

C E



**Center for
Effective
Organizations**

**RAISING SKILL DEMAND: GENERATING
GOOD JOBS**

**CEO PUBLICATION
G 10-08 (576)**

EDWARD LAWLER
*Center for Effective Organizations
Marshall School of Business
University of Southern California*

GEORGE BENSON
*College of Business Administration
University of Texas at Arlington*

JULY 2010

Raising skill demand: Generating Good jobs – George Benson and Ed Lawler

Calls for businesses and policy makers to promote high involvement management practices are not new. *Work in America* (1973) advocated involvement as means to increase productivity along with the employee skills and wages in the 1970's. So did *America's Choice: High Skills or Low Wages* (1990) in the 1990's. More recently the *New American Workplace* (2006) repeated the call and reviewed the large amount of research evidence which shows the benefits of employee involvement practices including teams, employee development, gain sharing plans, and participative leadership.

There have been profound changes in the global economy and corporate landscape over the last 40 years but advocates of "high road" management approaches that emphasize highly skilled and involved employees continue for several reasons. Employees have always been and continue to be motivated to perform at a high level when they are in a high involvement work setting. Second, society's need for companies to provide good jobs and remain competitive continues to be strong. Finally, the continuing trends towards globalization and the growth of knowledge work in the U.S. economy requires higher productivity from workers in order for them to compete with low wage workers around the world.

High involvement management has helped to both increase productivity and provide good jobs as it has been adopted by a large number of companies over the last forty years. In November 1970 a Time Magazine cover story lamented the plight of blue collar workers and detailed their diminished status, lost sense of control and declining real wages. It suggested that the issues might be addressed through participative management and job enrichment but, "The ideas are so new that only a handful of companies have tried them." By the 1990's some

form of high involvement practices were in place in two-thirds of the Fortune 1000 (Lawler, Mohrman & Ledford, 1998). Today there are many notable success stories of the power of employee involvement in industries ranging from steel production (Nucor) and automobiles (Honda) to airlines (Southwest) and retail chains (Men's Warehouse, Whole Foods). There is research evidence that employee involvement management practices are related to productivity and job satisfaction as well as quality, customer satisfaction, and firm financial performance (Combs et al, 2005). Over the last 40 years involvement programs have significantly improved the quality of work in large and small companies across most sectors of the U.S. economy and in many countries around the world.

At the same time it is also clear that "high road" management strategies have not realized their full potential. A large proportion of organizations still do not utilize most high involvement management practices. Many reasons have been cited for the unfulfilled promise of involvement practices, but chief among these appears to be on-going concerns over competitiveness in the US and the fact that many companies have held down wages and other investments in employees to control their costs. Instead of increasing productivity by changing their management practices, many companies have chosen to focus instead on technology or outsourced work if it can be done cheaper elsewhere in the U.S. or overseas. Instead of involvement some companies have sought competitiveness through reduced headcounts and work intensification leading to employee stress and the potential for injury. Most importantly, academic and managerial interest in high involvement management practices appear to have leveled off after a significant push to study and promote them in the early 1990's.

What are “High Road” Employment Strategies?

Companies that pursue “high road” employment strategies invest in production and service employees and ask them to provide more than repetitive physical and/or mental labor in return. They adopt high involvement management practices that emphasize high levels of employee decision-making authority. They use an integrated set of human resource and work design practices that are designed to give all employees the skills, information, power, and incentives to make decisions in the workplace (Lawler, 1986, 1992, 1996). This approach has evolved from very early work in the 1940’s showing the benefits of self-direction or self-control in an era when manufacturing was organized by the principles of Fordism and scientific management (Nobles & Stanley, 2009). The move toward involvement oriented job designs began in earnest the 1950’s and 1960’s as a movement for “industrial democracy” and “participative management” (Likert, 1961; McGregor, 1960). Since then high involvement management has taken many forms but generally includes practices such as self-managing teams, cross-training, gainsharing, and participative decision-making.

While high involvement management is a proven means to improve productivity and quality, these practices have always been intended to have the parallel goal of increasing the quality of work life through employee experience. While there are different theories of employee involvement, they generally call for employees to have decision-making power, incentives to take responsibility for their performance information to make decisions, ongoing skill development, and a long-term employment relationship that preserves the value of these investments in human capital.

Companies using “high road” employment strategies and high involvement work practices are found across all sectors of economy but are more prevalent in some industries and business models than others. There has been considerable debate over the years within the related literature on strategic HR and high performance work practices as to whether these are best practices that universally lead to increase organizational performance or are dependent on context including business strategy (Delery & Doty, 1996; Boxall & Mackey, 2009; Kaufman, 2010). There is some evidence they are more common in manufacturing firms and less likely to be found in firms that compete based on price (Blasi & Kruse, 2006; Guthrie & Datta, 2007; Cooke, 2007; Youndt et al, 1996). Low cost operators are more common in sectors with heavy price competition (e.g. commodities production, fast food, and retail) which are also the least likely to use high involvement work systems.

