Engaging employees through high-involvement work practices

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March/April 2006
Reprint # 9B06TB08
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Recent research suggests that high-involvement work practices can develop the positive beliefs and attitudes associated with employee engagement, and that these practices can generate the kinds of discretionary behaviors that lead to enhanced performance. Simply put, employees who conceive, design and implement workplace and process changes are engaged employees. This article focuses on what managers can do to achieve a high level of employee engagement.

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Employee engagement and firm performance

Employee engagement can be critically important to competitiveness in the contemporary business environment. The Gallop Organization, which studied employee engagement in 7,939 business units in 36 companies, found that employee engagement was positively associated with performance in a variety of areas, including increased customer satisfaction, profitability and productivity, and reduced employee turnover. The breadth of employee engagement was substantial. About 2/3 of the business units scoring above the median on employee engagement also scored above the median on performance, while only about 1/3 of companies below the median on employee engagement scored above the median on performance (Harter, Schmidt & Hayes, 2002).

Employee engagement has three related components: a cognitive, an emotional, and a behavioral aspect. The cognitive aspect of employee engagement concerns employees’ beliefs about the organization, its leaders, and working conditions. The emotional aspect concerns how employees feel about each of those three factors and whether they have positive or negative attitudes toward the organization and its leaders. The behavioral aspect of employee engagement is the value-added component for the organization and consists of the discretionary effort engaged employees bring to their work in the form of extra time, brainpower and energy devoted to the task and the firm.

This article focuses on what managers can do to achieve a high level of employee engagement. Recent research suggests that high-involvement work practices can develop the positive beliefs and attitudes associated with employee engagement, and that these practices can generate the kinds of discretionary behaviors that lead to enhanced performance. The section immediately below describes high-involvement work practices and how they are utilized in both manufacturing and service settings. The next section outlines the evidence for the effectiveness of these practices. The final section discusses the implementation process and argues for the importance of embracing a participatory philosophy in order to align the process with the concept of high involvement.

What are high-involvement work practices?

Numerous authors have developed a long list of management practices for generating high involvement and high performance among employees. These range from selecting the right people for the organization to a commitment to training and skill development, team-based work organization, job security, and incentive-based pay. In each of these general categories, a variety of specific practices have been developed. For example, incentive-based pay can take the form of a gain-sharing program, performance-contingent pay to individuals, team-based pay, or employee ownership. Training programs can be developed for current and future skills, technical and interpersonal skills, new hires and experienced
employees. With all of the choices, developing a coherent set of high-involvement work practices that are consistent across the organization and reinforce each other is a non-trivial challenge for all managers.

Organizational effectiveness scholar Edward Lawler and his colleagues identified four interlocking principles for building a high-involvement work system that help to ensure that the system will be effective and that the various practices will work together to have a positive impact on employee engagement. These principles can be summed up as providing employees with power, information, knowledge and rewards. (See article by Edward Lawler elsewhere in this issue of IBJ -- Ed.)

**Power** means that employees have the power to make decisions that are important to their performance and to the quality of their working lives. Power can mean a relatively low level of influence, as in providing input into decisions made by others or it can mean having final authority and accountability for decisions and their outcomes. Involvement is maximized when the highest possible level of power is pushed down to the employees that have to carry out the decisions.

Creating forums for employees to develop and share ideas for improving firm performance can be effective, but only when good ideas from employees actually get used. For example, Arthur and Aiman-Smith describe an employee suggestion system in a large manufacturing plant in the Midwestern U.S. with a unionized workforce of 1,500. The system was successful in generating large numbers of useful suggestions from the employees that saved the company US$9M in its first four years. Implementation was facilitated by a joint union-management review board that assessed each suggestion and either accepted, declined, or asked for further investigation.

**Information** means data, including information on the quantity and quality of business unit output, costs, revenues, profitability, and customer reactions. A major challenge for managers developing a high-involvement work system is to create an information system that provides employees with data that is timely and relevant to their particular work process, that they can influence personally by either expending or withholding effort, and that they can understand.

The more transparent managers can make the firm's operations, the more effectively employees can contribute to the firm's success. Transparency is important because it helps employees see the link between their actions and the performance of the firm, thereby enhancing the cognitive aspect of engagement. Hence, transparency is essential for employees to see what they are doing that is working and what isn't. As CEO Ricardo Semler says about his 800-person high-involvement manufacturing firm in Brazil, "nothing matters more than those vital statistics - short, frank, frequent reports on how the company is doing."

