Building More Effective Organizations

HR management and performance in practice

Organizations today are facing heightened challenges in their efforts to perform effectively. These challenges are reflected in the failure of many long-standing organizations and the shortened tenure of senior-level executives. There is increasing agreement that the unique competitive advantage organizations have today lies in their people, their human resource management practices and their cultures. All other elements of production can be readily obtained, bought or copied. We are now in the era of human capital; to be successful, organizations need to unleash the talents of their people. Fortunately we now have considerable understanding of what high-performing organizations look like. However, a large gap still exists between what we know and what managers actually do. With contributions from a team of leading academics and practitioners, *Building More Effective Organizations* provides an extensive survey of human resource management and the organizational practices associated with the high performance of individuals.

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Foreword

Building more effective organizations

The literature about organizations seems a growth industry with courses proliferating on the subject in business schools. Academic writing about the subject is only outdone by practitioners of the art of organizational analysis and change. The focal unit in any study of organizations varies depending upon the academic preparation or the experience of the theorist, researcher or practitioner. In the West, studies focused on patterns of growth and development until the middle and late 1970's when declining organizations were also recognized. The key questions have evolved from early descriptive studies of structure to studies of cycles in organizational effectiveness and then to component operations, resource utilization and functioning teams.

The field now includes theorists, researchers or practitioners out of engineering, sociology, political science and behavioral studies, each with their own brand of jargon. In this volume, the focus is on human organizations and the issues that arise from the time the organization is formed to the time it ceases to exist. As with every attempt to understand, study, and improve upon that on which one focuses, the process of analogy is a foundational tool of the writers. When the editors set the writers the task, of collecting innovative ideas about building more effective organizations. Regardless of their own academic discipline they focused on identifying ways to improve qualitative or quantitative performance within an organization's boundaries. Regardless of the orientation or background of the writer, certain characteristics are related to successful functioning.

For example, the concepts of decision taking and control are fundamental to coordination and predictability and must be present for organizational efficiency. If one approaches organizations as institutional entities, one will have to consider the legal and cultural context as it impacts on these activities. If one takes a resource perspective – inanimate or human – it is essential to address how to identify, obtain, preserve and manage valued resources. It is

imperative to ensure the flow of these resources between the organization and its relevant environment – this enables an effective transformation process that brings value into the organization.

As organizations operate in environments of increasingly rapid change, the organization shelters, with increasing difficulty, its core internal processes that are used to transform and add value to the raw materials, goods, and services it provides for its constituents. The enormous pressure from competition for raw materials, services, skills, information, technology and customers means that organization builders are constantly adjusting their models of how an organization functions.

One interesting feature that is emerging in today's organizations is the challenge from open-source approaches to issues that, in the past, were under the control of mechanisms inside the boundaries of the organization. Thanks to the almost zero additional cost of data transmission that makes sharing ideas, broadly, rather than trying to control and manage them, some successful organizations, for example Toyota, are experimenting with loosening the internal control mechanisms (see Evans and Wolf from HBR July, 2005).

Thinking of how organizations might operate with lower levels of control and a reduction in the use of power by focal members of the organization and still be able to coordinate and provide predictability seems like a highly desirable goal. Trying to develop alternatives to *control* and *power* in the current, rapidly changing organizational milieu could very well be a useful endeavor as it provides organizations with new vehicles to sustain themselves over time. Power and control mechanisms are more useful for keeping what one already has, but they seem less helpful in gaining what is new and innovative. Measures of organizational efficiency will likely add new dimensions for squeezing out the last bit of value from its current core technology.

It is understandable that concepts such as learning organizations, continuous innovation, blurring of boundaries, end of hierarchy, the role of fundamental values and ethics in organizational exchanges and chaos theory have become increasingly important concepts in organizational studies. One important factor compounding all of these pressures in the West is the aging of the workforce. In time past in human organizations, there was the cadre of seasoned workers who knew how things 'ought to be done.' The unspoken, generally agreed upon, methods and ways of acting, previously passed along by long-time organizational members, helped to maintain an efficient core technology for the organization.