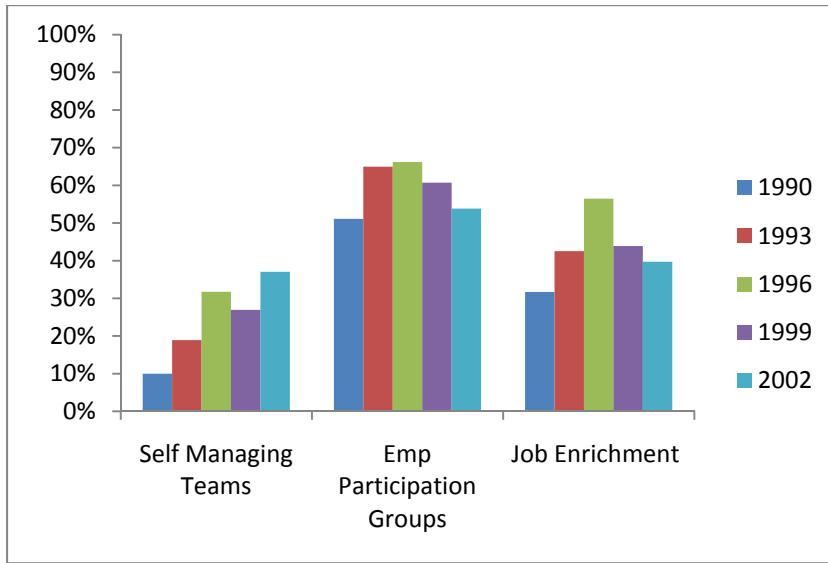
History of Adoption

Although they have been around for at least 50 years, the practices associated with employee involvement were not widely known and adopted in the U.S. and Europe until the late 1970's. In the 1990's several large, multi-industry studies showed a significant growth in participative work practices. The studies differed in their samples and techniques, but the results showed that employee involvement practices, including teams, suggestion plans, and incentive compensation plans, were in use at one-third to one-half of U.S. firms (Osterman, 1994; Gittleman, Horrigan & Joyce, 1998). Employee involvement practices were relatively common in the early 1990s and continued to grow slowly though the middle of the decade. In 1993 the Bureau of Labor Statistics Survey of Employer Provided Training found that 32% of

establishments used team-based work for at least a portion of their employees. TQM programs were in place in 46%, and 16% used quality circles. One-quarter of the establishments had job rotation. Similar results were found in other surveys including the National Establishment Surveys (NES) which showed small across the board increases in the involvement practices (Capelli & Neumark, 2001) from 1994 to 1997. The percentage of establishments with self-managed teams increased modestly from 31.8% to 34% (Blasi and Kruse, 2001).

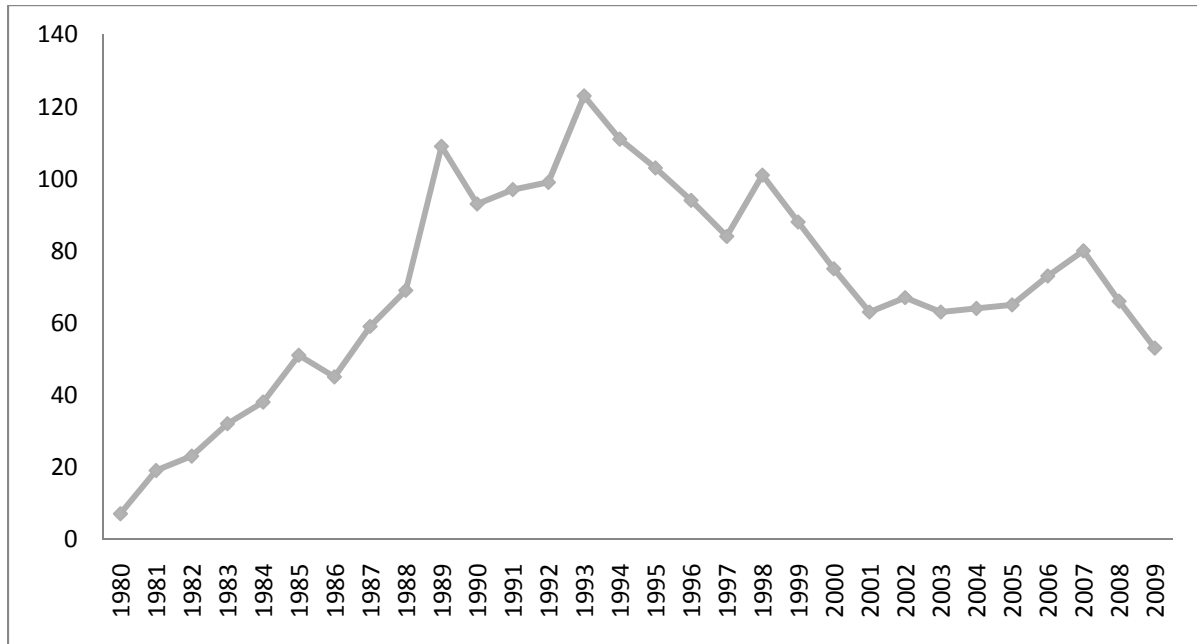
One picture of the changes that took place in the 1990's comes from five Center for Effective Organizations surveys of the *Fortune 1000* conducted from 1987 to 2005. While this was not a firm-by-firm longitudinal look due to changes in the composition of the *Fortune 1000*, the surveys indicate a large increase in the number of companies using involvement practices as well as the percentage of employees affected over the 1990s. For example, the number of companies using self-managed teams for at least one-fifth of employees increased from 8% in 1987 to 32% in 1996. The use of individual pay for performance for at least 20% of employees increased from 38% to 57% (Lawler, Mohrman & Ledford, 1998). However, the findings from the later surveys indicated that the adoption of employee involvement practices slowed in the late 1990's (Lawler, Mohrman & Benson, 2001). The percentage of large firms using many practices including quality circles, gainsharing, profitsharing, pay for a skills and cross-training remained relatively stable or declined slightly by the time of the last survey in 2002. Figure 1 examines shows data from a series of surveys of the Fortune 1000 conducted by the Center for Effective Organizations during the 1990's.

Figure 1. Percentage of Fortune 1000 Firms with at Least 20% of Employees Covered



Trends in adoption of high involvement practices since the 1990's are harder to gauge as there have been no new nationally representative surveys or follow-ups conducted in the last ten years in the U.S. It is clear that the attention given to high involvement work practices has decreased. A search a Lexus/Nexis shows the number of articles appearing in major U.S. newspapers that mention "employee involvement" grew consistently starting in the 1980s from 7 in 1980 to a high of 123 in 1993, but then began a steady decline, with only 53 articles mentioning it in 2009 (see Figure 2).