**Knowledge**, or employee skills and abilities, can be distinguished from information, which is the data employees use to make decisions and take action. Improving employees' knowledge means a commitment to training and development. The training investments are essential in a high-involvement organization because when employees are making important workplace decisions, it is important that they have the skills and abilities to make the right decisions.

New employees at General Motors' Saturn plant initially receive between 350 and 700 hours of initial training; Saturn sets an organization-wide goal that all employees receive at least 92 hours of additional training each year. On average, Saturn employees have received 148 hours of training each year since 1991. The reason Saturn relies so heavily on training is the fact that the work process design relies heavily on the use of employee skills and knowledge, "to build a small car competitively in the United States, either costs (wages) had to be lowered or organizational productivity raised to make up the difference... The only way to make up this difference would be to mobilize the knowledge, skills, and commitment of the workforce, and to design the work systems and organization in ways that achieved higher quality and productivity."

The **rewards** component of the high-involvement equation means rewarding employees for expending discretionary effort to enhance organizational performance. A key element in the high-involvement equation, rewards for performance ensure that employees use their power, information and knowledge for the good of the firm.

In each of the three cases mentioned in the previous discussion of power, information and knowledge,
rewards were in place for employee contributions to the firm, and that link was critical to the success of the firm's high involvement work practices. For example, a gain-sharing program in one plant was in place so that each employee earned a bonus of $4,442 over the 4-year period for suggestions that saved the plant US$9 million. The bonuses inspired considerably more effort on the part of employees than was evident in the suggestion program. Plant supervisors and managers indicated that many plant improvements were being made outside of the suggestion system, where employees initiated changes in order to reap the bonuses generated by the subsequent cost savings.

In Semler's Brazilian manufacturing firm, 23% of after-tax profit on each division income statement was distributed to employees in the division. Because employees gain a substantial reward for business unit performance, they put in extra effort to learn multiple tasks and meet targets, and they eagerly await the monthly financial statements to see the results of these efforts.

At Saturn, base compensation is tied to between 88 and 95% of the industry average; employees can make up the difference by achieving the target of at least 92 hours of training each year for each employee. In addition, workers receive bonuses for achieving negotiated goals for quality, cost, schedule, profitability, and volume. The bonuses have ranged from $2,017 per employee in 1997 to $10,000 per employee in 1995 and 1996.

How effective are high-involvement work practices?

Evidence of the effectiveness of high-involvement work practices has been documented in several research studies. The multivariate statistical analyses conducted on the research data introduce statistical controls for a variety of factors extant in the environment in order to rule them out as plausible alternative explanations for the findings. As a result, fairly strong inferences can be drawn regarding the impact of the high-involvement management system.

The results of this research are impressive. The early research examined the impact of high-involvement work systems in manufacturing organizations. The development of the Saturn Corporation within General Motors constituted a demonstration project for, "a radically new organizational form in which work would be organized into teams, work rules would be drastically simplified, and the union would be a full partner in decision making from the bottom to the top of the organization." The project has been largely considered a success. For instance, the J. D. Power and Associates statistics on customer satisfaction showed that in 1992 and every year since, Saturn has led all U.S. car lines and all brands worldwide except for Lexus and Infiniti (Acura and Mercedes in 1997 only) in ratings of vehicle quality, reliability and satisfaction.

Researchers and academics have examined the implementation of the Modern Operating Agreement (MOA) between the Chrysler Corporation and the United Automobile Workers (UAW), which was signed and ratified in six Chrysler plants by 1987. The MOA reduced job classifications, tied pay to skills within those classifications, established joint consultation committees, and reorganized work into shop-floor teams. A survey company contacted 782 unionized production workers at their homes 5-6 years after the signing of the MOA contracts. Sixty-four percent of those contacted stated they were satisfied or very satisfied with the MOA, 68% agreed or strongly agreed that they preferred the MOA to the previous system, and 76% agreed or strongly agreed that they preferred the team system to the old system.