Now with changes to virtually every aspect of internal organizational actions, and with exchanges with the external environment blurred by fewer

boundaries and differing cultures, the uncertainty and stress is compounded. Aging organizational members, if maintained as part of the enterprise, must learn new skills and behave in unfamiliar ways. The unavailability of younger, newly trained personnel hampers western organizations in their adaptation. Open source ideas might become useful if applied profitably.

This book addresses a pressing need for practitioners who each must respond to the challenge of rapid, frame-breaking change. It provides a compilation of current knowledge about important topics for researchers and students of action. And the discerning theorist and academic will pick up important clues about what will be future, successful designs for creating effective organizations of the future.

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Preface

Ronald J. Burke and Cary L. Cooper

Organizations today are facing heightened challenges in their efforts to perform effectively. These include increasing levels of competition, the internationalization of business, accelerating pace of change, technological advances, meeting the needs of an increasingly diverse workforce, more demanding customers and consumers, greater concerns about corporate governance and board transparency and increasing threats and costs of international terrorism and national security. These are very challenging – and exciting – times to be in senior levels of management. These challenges, with their accompanying difficulties, are being reflected in the shortened tenure of senior level executives as they voluntarily or involuntarily leave their positions.

There is increasing agreement that the unique competitive advantage organizations have today lies in their people, their human resource management practices and systems, and their cultures (O'Reilly and Pfeffer, 2000). All other elements of production ((financial, physical plant, technology, products and services) can be readily obtained, bought or copied. We are now in the era of human capital (O'Toole and Lawler, 2006); to be successful organizations need to unleash the talents of their people.

Fortunately the past decade has produced considerable understanding of what high or peak performing organizations look like. But a huge gap still exists between what we know and what managers do – what Pfeffer and Sutton (1999) refer to as the "knowing-doing" gap. There are several reasons for this gap: much of the writing on peak performing organizations is written in academic jargon and difficult to access, many managers have little time for reading given the demands of their jobs, some of the writing does not address the immediate issues that managers are facing, and many of the action strategies require a considerable amount of time to implement, while managers are rewarded for the short term.

There is also a "doing-knowing" gap: managers take action though relatively little may be known about the benefits of these actions, the context in which they best work or how to implement them. Managers often follow fads, the

advice of gurus, or copy what seems to have worked in organizations currently getting a lot of publicity, without considering whether their organization is similar to other high profile organizations.

Businesses that people admire are those that deliver the kind of service that one really likes and you can talk with someone who understands your situation and needs. People do not care about the structure of these organizations, their management style or how they set strategy. The former are organizational capabilities, intangible assets that are not on the balance sheet, but make all the difference when it comes to market value. It has been suggested that half the market value of a publicly controlled firm is derived from financial factors and the other half from the expectations and confidence created in the organization's stakeholders: its customers, employees, investors and regulators (Ulrich and Smallwood, 2003).

The "soft stuff" such as leadership, the ability to attract talent, brand development and corporate culture drive market value. The job of the HR department and human resource management practices more broadly is to build organizational capabilities that drive profitability and top-line growth (Lawler, 2003).

Important capabilities include improving overall product and service quality, getting new products to market ahead of the competition, enhancing a firm's cultural brand identity, higher success rates for mergers and acquisitions, creating high productivity and accountability and optimizing flexibility and adaptability relative to threats and opportunities (Burke and Cooper, 2006).

The past decade has produced research evidence supporting the critical role that people play in the success of organizations. This evidence has been generated in a variety of different types of organizational settings including manufacturing, professional services, financial services and health care (Ulrich and Brockbank, 2005; Huselid, Becker and Beatty, 2005).