Figure 2. Number of Newspaper Mentions for “Employee Involvement” 1980-2009



The Benefits of and Unfulfilled Potential of High Road Strategies

Ironically the drop in interest and in the adoption of high involvement strategies comes at time when evidence of the benefits of these practices has never been stronger. A growing body of research over the last twenty years, while not unanimous, very clearly shows that high involvement management practices are correlated with variety of organizational performance measures including return on assets, sales, entrepreneurial growth, customer satisfaction, and productivity. These business-unit, establishment level, and single industry studies are too numerous to mention and have been thoroughly reviewed elsewhere (e.g. Bailey and Kallenberg; 2000; Appelbaum, Baily, Berg & Kallenberg, 2000). Several large sample multi-industry studies including Huselid’s (1995) well cited work so the same results.

This research was summarized in a 2005 meta-analysis of 92 studies found that high performance practices including participation were significantly related to a number of financial and operational performance measures (Combs et al, 2005). This accumulation of work has demonstrated a positive relationship between employee involvement and organizational performance in *Fortune 1000* firms and small start-up organizations; union and non-union environments; service, manufacturing and non-profits. Taken together this research shows that employee involvement increases individual, team, and unit productivity in industries as diverse as professional services, steel manufacturing, apparel, medical imaging and semiconductor fabrication.

Advocates of employee involvement also note that these practices should lead to higher wages. Employee involvement requires higher levels of skills and responsibility which suggests the need for higher wages to attract and retain qualified employees. Furthermore, because employee involvement increases productivity it should increase the ability of companies to pay high wages. However, the benefits of involvement practices for workers have been difficult to demonstrate and several researchers have questioned the overall benefits for workers (Handel & Levine, 2004).

Although the evidence is mixed, it does appear that in some cases workers have seen wage gains when employee involvement practices are implemented. Several studies have shown that firms with employee involvement and related practices generally pay higher wages (Freeman & Lazear, 1995; Cooke, 1994; Chadwick & Fister; 2000). Other researchers have concluded that wages rise in some cases and not in others. For example, Batt (2001) found in samples of sales and service employees that discretion at work was positively related to wages,

while the use of individual practices such as problem-solving teams was not. Hunter and Lafkas (2003) found positive effects for the use of quality circles but not discretion in general in a study of call center employees. Arthur (1992) and Black, Lynch and Krivelyova (2004) both found that that wages rise with involvement practices work only when unions are present.

While there are set of studies that conclude that wages do not rise with the adoption of high involvement management practices, more recent research suggests this may be due to the fact that the wage benefits of employee involvement are not spread evenly across different types of employees (Osterman, 1994; 2000; Handel & Gittleman, 2004). Osterman (2006) concluded that core blue-collar employees enjoy higher wages in high performance work systems while managerial and clerical employees do not. He argues that this may account for the findings in some studies and higher wages for front line employees in high involvement workplaces may be offset by the likely reduction in the need for higher paid managerial employees.

The impact of employee involvement on wages is also uneven across sectors. Specifically, wage increases are more pronounced in traditional low wage manufacturing than in other sectors. For example, Appelbaum, Bailey, Berg, and Kallenberg (2000) found significantly higher wages associated with high involvement practices in steel and apparel manufacturing industries, but not in medical imaging. Research suggests that employee involvement reduces demand for unskilled labor (Caroli & Van Reenen, 2001) and increases the investment in employee development (Frazis, Gittleman & Joyce, 2000; Black & Lynch, 1997; Lawler, Mohrman & Benson, 2002). Firms which adopt employee involvement are also likely to

invest in technology, particularly information technology, which requires additional education and training to operate (Black & Lynch, 1997; Bresnahan, Brynjolfsson & Hitt, 2002).

There have been a large number of studies showing the benefits of high involvement on employee attitudes and perceived job quality. Freeman and Rogers (1999) found that 79% of participants in employee involvement programs reported having “personally benefited” from increased influence over how they perform their job. Hodson and Roscigno (2004) coded organizational practices and work-life experience from 204 English-language ethnographies published in books and sociology journals and concluded that employee involvement showed positive relationships with employee well being. Other studies have found that employee involvement practices promote positive attitudes toward the organization which in turn lead to extra-effort (Cappelli & Rogovsky, 1998), prosocial behavior (O’Reilly & Chatman, 1986), safety (Probst & Brubaker, 2001) and employee retention (Koys, 2001).

Research suggests that high involvement contributes to an workplace climate which is associated with greater employee commitment and discretionary effort (Takeuchi, Chen & Lepak, 2009). For example, Vandenberg, Richardson and Eastman (1999) found that employee involvement leads to positive employee attitudes, which in turn lead to improved individual and organizational performance in an insurance company. Employee involvement was directly related to the commitment and satisfaction of workers which, in turn, was associated with higher individual performance rankings for the employees and greater customer satisfaction in their work units. Similarly, Morrison (1995) and Koys (2001) found that employee attitudes, organizational citizenship behavior, and turnover likely mediate the effects of employee involvement and other HR practices on customer satisfaction and organizational effectiveness.

In general this work clearly demonstrates that employees working in high involvement organizations are more satisfied with their jobs, more committed to their organizations, more likely to trust management and more likely to find meaning in their jobs (Freeman, Kleiner & Ostroff, 2000). These positive attitudes towards employee involvement may be dependent on trust in management and perceptions of a positive climate, but this research does show strong benefits for both firms and employees when organizations adopt high involvement work practices.

National Impact of Involvement

While the evidence that high involvement has positive impact on firms is strong, there is a striking difference between this work and the results of aggregate national research on job perceptions and wages across the U.S. Research on employee reactions to high involvement practices consistently finds positive effects on employee attitudes and wages. However, aggregate trends across the U.S. economy show conflicting evidence concerning whether the adoption of high involvement management has led to wage increases or overall improvements in perceived job quality and job satisfaction among workers.

A negative picture of workplace change emerges when looking at the situation of workers over the last several decades. The stagnation of real wages for hourly and entry level workers has been well documented. While aggregate productivity of all U.S. workers has increased significantly, the wages of middle class workers have not seen a commensurate increase. For example, from 2000 to 2007 productivity in the U.S. increased by 11% while the median hourly wage remained the same. By all measures income inequality is increasing in the

U.S. In 1979 the top 10% of wage earners took in around 20 times the income of the bottom 90%. In 2006 the top earners took in 77 times the bottom 90% (Mishel, Bernstein & Shierholz, 2009).