In another study, Eileen Appelbaum and her colleagues (2000) studied 15 steel mills, 17 apparel manufacturers, and 10 electronic instrument and imaging equipment producers. Their purpose was to compare traditional production systems with flexible high performance production systems involving teams, training, and incentive pay systems. In all three industries, the plants utilizing high-involvement practices showed superior performance. In addition, workers in the high-involvement plants showed more positive attitudes, including trust, organizational commitment and intrinsic enjoyment of the work.

Larger studies have confirmed the positive effects of high-involvement work practices in manufacturing. Jeffrey Arthur's 1994 study of 30 steel mini mills in the U.S. in 1988-89 showed that the mills with commitment systems involving more employee training and more employee participation in solving production problems had higher productivity, lower scrap rates, and lower employee turnover. John Paul MacDuffie's 1995 study of an international database examining 62 automobile assembly plants in 1989-90 found that flexible production plants with high-involvement practices such as team-based work systems, contingent compensation, and extensive employee training consistently outperformed traditional plants in
terms of both productivity (labor hours per vehicle) and quality. In 2005, Deepak Datta and his colleagues analyzed survey responses from 132 U.S. manufacturing firms and found that firms utilizing high-performance work systems showed significantly higher labor productivity than their competitors.

More recent researchers have asked the question of whether high-involvement work practices can be generalized to the service industry sector. Once again, impressive results have been documented. Two studies of employees in the life insurance industry examined the impact of employee perceptions that they had the power to make decisions, sufficient knowledge and information to do the job effectively, and rewards for high performance. Both studies included large samples of employees (3,570 employees in 49 organizations and 4,828 employees in 92 organizations). In both studies, high-involvement management practices were positively associated with employee morale, employee retention, and firm financial performance.

Another recent study has tested high-involvement work practices in a call center environment. In a field experiment, 149 call center employees were randomly assigned to either high involvement work practices, autonomous teams, aligned job design (essentially new performance metrics aligned with the business strategy), or the traditional management system. Findings comparing pre- and post-test scores showed substantial improvement in organizational commitment and intrinsic job satisfaction in the high-involvement work practices group compared to no change for the control group or the autonomous work team group, and impact on organizational commitment only for the aligned job design group. The high-involvement work practice group also showed the most improvement in performance on a variety of measures.

Canadian firms using high-involvement work practices

To assess the utilization of high-involvement work practices in Canada, medium- to large-sized Canadian companies were surveyed about their HR practices in 2004-05. Of the 896 companies receiving the survey, 155 responded (17.3%, which is about average for surveys).

Three questions assessed incentive pay at the individual, group and firm level (i.e., profit-sharing). Two questions asked about team structures, specifically, self-managing teams and problem-solving or quality groups. Findings are shown in Figure 1.

The findings indicate a rather high level of penetration of high-involvement work practices in Canadian firms in 2004-05, even though many firms did not utilize these practices. Individual incentive pay was the most common practice, with 55% of employers providing individual incentive pay to 21-100% of their employees. Only 14% of firms indicated that none of their employees received individual incentive pay.

Group incentives and profit-sharing were utilized less, with 33% of firms indicating the use of group incentives and 34% indicating the use of profit-sharing for 21-100% of employees. Fifty-six percent of firms indicated that none of their employees received group incentive pay, and 50% indicated that none of their employees received profit-sharing incentives.

About 20% of firms indicated the involvement of 21-100% of their employees in problem-solving or quality groups, while 40% indicated that none of their employees were involved in such groups. About 21% of firms indicated that 21-100% of their employees worked in self-managing teams, while 49% indicated that none of their employees worked in self-managing teams.
Figure 2 compares the utilization of incentives and group structures among the 42 manufacturing firms and 104 service firms in the sample.

Findings show that there is greater penetration of incentive pay and team structures in the manufacturing sector than in the service sector. Specifically, 33% of manufacturing firms indicated that 21-100% of their employees were involved in problem-solving or quality groups compared to 15% of service firms. Seventy-one percent of manufacturing compared to 28% of service firms indicated the use of individual incentives for 21-100% of their employees. Profit-sharing was more prevalent in manufacturing firms, with 38% of these firms indicating that 21-100% of their employees participated in profit-sharing plans compared to 31% of service firms.

Self-managing work teams and group incentives showed about the same level of penetration in manufacturing and service firms. About 21% of both service and manufacturing firms indicated that 21-100% of their employees were organized in self-managing work teams. Forty-nine percent of service firms and 50% of manufacturing firms indicated that 21-100% of their employees received group or team incentive pay.