Sirota, Mischkind and Meltzer (2005) have shown using stock prices, that companies who have more enthusiastic employees (more job satisfied) outperformed the average prices of companies in the same industries by more than two-and-a-half times. In addition, the stock prices of companies with unenthusiastic employees (low job satisfaction) lagged behind their industry competitors' average price by almost five times. The role of management was critical to levels of employee enthusiasm. The management of more enthusiastic employees focused on three goals: achievement – being proud of one's work and employer; camaraderie – having an opportunity for positive, productive relationships at work; and equity – feeling treated justly in

relation to basic conditions of employment such as pay, job security and respect.

Why should effective HRM practices increase firm performance? Performance increases because employees work *both harder and smarter*. Employees work harder because of greater job involvement, more peer pressure for results and for the economic gains based on high performance (Lawler, 1992). Employees work smarter because they can use their knowledge and skills acquired through training and development in the jobs themselves in getting the work done. In addition, effective HRM practices are likely to reduce the direct and indirect costs of employee grievances. Finally, performance benefits are seen in the elimination of jobs whose main responsibility is to monitor people whose main job is to monitor other people. The potential benefits for adopting HRM best practices can be substantial. Pfeffer (1998) concludes that the return from utilizing effective HRM practices ranges typically between 30 to 50 percent.

Leslie, Loch and Schaninger (2006) considered the relationship of management practices and performance in 230 businesses around the world. They considered 34 practices in their study under nine outcome categories (e.g., direction, accountability, capabilities, motivation). They collected data from more than 115,000 individual managers and employees. Executives and managers could use a wide variety of these practices to improve the organizational performance of their companies. They drew three major conclusions from this large project. First, managers should avoid simplistic organizational solutions. Organizations were more likely to improve their current performance and underlying (and long-term) health by using a combination of complementary practices. No one practice (e.g., TQM, leadership development, culture change) was likely to make a difference. Second, high performing organizations were generally good (but not necessarily great) at all the management practices studied. Poorly performing organizations were likely to perform badly on at least one of the management practices. Third, managers should focus on a small number of practices that, introduced together, were likely to be successful, (i.e., introducing three or four complementary practices was more likely to lead to improved performance). Interestingly, they found that three management practices were common among many of their high performing organizations. These were: clarifying roles and accountabilities, articulating a compelling direction and vision for the future, and developing a strong performance-oriented culture based on openness and trust. These three practices were both complementary and synergistic.

For organizational change to be successful a high level of motivation must be present. This raises the question of whether organizations need a crisis to make successful transformations. While a crisis may help in some cases, organizations can be successfully transformed without one. If the following conditions are met, the chances for a successful change are increased.

1. Each employee must continue to act and contribute while questioning their actions and contributions.
2. Employees must adopt a new view of their and their organization's future – both why a change is taking place now and where the change is heading – and understand their personal benefits from supporting the change.
3. Employees need to experience the new reality; it must be more than mere words.
4. The change process leaves room, and provides resources, for mistakes and surprises.

For a change to be a success, organizations must come to grips with some central questions. Why does the organization need to do this? Where is the organization headed? How can/will the organization reach its goals?

This collection identifies some of the common challenges facing organizations and reviews relevant research findings as well as offering descriptions of initiatives that have proven successful in addressing them. These challenges are:

• increasing levels of employee engagement and enthusiasm
• satisfying both organizational and employee needs simultaneously
• bringing about organizational change.

We believe the following statements to be valid:

1. People are the only competitive advantage in the long term.
2. We know a lot about the nature of effective HRM practices and their link to high performance.
3. We also know a lot about why these HRM practices have not been more widely adopted by managers.
4. We also know a lot about the ways to change organizations to make them more satisfying and productive.
5. We are also acquiring knowledge as to how best to convey this information to students of management and practicing managers.

Our hope is that readers will close somewhat the "knowing-doing" and "doing-knowing" gaps as a result of our efforts.