In terms of job quality, there has been considerable debate over whether actual and perceived job quality improved over the time period in which involvement practices gained popularity (Handel, 2005). While the experience of work has improved for many workers with the adoption of high involvement management, this trend has been accompanied by increases in work intensification, reduced job security through downsizing and outsourcing, and temporary employment. Some researchers have suggested that, when faced with the harsh realities of economic crises and global competition, companies have cut costs by reducing headcounts and pressuring employees to produce more (Goddard, 2004).

There is no evidence that workers reported an overall increase in perceptions that their jobs were interesting or autonomous over the last twenty years (Kallenberg & Vaisey, 2005). Using the *General Social Survey* Handel (2005) found that aggregate perceived job quality changed little during the 1990's. Around 85% of workers reported being satisfied or very satisfied with their jobs in both 1989 and 1998. These numbers are unchanged today (Smith, 2007). Because some companies began to widely adopt high involvement practices during this same period, this suggests that these numbers may mask a growing gap among workers. The occupations that report the lowest job satisfaction today are also those whose jobs are the least likely to be affected by employee involvement efforts, low skill manual jobs (e.g. laborers, roofers, and packers) and low skill service occupations (e.g. food servers, cashiers, and retail sales persons).

Some research has gone so far as to tie workplace transformation to increases in workloads, work hours, stress and workplace injuries over the 1990's. Practices including just in time inventory (JIT) systems, TQM, performance based pay, and teamworking have been labeled "management by stress" by some. For example Fairris and Brenner (2001) and Brenner, Fairris and Ruser (2004) investigated the relationship between "flexible" work practices and workplace safety and note that the cumulative trauma injuries such as carpal tunnel syndrome increased significantly during the same time periods that new work practices became popular in the U.S. They conclude that there is evidence that practices including quality circles and JIT are related to repetitive motion injuries. Others have argued that self-managed teams encourage workers to monitor each other and that this can be an even more coercive and stressful form of control than traditional supervision (Barker, 1993). Finally, there is some evidence that employee involvement leads to greater stress and insecurity for supervisors (Batt, 2004; Mahoney, 2008).

These negative national findings stand in contrast with the far larger number of studies showing positive effects of employee involvement on job satisfaction and employee commitment. While there are certainly examples where employee involvement practices are associated with negative worker outcomes in terms of stress and workload, these appear to represent unusual or extreme versions of involvement practices. In a telephone survey of Canadians, Goddard (2001) finds that teamwork and similar work practices had positive effects on belongingness, empowerment, satisfaction and esteem. However, he also found that these benefits were diminished at high levels of implementation suggesting that there are limited or potentially negative impacts of extreme levels of teamwork and participation.

In general the benefits of high involvement management practices have been unevenly distributed across American workers. Based on the accumulated research, there is a group of workers in the U.S. that has seen significant improvements in the quality of their work lives; the discretion they have on the job, the training they have received, and the relationships they enjoy with management have all improved. Moreover, these workers are earning more than their counterparts in similar organizations. On the other hand there are a number of workers who have been marginalized into temporary jobs or low wage full time jobs as part of their companies efforts to reduce their labor costs.

Factors Limiting the Continued Adoption of High Road Strategies

Trends in the adoption of high involvement depend in part on the larger economic trends in the U.S. Most of the companies that switched to high involvement practices in the 1960's and 1970's were in traditional manufacturing businesses. These are much less common today as the national economy and employment has shifted significantly towards knowledge and service work. The percentage of the U.S. GDP coming from manufacturing has declined over last 30 years and the percentage of the American workers employed in manufacturing has dropped from 21% of workers in 1980 to 8% of workers this year (Mishel, Bernstein & Shierholz, 2009).

During this same time period there has been significant growth in sectors including computer hardware, software, financial services, health care, and others which require higher skilled employees and lend themselves to involvement oriented job designs and practices. Many of the large employers in these sectors are companies which have been formed in the

last 20-30 years. Employee involvement and engagement through teamwork, pay for skills, and individual incentives in leading edge companies such as Microsoft, Intel, Google and others is simply a way of doing business rather than a new program or innovation.

However, the growth in “new economy” companies does not necessarily mean that all these new jobs reflect the “high road” principles of involvement and high wages. Knowledge work does not automatically imply employee involvement and discretion and there has been a significant increase in the number of state and federal lawsuits over improper classification of employees as exempt workers. The world’s largest video game developer, Electronic Arts, recently settled an overtime lawsuit with its programmers who complained of long hours and repetitive work with little input or recognition. These are precisely the type of high skill and high wage jobs that are supposed to be the hallmark of the new economy.

The shift away from low-value manufacturing in the U.S. suggests fewer low-cost operators in the U.S economy. In general firms that compete based on innovation, service, quality, and speed are much more likely to adopt involvement programs (Lawler, 2008). As companies move from low cost to differentiation strategies based on product quality or service, they are more likely to implement involvement programs (Youndt et al, 1996).

On the other hand, there are kinds of work where management practices are limited in their ability to translate into competitive advantage. Encouraging employee participation and carrying higher labor costs in the form of wages, training, and incentives only makes economic sense if companies can achieve additional productivity and/or higher prices. This is not realistic for some kinds of service work (e.g fast food restaurants, price-driven retailing, and harvesting) where the work is low value and companies must aggressively control costs to

remain competitive. The retail and hospitality industries employ 21% of all workers in the U.S., but 46% of all minimum wage earners work in these sectors (Mishel, Bernstein & Shierholz, 2009). It should be noted, however, that even in low margin industries there are multiple examples of successful companies using high road employment strategies including Costco, Men's Warehouse, and Whole Foods.