Implementing high-involvement work practices: The importance of alignment

Edward Lawler suggests that to implement high involvement management, "virtually every major feature of the organization needs to be designed differently." Faced with such a monumental task, managers may well wonder where to start.

Providing an insightful answer to this question, researchers Ledford and Mohrman developed the method of "self-design" in 1993. The self-design change strategy requires managers to develop a vision of the new organization and state it in broad terms, "leaving the more specific designing to be done by the members of the units that have to make the design work locally." Change proceeds in a decentralized manner, with different business units creating changes at their own pace. Competition between managers and the need for coordination press slower-moving units to catch up with the leaders as the entire organization evolves from a traditional to a high-involvement system.

Self-design is effective because the movement to a high-involvement system requires an extremely high amount of learning among managers and front-line employees. By participating in the process of investigation and development of system changes, employees and managers gain the opportunity to both absorb the information needed to make the change and develop the knowledge and skills needed to change successfully. In self-design, changes are developed and implemented iteratively as business units identify an appropriate starting point for change, design and pilot the new system, and make adjustments. Over time, participants in the process re-design more and more systems and build their change management and system design skills. Ledford and Mohrman argue that, "This strategy for change is appropriate in guiding large-scale change where all contingencies and relationships cannot be known in advance, and where organizations and their members are required to learn substantially new behavior patterns in order to support the desired change" to the high-involvement work system.

CEO Ralph Stayer, of Johnsonville Sausages, recommends starting with a highly visible activity, in his case, the daily tasting of the sausage. Previously done by managers, Stayer delegated the responsibility for tasting to the production employees, who then were responsible for detecting and fixing problems and making improvements. The employees' investigation of issues arising at the daily tasting naturally resulted in cascading the involvement process down the production line.
There are several reasons why a participatory change process is superior for implementing high-involvement management. Beyond the knowledge, skills, and information employees gain through the participative process, participation generates engagement on all three levels by affecting beliefs, attitudes, and behaviors. Participating in the change process changes people's beliefs about the change by giving them information about the limitations of the current work system and by exposing them to new ideas that raise awareness about alternative ways of conducting the work. Information about the limitations of the existing system and possibilities inherent in other methods help employees understand the need for the change and the benefits of the new system.

Participation also generates more positive attitudes toward the change to high involvement. When people participate in the design of the new system, they become personally invested in making the system succeed. By comparison, when outsiders design the new system, people sometimes react negatively, the result of a perception that they are being forced to change. Studies of the Chrysler MOA showed that employees had more positive attitudes toward the new work system if they perceived that management listened to their input and that their suggestions for improving the work process were used. These findings support the notion that employees have more positive attitudes toward changes that incorporate their own ideas than to changes that are designed by others.

Finally, participation in the design process produces the behaviors indicative of highly engaged employees. By participating in the design process, employees begin to act in ways that go beyond their narrow job descriptions in order to contribute to organizational effectiveness. They begin to apply a wider range of ability, knowledge and expertise to organizational problems. Hence, employees gain experience in devoting more effort, knowledge and time to the organization. Over time, the self-design process normalizes these behaviors, generating a climate of high employee engagement.

High-involvement work practices that provide employees with the power to make workplace decisions, training to build their knowledge and skills in order to make and implement decisions effectively, information about how their actions affect business unit performance, and rewards for their efforts to improve performance, can result in a win-win situation for employees and managers. Employees seem to enjoy working in high-involvement workplaces, and managers reap enhanced performance from these systems.

Designing and implementing a high-involvement system is not a trivial task, however. Although the four principles of power, knowledge, information and rewards can be generalized to both manufacturing and service environments, their application to any particular workplace requires fitting these principles to specific and somewhat unique situations.

Converting to a high-involvement work system requires that managers and employees work together to virtually remake the entire organization through the process of self-design. Self-design can start with small pilot projects almost anywhere in the organization, and handing responsibility for a piece of an interdependent system over to employees can naturally result in the cascading of employee involvement throughout the work flow process. Hence, high involvement is a rigorous, long-term process, but the result can be a uniquely structured organization with highly engaged employees and a strategic advantage over competitors.