Overview of the contents

In the first chapter in Part I, Building more effective organizations, Ronald Burke sets the stage for the chapters that follow. He begins by reviewing the challenges facing organizations today in their efforts to remain competitive and achieve high performance. He then summarizes some suggestions offered by leading thinkers such as Jon Katzenbach, David Sirota, Wayne Cascio, Jim Collins, Jerry Porras and Ed Lawler on the characteristics and qualities of successful organizations. Such organizations need the capacity to adapt and change in response to, and in anticipation of, emerging demands and opportunities. Suggestions for developing the capacity and competencies for change are proposed, based primarily on the work of John Kotter and Ed Lawler. To achieve peak performance we need healthy people and healthy organizations. Fortunately, there is an emerging consensus on how to build more effective organizations. The time is right for managers to assimilate this information and take action. They have little choice if the organizations they lead are to thrive.

Part II, Enhancing individual health and performance, contains four chapters. David Sirota, Louis Mischkind and Michael Meltzer maintain that company performance results from enthusiastic employees – those demonstrating a high level of engagement. They show how management practices diminish employee enthusiasm through policies and procedures used to manage their workforces and in the relationships managers have with employees. Enthusiastic employees have three goals: equity – to be treated fairly; achievement – to take pride in one's achievements, the organization's accomplishments and to be recognized for one's achievements, and camaraderie – to have cooperative relationships with co-workers. They describe four organizational cultures indicating how each meets or does not meet employee goals. Enthusiasm is highest in partnership cultures where employees are treated as allies. They conclude their chapter with concrete proposals for developing partnership cultures.

Dennis Organ and Jay Lee illustrate the value of organizational citizenship behavior (OCB) in the workplace and evaluate the effects of various managerial action strategies on levels of OCB. OCBs have been shown to be associated with clearly valued organizational outcomes. Job satisfaction or morale is a strong predictor of OCB. They suggest that supervisory evaluation of employee performance is the major lever through which OCB is elicited and rewarded.

The supervisor–employee relationship is fundamentally a social exchange relationship with supervisors having many opportunities and ways of influencing employee behaviors.

Alvin Gibson and James Quick offer a set of solutions for the human dilemmas created by stress in the workplace. They consider seven practice areas: supervisory support and executive stress management, job design, scheduling and work flow, communication pathways and information nodes, work and family, positive stress, fairness and justice in the workplace and human resource management systems integrity. Running through these best practices is a recognition of the human side of organizations and the importance of humane leadership in stressful workplaces.

Ivan Robertson, Gordon Tinline and Susannah Robertson argue that organizational performance and enhanced staff well-being go hand-in-hand. Yet many managers see these in opposition to each other. Individual well-being is reduced when workplace stressors are at high levels. They cite emerging evidence which indicates that high levels of workplace stress have associated economic costs resulting from lost productivity. There is also evidence to suggest that levels of psychological well-being are associated with self-reported productivity, the latter was also found to be related to objective indicators of productivity. They describe the use of an organizational diagnostic tool that assesses levels and sources of work stressors to first establish baseline data and then provide feedback for discussion and identification of important problem areas. They conclude with reports of the benefits of such audits carried out in two public sector organizations. As the authors of other chapters also show, data collection, feedback and problem solving remain the central elements in successful organizational change efforts.

Part III, Enhancing organizational health and performance, consists of six chapters. Steve Kerr, Steffen Landauer and Elise Lelon tackle the central and critical issue of leadership development. As this collection maintains, leaders are at the heart of all successful change initiatives. The authors' efforts are informed, in part, by years spent designing, developing and evaluating leadership development initiatives in several organizations noted for their success in this regard. As a result, the chapter is grounded in "reality". It identifies issues that need to be addressed and offers examples of actual company efforts and choices. The chapter is organized around seven questions such as "What is the organization's working definition of leadership and what kind of leadership is it seeking to develop?", "What should the content of the initiative look like?", "Who is to be developed?", and "How should the success of the initiative be

evaluated?" Readers interested in leadership development will find much to think about here.