Today's trends in HR and management are also likely to impact the future adoption of high involvement and suggest that companies will be more selective in their use of high involvement management practices. There is a growing trend in human resource management towards employee differentiation or segmentation as a means to focus on groups of employees deemed the most critical to execute strategy. Not surprisingly, these are the employees whose work makes high involvement management practices a good fit. As a result organization-wide efforts at high involvement may be less common and the growth in high involvement programs slower.

Differentiation began in practice as firms pared workforces and increasingly used temporary employees and contractors to more aggressively buffer against variability in demand and production cycles. It has divided the workforces of many companies into a high wage group of employee core and a low wage group who do not share the same benefits or job security. The trend toward differentiation is likely to continue as the popular HR literatures advocates that managers differentiate jobs and focus their efforts on those jobs that have the maximum impact on organizational performance. While multiple theoretical models for differentiating employees and jobs have been proposed, they have in common that at least one of the differentiating factors is the strategic "value" of the jobs or tasks that employees

perform. Lepak and Snell (1999) suggest differentiating on the dimensions of value and uniqueness of skills. Huselid and Becker (2005) suggest distinguishing among “A, B & C” jobs. Boudreau and Ramstad (2007) focus on performance variance and strategic impact of jobs. They all conclude that HR practices should differentiate how people are treated based on the different types of work they do.

Doskocil Manufacturing provides an instructive example of differentiation. It runs a large plant in Arlington Texas that produces the PetMate brand kennels and pet carriers. While the plant runs two shifts daily for lines of injection molded plastic they employ no full time operators. Instead they have a long standing relationship with a local staffing company that provides temporary employees to run the machines and package the products. Since their production runs vary on daily basis they can give 12 to 24 hours advance notice to the agency on the number of people they need for these low value added jobs. Human resource managers focus their recruiting and retention (as well involvement efforts) on product designers and production engineers.

Perhaps the most important obstacles to the adoption of high involvement practices are negative experiences. Clearly not all high involvement initiatives have been successful. In a study of unionized organizations Eaton (1994) found that up to 20% of EI programs were ultimately abandoned for a variety of reasons. Chi, Freeman and Kleiner (2007) used detailed interviews with 51 manufacturing firms to look at the adoption of employee involvement over 10 years. Mirroring the increase in employee involvement nationally in the early 1990’s they found a 65% increase the number of involvement practices in place from 1986-1995 and the number of firms with a least one program in place increased from 77% to 96%. However, they

also found that firms were dropping specific programs during this time much more frequently than expected. A primary reasons for the termination of these programs, was the lack of short-term financial returns. Programs were terminated if they were perceived not to bring the added productivity needed to justify their expense and the disruptions caused during implementation.

Determinants of Success

Research has identified a number of potential reasons for the failure of high involvement programs, lack of managerial support (Fenton-O’Creevy, 1998), lack of trust in management (Eaton, 1994), and lack of job security (Preuss & Lautsch, 2002) for those affected are all frequent causes of problems. Another important reason for the failure of program is the implementation of practices in an isolated or piecemeal fashion. Fifteen years ago Ichniowski, Shaw and Prenushi (1995) examined steel finishing lines and found that individual involvement practices such as work teams, flexible job design, pay for skills and incentive pay had little to no effect on productivity when used in isolation. Recently Combs et al (2005) confirmed in a meta-analysis of 92 firms that high performance work “systems” were more strongly correlated with performance than individual practices including teams and participation. Chi et al (2007) found that practices implemented in isolation or with few other supporting practices were the most likely to be abandoned. In such cases one can easily imagine the frustration of managers as the cost and disruption of implementing these practices yielded little or no tangible increase in productivity. This potentially leads to the abandonment of these individual practices even

though research clearly demonstrates that organizations with robust involvement programs enjoy significantly increased productivity over workplaces with “traditional” work systems.

While the impact of employee involvement on organizational performance, employee attitudes, skills and wages are important considerations, the success of these practices now depends on whether employees benefit in terms of their experience at work. For employees to act on the additional decision-making opportunities and use their skills to the fullest, they need to see the practices as beneficial and truly internalize the principles of involvement.

There is a perspective which argues that employee involvement practices are often implemented as a means to subvert unionism and increase workloads rather than rather than benefit employees (Bodah, McHugh & Kim, 2008; Goddard, 2004). The potential for organizations to use employee involvement in a negative way is a clear threat to the continued adoption and success of employee involvement.

There is the possibility of firms using the expanded responsibility of front line employees to increase job demands, raise production targets and decrease headcounts without supporting employees, developing their skills, and increasing their wages. If increased performance demands are accompanied by an abrupt safety netless layoff or replacement of workers who are not able to adapt to an environment of higher expectations, then employee involvement will ultimately be labeled as the next chapter in the continuing efforts of management to “exploit” workers. Indeed the overall success of employee involvement and the willingness of workers to embrace participative practices appears to be strongly related to how the workers perceive the intention of the practices.

Employee involvement is not suited for every firm, sector and strategy and it is becoming increasingly clear where it fits and where it does not (Lawler, 2008). In the late 1980's and 1990's there was a wholesale push towards the adoption of employee involvement some firms no doubt implemented the practices simply because everyone else was pushing towards these practices. It is now clear that what once looked like an easy universal route to productivity improvement is actually a complex change that requires the right type of work, the right motives motivations and a sustained commitment.

Future of the Involvement Management

The tone of the discussion concerning employee involvement has evolved significantly since the 1970's. While there is debate over the extent to which it should be implemented and discussion of how to maximize the returns from investments in employees, the benefits of the practices and the ability of workers to adapt and thrive in high involvement workplaces are no longer questioned. The importance of involved and the skilled employees has entered the public consciousness and the managerial mindset. Indeed, most new manufacturing plants in the US are organized around the basic principles of employee involvement. Over the past several decades organizations work practices such as pay for skills, job rotation, teams, total-quality management and open business information have become routine and are no longer seen as part of an involvement program or change effort.

