.

[15] The success of Ritz-Carlton and a number of other outstanding organizations that have improved service and increased profitability is well documented in Inghelleri, L, and Solomon, M., (2010). *Exceptional Service, Exceptional Profit: The Secrets of Building a Five-Star Customer Service Organization*. New York: AMACOM.

[16] Explaining how to establish and implement a pay for performance compensation system and the benefits resulting therefrom is explained in Abernethy, W. B., (2011). *Pay for Profit: Designing an Organization-Wide Performance-Based Compensation System*. Memphis, TN: Performance Management Publications

[17] The importance of creating an organization culture that rewards performance and emphasizes mutual accountability is identified in Rhoades, A., (2011). *Built on Values: Creating an Enviably Culture that Outperforms the Competition*. San Francisco, CA: Jossey-Bass.

[18] The role of Whole Foods in creating an HPWS culture is well articulated in Pfeffer, J., (1998), *op. cit*.

[19] This point is made well in many studies and is summarized in Laszlo, A., Kathia, C., and Johnsen, C.S., (2009). "From High Performance Teams to Evolutionary Learning Communities: New Pathways in Organizational Development." *Journal of Organisational Transformation and Social Change*. Volume 6, Iss. 1, pp. 29-48.

[20] The Men's Wearhouse training program has been described many times including at Infante, V. D., (2001). "Men's Wearhouse: Tailored for Any Change that Retail Brings." *Workforce*, Vol. 80, Iss. 3, pp. 48-49.

[21] The importance of creating an organization-wide culture of learning and its impact on organization commitment and profitability is explained in Senge, P., (2006). *The Fifth Discipline: The Art & Practice of the Learning Organization* (2nd ed.). New York: Doubleday.

[22] Covey's insights are well stated in many of his writings, particularly in Covey, S. R., (2004), *op. cit.*, and in Covey, S. R., (1998). "High Trust Cultures." *Executive Excellence*, Vol. 16, Iss. 9, pp. 3-4.

[23] Pfeffer, J., (1998) *op. cit.*, and Block, P., (2013) *op. cit.*, join with Covey, S. R., (2004), *op. cit.* in identifying the importance of an organizational culture that promotes "power with" rather than "power over" employees.

[24] These points are clearly made in Schein, E. H., (2010) *Organizational Culture and Leadership* (4th ed.). San Francisco, CA: Jossey-Bass, Pfeffer, J., (1998), *op. cit.*, and Covey, S.R., (2004), *op. cit.*

[25] Schein, E. H., (2010), *op. cit.*

[26] Pfeffer, J., (1998), *op. cit.*

[27] Springfield Manufacturing's CEO, Jack Slack, has enumerated his company's achievements in Slack, J. and Burlingham, B., (2013). *The Great Game of Business, Expanded and Updated: The Only Sensible Way to Run a Company* (2nd Ed.). New York: Crown Business.

[28] Both Covey, S. R., (2004), *op. cit.* and Christensen, C. M., (2011). *The Innovator's Dilemma: The Revolutionary Book that Will Change How You Do Business*. New York: HarperBusiness emphasize this point.

[29] For a detailed explanation of key elements in creating aligned HRM practices, please see Ulrich, D., Younger, J., Brockbank, W., and Ulrich, M., (2012). *HR from the Outside In: Six Competencies for the Future of Human Resources*. New York: McGraw-Hill.

[30] See Patel, P. C., Messersmith, J. G., and Lepak, D. P., (2013). "Walking the Tightrope: An Assessment of the Relationship between High-Performance Work Systems and Organizational Ambidexterity." *Academy of Management Journal*, Vol. 56, Iss. 5, pp. 1420-1442.

[31] Gibson, C. B., and Birkinshaw, J., (2004). "The Antecedents, Consequences, and Mediating Role of Organizational Ambidexterity." *Academy of Management Journal*, Vol. 47, Iss. 2, pp. 209-226.

[32] In addition to the many sources already cited herein, please see Gong, Y., and Chang, S., (2008). "How Do High Performance Work Systems (HPWS) Affect Collective Organizational Citizenship Behavior (OCB)? A Collective Social Exchange Perspective." *Academy of Management Annual Meeting Proceedings*, pp. 1-6.

[33] The key role of leaders in creating an aligned organizational culture is well described in many organizations. See Schein, (2010). *Organizational Culture and Leadership*. San Francisco,

CA: Jossey-Bass; Paine, L.S., 2002. *Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance*. New York: McGraw-Hill; Pava, M., (2003). *Leading with Meaning: Using Covenantal Leadership to Build a Better Organization*. New York: Palgrave Macmillan; Caldwell, C., (2012). *Moral Leadership: A Transformative Model for Tomorrow's Leaders*; Daley, J., (2010). "Creating a Culture of EXCELLENCE." *Entrepreneur*, Vol. 38, Iss. 3, pp. 81-87.

[34] Ulrich, D., *et al.*, (2012), *op. cit.* identifies the importance of aligned human resource practices and Christensen, C. M., (2011), *op. cit.* documents the importance of keeping pace with innovation and best practice in the global economy.

About the Authors

[Cam Caldwell, PhD](#), earned his PhD in Management from Washington State University after a twenty year career as a Management Consultant, Human Resource Director, and City Manager. He has written more than fifty articles about business ethics and leadership issues which emphasize the importance of leaders earning the trust of others to achieve unprecedented results. Dr. Caldwell is widely respected for his applied approach to organizational leadership and has contributed a number of innovative insights about leadership, trust, and wealth creation to stimulate academic scholarship and assist practitioners to create a competitive advantage.

[Larry Floyd](#), Larry Floyd has over 10 years of leadership experience, particularly in the finance, and healthcare sector. He has served in multiple leadership roles implementing performance improvement systems and managing employee engagement. Larry is currently a second year MBA student with a concentration in HR management at Georgia State University.

Issue: [2014 Volume 17 Issue 3](#)

Topic: [Economics](#), [Featured Article](#), [Information Management](#), [Leadership](#), [Management](#), [Organizational Behavior](#)

Tags: [employee owned](#), [engagement](#), [evaluation](#), [HR](#), [human capital](#), [investment](#), [Leadership](#), [performance](#)

[Graziadio School of Business and Management](#) | 6100 Center Drive, Los Angeles, CA 90045-1590

Copyright © 2016 [Pepperdine University](#)

[Terms of Use](#) | [Privacy Policy](#)

The opinions expressed are solely those of the authors and do not necessarily reflect the views of the Graziadio School of Business and Management nor Pepperdine University.