Kevin Stagl and Eduardo Salas consider the use of teams in organizations as one way to leverage human capital. Almost all efforts at organizational transformation involve the use of teams. Although teamwork has advantages, this potential is often unrealized. They discuss what it takes to build more effective teams. Using a team effectiveness framework as a platform, they offer best practices in team leadership, in cross-training to develop skills, and in building more effective teams. Effective teams require considerable care and attention. In their thinking, five conditions are central: establishing a real team, developing a compelling direction, creating an enabling structure, fostering a supportive context, and providing access to expert coaching. These conditions seem to meaningfully apply to larger change and improvement efforts as well.

Yehuda Baruch and Sherry Sullivan first review the nature of the new employee–employer work contract that has resulted from both individual and organizational changes. They then indicate how career management systems have also necessarily changed as a result. The traditional linear career is dying or already dead; non-traditional careers are fast becoming the norm. In recognition of this, career management programs have become more varied and flexible with career patterns and jobs now needing to be more intrinsically satisfying and meaningful. Organizational and life-long learning also needs to be more strongly supported. They propose the Kaleidoscope Career Model as a basis for developing organizational career management programs to better guide the more complex career options of a more diverse workforce, offering concrete suggestions as to the issues that need attention and how these might be addressed.

Silvia Salas and Mary Ann Von Glinow consider factors critical to fostering organizational learning and how organizations can create and maintain a learning culture. Organizations that effectively transfer knowledge between individual, group and the organizational level have a unique competitive advantage. They focus on the relationship and interdependence that exists between leaders, employees, the organizational culture and the knowledge itself in their analysis and recommendations.

Christine Purcell and her colleagues review the effects of European work-family policies on organizational practices and their impact on organizational functioning. Reconciling work and family life has become a major issue in the European Union. They report findings from a seven-European country study

of organizational best practices for supporting work-family balance. They found that best practices differed in the various countries: the context mattered. Managers reported access to more best practices than did non-managers. They propose the concept of the "healthy organization" as a new way of looking at the effects of organizational practices on work-family balance. A healthy organization values the role of its employees in contributing to and sustaining performance. Thus individual health and organizational health are interdependent. Healthy organizations abide by statutory regulations, have managerial support for work–family issues, behave with consistency in this area, foster trust and mutual understanding between employees and managers, develop co-worker support for those attempting to achieve work–family balance, offer realistic workloads and strive to create gender equity. They conclude with an examination of flexible work practices such as reduced contractual hours, compressed hours, flexible hours, working from home and arrangements for responding to family emergencies. There is benefit to both organizations and individuals from supporting work–family balance.

Finally, Val Singh reviews current diversity and inclusion management initiatives from leading-edge firms. At their core, these initiatives encompass agendas for strategic change and efforts to engage managers in the change process. These initiatives include recruitment, development, role modeling, reverse mentoring, diversity networks, diversity events, flexible work arrangements and diversity partnering relationships with outside organizations. She also provides concrete examples of these efforts from the firms that she studied.

Part IV, Transforming organizations, contains five chapters. John Bessant and Dave Francis highlight what is known about achieving outstanding performance in manufacturing organizations. This sector has undergone dramatic – some would say traumatic – change as older "rust belt" factories are replaced by state-of-the-art, high tech operations. This sector has also experienced significant staff downsizing. Manufacturing organizations today, like organizations in other sectors, need to be agile, flexible, innovative and achieve high levels of employee involvement. They describe how some manufacturing organizations have achieved high levels of employee involvement in innovation specifically. Manufacturing operations are now also more likely to be virtual and networked. All these initiatives require a new set of managerial skills making education, knowledge and learning increasingly important ingredients for success. In previous times, people were adjuncts to the machinery; today, achieving outstanding performance in manufacturing organizations begins with people.