The newest automobile manufacturing plants in the U.S. all use job rotation, teams, and discretion for front-line employees. Twenty-five years ago the GM Toyota joint venture NUMMI plant in Fremont California was hailed as a new model for American manufacturing

and a way for GM to learn how to change its work practices and culture. This plant has been shuttered but Toyota has not abandoned high involvement practices. Production of Toyota Tacoma trucks has been shifted from Fremont to a state of the art Toyota facility in San Antonio Texas which has been hailed as a critical source of high wage manufacturing jobs in the community. The degree to which teamwork, discretion, and participation is embedded in the culture and practices of this plant is demonstrated by a help wanted ad that appeared in a local newspaper describing the key responsibilities for a Tool and Die Maker; “working in a diverse team”, “problem-solving” and “adjusting...in a fast paced environment” were all listed ahead of machining and fabricating.

Given all that has been learned about high involvement over the last 40 years, the path is clearly marked for organizations that choose high road strategies. As recently as 1994 the Commission on the Future of Worker-Management Relations advocated that the government encourage organizations to adopt employee involvement practices. However, the limitations of government influence over private sector management practices in the U.S. must be recognized. Researchers and policy makers need to continue to promote high involvement and recommit to demonstrate the benefits for both companies and American workers through information gathering and sharing.

We suggest that the best way to encourage the use of employee involvement and high road employment strategies is to continue to publicize information about their use and impact on organizational performance. This should include additional resources for new large-scale surveys of high involvement and management practices in general similar to the BLS SEPT conducted in 1994 or the National Establishment Surveys conducted in 1994 and 1997. Follow-

ups using similar methodology would demonstrate trends over the last 15 years and hopefully new interest in these practices in companies.

Policy makers and business leaders might also consider requiring that more information be made available on the use of such practices in individual companies. Currently there are no standard reporting requirements for investments in employees or management practices in annual reports or 10-k MDA's. This makes it very difficult to know which companies are actively using high involvement. Financial analysts and investors today have very little information about management practices to use in decision-making. Reporting requirements related to investments in employees and management practices would help the public make better investment decisions and might in turn encourage firms to consider high involvement management.

Benson, Young and Lawler (2006) examined the accuracy of earnings forecasts of professional stock analysts for companies with high adoption rates of high involvement practices over the 1990s. We found that stock analysts systematically underestimated the annual earnings of companies with above average adoption of high involvement by 7% and overestimated the earnings of companies with low use of employee involvement by 9.1% on average. This suggests that these professional analysts have a difficult time incorporating the positive impact of high involvement management practices on corporate earnings into their models. Moreover, we found that there was very little information available on the degree to which companies use employee involvement available in either in the business press or in company annual reports. Only a quarter (27%) of the *Fortune 1000* companies examined appeared in a newspaper article that mentioned involvement and 60% of the annual reports we

examined over the study period contained no mention of HR practices in general or high involvement practices in particular.

Some investors have already shown interest in high road employment strategies. Bassi Investments based in Golden Colorado markets an investment fund that selects equities using a proprietary model based primarily in organization investments in human capital. The Yucaipa Companies, a private equity firm founded by Rob Burkle has invests in turnarounds based on a strategy of implementing employee oriented management practices in underperforming businesses.

The other major public policy levers available to encourage high involvement involve the minimum wage and employee education. In real terms the minimum wage has fallen significantly over the last several decades. From 1979 to 2007 the average entry-level hourly wage for a high school educated male in the U.S. fell by 18% in real terms (Mishel, Bernstein & Shierholz, 2009). Raising the minimum wage means that organizations face increasing pressure to use people more effectively. If they are required to pay more for hourly jobs organizations needs to see commensurate increases in productivity to remain competitive. One way to get this is by becoming high involvement workplaces.

It is beyond the scope of this chapter to describe all the things government can do to improve the education level of the US workforce, but it is important to point out that improving it may be the most significant action that government can take to promote high involvement. The poor preparation of the American workforce has been well documented for some time and most recently in *The Ill-Prepared U.S. Workforce*, a research report by the Conference Board in conjunction with ASTD and SHRM. Better educated workers reduce the

risk for organizations implementing involvement policies and allow employees to demand higher through additional productivity. Better prepared workers might also increase the incentives for firms to provide additional firm and job specific training if they do not have to conduct remedial training for employees. There may also be a role for public policy to encourage investment in skills within certain geographies or sectors (Finegold, 2010).

Conclusion

The continued use and further adoption of employee involvement practices is particularly important in developed economies that are dominated by complex knowledge work and educated work forces. Questions remain concerning the use of some employee involvement practices, but given the evidence that many involvement work practices yield a consistent competitive advantage there is good reason to believe that employee involvement practices will continue to be utilized. We are likely to see less talk about the “transformation” of workplaces and how employee involvement is a progressive approach to management. Many practices that are associated with employee involvement simply have become standard operating procedures in companies and will continue to be adopted and utilized as such. Thus, rather than being seen as part of a new approach to management, employee involvement management practices will simply be adopted because they are seen as the right way to manage an effective organization. Indeed the transformation of work for hourly manufacturing and service workers through high involvement continues to be the best means available to provide working men and women with more rewarding jobs and increase the competitiveness of U.S. corporations in the global economy.