Emma Preece describes a case study of culture change in Britannia, a large financial services organization in the UK. She outlines the approach and strategies undertaken by Britannia in bringing about the desired culture change and offers early results on employee satisfaction. Britannia was performing well but senior executives realized that changes were needed to respond to events taking place in the financial services sector. She used interviews with key informants to develop her case study. The key purposes of Britannia were first articulated by senior executives, resulting in five core values (e.g., putting our customers first). The CEO was supportive of the change program, and was actively involved as its champion and spokesperson. The senior executive team also applied these values in their own behaviors. Various communication channels were used to convey the changes throughout the organization. Employee attitude surveys were undertaken with an emphasis on "doing something" with the results. She offers recent survey data indicating that the culture change generally had a positive impact on staff perceptions. In addition, assessments by employees of the culture indicated that it had changed in the planned for direction. Coincidently, Britannia achieved record financial performance during this time period as well. In reading this case study, one gets the sense of the key role played by the CEO in bringing about a successful transformation.

Barry Colbert, Elizabeth Kurucz and David Wheeler emphasize the importance of organizations adopting more sustainable business practices. There is an increasing and urgent need to rethink the relationship of business and the broader society. They suggest that developing sustainable organizations will require new ways of viewing how change happens and of developing internal resources and capabilities. In their view, a sustainable organization has four characteristics termed the four C's: connectivity, commitments, culture and capabilities. Three commonalities run across the four C's: a systems perspective that recognizes pluralism, synthesizing various stakeholders' interests, and a focus on value creation and value maximization in several areas. Strategic human resource management practices are central to build capacity on these fronts. Organizational examples they provide make their concepts come alive.

Stuart Kennedy and Tony McCarthy describe "Be in to win", part of an innovative approach by Royal Mail Group to tackle the growing issue of chronic sick absence with the organization. It involved a six-month scheme in which all employees with a 100 percent attendance record were entered into a draw to win one of seventeen brand new Ford cars. Initially seen by some in the media as a gimmick centered on bribery, the "Be in to win" incentive scheme

increased attendance at Royal Mail by 18 per cent, resulted in an average of 2000 extra people at work per day and saved the business over 80 million pounds in sick absence payments and lost time. Royal Mail's positive approach to absence management played a large part in helping the organization return to profitability and record the highest levels of quality for over ten years.

In the final chapter, Phil Mirvis describes efforts by organizational leaders to build their companies into communities having a "higher purpose" and to build a community of leaders. One such initiative that he helped organize and facilitate was an annual retreat of 250 leaders of the Asia region of a multinational food's business unit that spent three days in India to learn about community life. In this chapter, he reviews some of the theory behind such large group interventions and describes innovative practices they used to build this large leadership community. Business leaders went in small groups to various places to self-study local communities and were asked to record their observations, feelings and insights about the community they observed. Discussions of their observations and reflections led to a change in their organization's mission and purpose. Many of the leaders did redefine their company's mission to be more reflective of a" higher purpose"; that is a commitment to do something to improve the daily life of others rather than focusing only on the bottom line.

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Acknowledgements

I started working during my summer vacations as a teenager. When I had to decide on a major area of concentration for graduate studies in the Department of Psychology at the University of Michigan in 1960 it was a "no brainer". I wanted to learn more about work and organizations as a result of my mainly – but not exclusively – positive experiences during these summers. So I chose organizational psychology. The outstanding faculty there were interested in research findings that could be used to improve organizational effectiveness. These values have shaped most of my work since then. They also influenced my decision to teach in Schools of business and management rather in Departments of Psychology, believing that business schools would be more supportive of applied research.

This collection has its roots in this journey. We know a lot about building organizations that meet the needs of employees, owners and society at large.

Cary Cooper and I have developed a productive friendship and collaboration over the years which is certain to continue. I also thank our international contributors for their fine work.

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I would like to thank my old mentor Professor Fred Massarik of UCLA for helping me start my long journey in trying desperately to understand the complexities of organizational behavior.

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