References

- Adler, P., Goldoftas, B., & Levine, D. 1997. Ergonomics, Employee Involvement, and the Toyota Production System: A Case Study of NUMMI's 1993 Model Introduction. *Industrial and Labor Relations Review*, 50(3), 416-438.
- America's Choice: High Skills or Low Wages*, National Center on Education and the Economy. 1990.
- Appelbaum, E., Bailey, T., Berg, P., & Kallenberg, A. 2000. *Manufacturing Advantage: Why High-Performance Work Systems Pay Off*. Ithaca: ILR Press.
- Appelbaum, E., & Batt, R. 1995. *The New American Workplace: Transforming Work Systems in the United States*. Ithaca: ILR Press.
- Arthur, J. 1994. Effects of human resource systems on manufacturing performance and turnover. *Academy of Management Journal*, 37(3), 670-687.
- Bailey, T. 1993. Organizational innovation in the apparel industry. *Industrial Relations*, 32, 30-48.
- Batt, R. 2002. Managing customer services: human resource practices, quit rates, and sales growth. *Academy of Management Journal*, 45: 587-597.
- Batt, R. 2004. Who benefits most from teams? Comparing workers, supervisors, and managers. *Industrial Relations*, 43:1, pp. 183-212.
- Barker, J. 1993. Tightening the iron cage: Concertive control in self-managing teams. *Administrative Science Quarterly*. 38:3, pp. 408-437.
- Benson, G., Young, S., & Lawler, E. 2005. High involvement work practices and analysts' forecasts of corporate earnings. *Human Resource Management*. 45:4, pp 519-537.
- Black, S., & Lynch, L., 1997. *How to Compete: The Impact of Workplace Practices and Information Technology on Productivity*. Working Paper No. 6120. Cambridge: National Bureau of Economic Research.
- Black, S. & Lynch, L. 2004. Workplace practices. *FRBSF Economic Letter*, pp. 1-3.
- Black, S., Lynch, L. & Krivelyova, A. 2004. How Workers Fare When Employers Innovate. *Industrial Relations*, 43:1, pp. 44-66.

- Blasi, J., & Kruse, D. 2006. High performance work practices at century's end: Incidence, diffusion, industry group differences and the economic environment. *Industrial Relations*, 45:4, pp. 547-578.
- "Business: The Blue Collar Workers Lowdown Blues." *Time*, November, 9, 1970.
- Bodah, Mchugh, and Kim (2008). Employee involvement programs and collective bargaining: The role of labor relations climate. *Journal of Collective Negotiations*. 32:3, pp. 245-260.
- Boudreau, J. & Ramsted, P. *Beyond HR: The New Science of Human Capital*. Harvard Business School Press. 2007.
- Brenner, Fairris & Ruser. 2004. "Flexible" work practices and occupational safety and health: Exploring the relationship between cumulative trauma disorders and workplace transformation. *Industrial Relations*, 43:1, pp. 242-266.
- Bresnahan, T., Brynjolfsson, E., & Hitt, L. 2000. Information technology, workplace organization, and the demand for skilled labor: Firm-level evidence. *Quarterly Journal of Economics*, 117: 1, pp. 339-376.
- Cappelli P., & Neumark, D. 2001. Do "high-performance" work practices improve establishment-level outcomes? *Industrial and Labor Relations Review*, 54(4), 737-775.
- Cappelli, P., & Rogovsky, N. 1998. Employee involvement and organizational citizenship: Implications for labor law reform and "Lean production." *Industrial and Labor Relations Review*, 51(4), 633-653.
- Caroli, E. & Van Reenen, J. 2001. Skill-based organizational change? Evidence from a panel of British and French Establishment. *Quarterly Journal of Economics*, 116: 4, p1449-1492.
- Chadwick, C., & Fister, T. 2001. Innovative human resource practices and outcomes for workers. *Unpublished manuscript*. University of Illinois at Urbana-Champaign.
- Chi, W., Freeman, R., and Kleiner, M. 2007. Adoption and termination of employee involvement programs. National Bureau of Economic Research. Working Paper 12878.
- Combs, Liu, Hall & Ketchen. 2005. How much do high-performance work practices matter? A meta-analysis of their effects on organizational performance. *Personnel Psychology*. 50, 59, pp. 501-528.
- Cooke, W. 1994. Employee participation programs, group-based incentives, and company performance: A union-nonunion perspective. *Industrial and Labor Relations Review*, 47(4), 594-609.

- Cooke, W. 2007. Integrating human resource and technological capabilities: The influences of global business strategies on workplace strategy choices. *Industrial Relations*, 46:2, pp. 241-270.
- Cutcher-Gershenfeld, J. 1991. The Impact on Economic Performance of a Transformation in Workplace Relations. *Industrial and Labor Relations Review*, 44 (January): 241-260.
- Eaton, A. 1994. The survival of employee participation programs in unionized settings. *Industrial and Labor Relations Review*, 47:3, pp. 371-389.
- Fairris & Brenner, 2001. Workplace transformation and the rise in cumulative trauma disorders: Is there a connection? *Journal of Labor Research*. 22:1, pp. 15-28.
- Fenton-O'Creavy, M. 1998. Employee involvement and the middle manager: Evidence from a survey of organization. *Journal of Organizational Behavior*, 19, pp. 67-84.
- Frazis, H., Gittleman, M., & Joyce, M. 2000. Correlates of training: An analysis of both employer and employee characteristics. *Industrial & Labor Relations Review*, 53:3, p443-462.
- Freeman, R., & Kleiner, M. 2000. Who benefits most from employee involvement: Firms or workers? *American Economic Review*, 90(2), 219-224.
- Freeman, R., Kleiner, M., Ostroff, C. 2000. *The Anatomy of Employee Involvement and Its Effects on Firms and Workers*. Working Paper No.8050. Cambridge: National Bureau of Economic Research.
- Freeman, R., & Lazear, E. 1994. *An Economic Effects of Works Councils*. Working Paper No.4918. Cambridge: National Bureau of Economic Research.
- Freeman, R. & Rogers, J. 1999. *What Workers Want*. Ithaca, NY: Cornell University Press.
- Gittleman, M., Horrigan, M., & Joyce, M. 1998. "Flexible" workplace practices: Evidence from a nationally representative survey. *Industrial and Labor Relations Review*, 52(1), 99-115.
- Goddard, J. 2001. High performance and the transformation of work? The implications of alternative work practices for the experience of outcomes at work. *Industrial and Labor Relations Review*, 54(4), 776-805.
- Goddard. 2004. A critical assessment of the high-performance paradigm. *British Journal of Industrial Relations*, 42:2, pp. 349-378.
- Handel, M. 2005. Trends in perceived job quality, 1989-1998. *Work and Occupations*, 32(1), pp. 66-94.

- Handel & Gittleman, 2004. Is there a wage payoff to innovative work practices? *Industrial Relations*, 42:1, pp. 67-97.
- Hodson, R., & Roscigno, V. 2004. Organizational success and worker dignity: Complementary or contradictory?. *American Journal of Sociology*, 110(3), pp. 672-708.
- Huselid, M. 1995. The impact of human resource management practices on turnover, productivity, and corporate performance. *Academy of Management Journal*, 38(3), 635-672.
- Huselid, M., Beatty, R., & Becker, B. 2006. "A Players" or "A Positions"?. *Harvard Business Review*, 84(3), 143-144..
- Hunter, L., & Lafkas, J. (2003). Opening the box: Information technology, work practices and wages. *Industrial & Labor Relations Review*, 56(2), 224-243.
- Ichniowski, C., Shaw, K., & Prensushi, G. 1995. *The Impact of Human Resource Practices on Productivity*. Working Paper No. 5333. Cambridge: National Bureau of Economic Research.
- Kallenberg A. and Vaisey, S., 2005. Pathways to a good job: Perceived work quality among the machinists in North America. *British Journal of Industrial Relations*, 43(3), pp. 431-454.
- Katz, H., Kochan, T., & Gobeille. 1983. Industrial relations performance, economic performance, and QWL programs: An inter-plant analysis. *Industrial and Labor Relations Review*, 37(1), 3-17.
- Katz, H., Kochan, T., & Weber, M. 1985. Assessing the effects of industrial relations systems and efforts to improve quality of working life on organizational effectiveness. *Academy of Management Journal*, 28(3), 509-526.
- Koys, D. 2001. The effects of employee satisfaction, organizational citizenship behavior, and turnover on organizational effectiveness: A unit-level longitudinal study. *Personnel Psychology*, 54, 101-114.
- Lawler, E. 1986. *High-Involvement Management: Participative Strategies for Improving Organizational Performance*. San Francisco: Jossey-Bass.
- Lawler, E. 1992. *The Ultimate Advantage: Creating the High Involvement Organization*. San Francisco: Jossey-Bass.
- Lawler, E. 1996. *From the Ground Up: Six Principles for Creating the New Logic Organization*. San Francisco: Jossey-Bass.

- Lawler, E., Mohrman, S., & Ledford, G. 1998. *Strategies for high performance organizations: Employee involvement, TQM, and reengineering programs in Fortune 1000 corporations*. San Francisco: Jossey-Bass.
- Lawler, E. 2008. *Talent : making people your competitive advantage*. San Francisco, CA: Jossey-Bass.
- Lawler, E., Mohrman, S., & Benson, G. 2001. *Organizing for high performance: The CEO Report on Employee Involvement, TQM, Reengineering, and Knowledge Management in Fortune 1000 Companies*. San Francisco, CA: Jossey-Bass.
- Lawler, E., & O'Toole, J. (eds). 2008. *American at Work: Choices and Challenges*. Palgrave Macmillan, NY: NY.
- Ichniowski, C., Shaw, K., & Prennushi, G. 1995. *The Impact of Human Resource Practices on Productivity*. Working Paper No. 5333. Cambridge: National Bureau of Economic Research.
- Lepak, D. and Snell, S. (1999). 'The strategic management of human capital: determinants and implications of different relationships'. *Academy of Management Review*, 24: 1, 1–18.
- Likert, R. 1961. *New Patterns of Management*. New York: McGraw-Hill.
- MacDuffie, J. 1995. Human resource bundles and manufacturing performance: Organizational logic and flexible production systems in the world auto industry. *Industrial & Labor Relations Review*, 48(2), 197-222.
- McGregor, D. 1960. *The Human Side of the Enterprise*. New York:: McGraw-Hill.
- Mahony, D. 2007. How participatory work practices affect front-line supervisors. *Journal of Labor Research*, 28:1, 147 – 168.
- Morrison, E. 1995. Organizational citizenship behavior as a critical link between HRM and service quality. *Human Resource Management*, 35, 493-512.
- O'Reilly, C. & Chatman, J. 1986. Organizational commitment and psychological attachment: The effects of compliance, identification, and internalization on prosocial behavior. *Journal of Applied Psychology*, 71, 492-499.
- Osterman, P. 1994. How common is workplace transformation and who adopts it? *Industrial and Labor Relations Review*, 47(2), 173-189.

- Osterman, P. 2000. Work restructuring in an era of restructuring: Trends in diffusion and effect on employee welfare. *Industrial and Labor Relations Review*, 53(2), 179-196.
- Osterman, P. 2006. The wage effects of high performance work organization in manufacturing. *Industrial & Labor Relations Review*, 59:2, pp. 187-204.
- Preuss, G. & Lautsch, B. 2002. The effect of formal versus informal job security on employee involvement programs. *Industrial Relations*, 57:3, pp.517-539.
- Probst, T., & Brubaker, T. 2001. The effects of job insecurity on employee safety outcomes: Cross-sectional and longitudinal explorations. *Journal of Occupational Health Psychology*, 6(2), 139-159.
- Smith, T. 2007. Job Satisfaction in the United States. National Opinion Research Center. University of Chicago.
- Mishel, L., Bernstein, J., & Shierholz, H. 2009. *The State of Working America 2008/2009*. Cornell University Press, Ithaca: NY.
- Takeuchi, R., Chen, G., & Lepak, D. 2009. Through the looking glass of a social system: Cross-level effects of high performance work systems on employee attitudes. *Personnel Psychology*, 62:1, pp. 1-29.
- Vandenberg, R., Richardson, H., & Eastman, L. 1999. The impact of high involvement work practices on organizational effectiveness: A second-order latent variable approach. *Group & Organization Management*, 24(3), 300-339.
- Youndt, M, Snell, S., Dean J., & Lepak, D. 1996. Human resource management, manufacturing strategy, and firm performance. *Academy of Management Journal*, 39, 836-866.