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**Revised
Employee Involvement: Research
Foundations**

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Employee Involvement: Research Foundations

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Employee involvement is an approach to work-system design that emphasizes high levels of employee decision-making authority. There is an extensive body of research literature going back decades that supports the principles of employee involvement systems as well as the effectiveness of specific practices such as self-managing teams, cross-training, quality circles, gain-sharing, employee ownership and participative decision making in the workplace. High-involvement management practices (defined as an integrated set of Human Resource and work design practices that are designed to give all employees the skills, information, power, and rewards to make decisions in the workplace) have generated enormous interest among researchers in many different disciplines and geographies. Taken together, this work clearly indicates the multiple benefits of employee involvement in terms of productivity, profitability, and employee well-being. This chapter reviews the research foundation of these practices and puts the current use of these practices in context.

The basic principles of employee involvement were first tested in the 1960s and 1970s, with important experiments in Europe and the United States in large manufacturing plants. One of the most visible was in a Volvo plant in Sweden which used “semi-autonomous” teams to assemble cars. However, employee involvement did not gain wide acceptance by industry until the 1980s (Boxall & Macky, 2009; Cappelli & Neumark, 2001). This was the beginning of the quality movement in manufacturing and new high-involvement “greenfield” manufacturing plants. Broad adoption of such high-involvement practices as work teams, flat organization structures, cross-training, skill-based pay, and cooperative union management relationships

followed (Lawler, 1986).

By the middle of the 1990s there was significant growth in “high-involvement” work practices (also labeled “participative,” “flexible,” or “high-performance” practices) in the U.S. and Europe. At that time there was also significant interest in the popular business press, and there was academic research demonstrating their effectiveness through case studies and larger surveys of organizational performance (Lawler, Mohrman, & Ledford, 1998).

Increasing competition and the transformation of manufacturing industries appear to have driven the widespread adoption of employee involvement (Locke, Kochan, & Piore, 1995). By 2000, studies showed that some form of employee involvement practices were in place in a large proportion of workplaces in industrialized countries, including half of all U.S. firms and two-thirds of the Fortune 1000 (Cooke, 1994; Freeman, Kleiner, & Ostroff, 2000; Gittleman, Horrigan, & Joyce, 1998; Kling, 1995; Osterman, 1994; O’Toole, Lawler & Messinger, 2007).

Current implementation of high involvement practices is more difficult to gauge. Over the last 10 years there have been no new notable large-scale surveys of employee involvement work practices in the U.S.. The Workplace Employment Relations Survey (WERS) in the UK was last conducted in 2011. Comparing the adoption of various involvement practices with 2004 surveys indicates that employee involvement has remained stable or decreased slightly (Wanrooy et al., 2011). In the US the last available surveys indicate that the rates of adoption of employee involvement have leveled off or begun to decline slightly (O’Toole et al., 2007). It is unclear whether this represents companies pulling back from the use of employee involvement practices or that the acceptance of these practices has become so widespread that employee involvement has reached a saturation point, with few organizations and industries left as good candidates to transform.

At this point so much research on high-involvement and high-performance work practices has accumulated over the last 25 years that the basic foundations of the employee involvement are now largely unquestioned. To some degree they have simply become the way work is organized and longer seen as transformative practices. In the following pages we review these foundations and the current state of research on employee involvement, organizational performance and employee well-being.

Theoretical Foundations of Employee Involvement

Employee involvement at its core is based on theories of human motivation that grew out of the cognitive revolution in psychology in the 1950s. Maslow's work on "high-order needs" and "self-actualization" was particularly important because it indicated that individuals could be motivated by intrinsic rewards, not just by tangible rewards and punishments. Also influential was the work on expectancy theory and job satisfaction that showed relationships between attitudes and behavior. The work on motivation influenced subsequent research on job enrichment and job design (Oldham, Hackman & Pearce, 1976; Oldham & Hackman, 1980), which took several forms, though all included a strong emphasis on information, decision-making power, incentives and feedback as factors that influenced job performance.

In a series of books, Lawler (1986, 1992, 1996) built on this work and detailed an integrated set of principles for organizational design. He included practices that distribute information and decision-making power to employees, give them incentives for success, and give them the skills and knowledge they need to be effective. Table 2.1 shows how Lawler saw the relationship between management practices and employees having the knowledge, foundation, power and rewards they must have to make employee involvement effective. He stressed that effectiveness requires employees to have all four: power, information, knowledge and reward.

Based on classic motivation theory, employee involvement suggests that employees will exert effort and work efficiently when they feel they are in control of their work, are given meaningful work, receive feedback on their performance, and are rewarded for the success of the business. Lawler and others persuasively argued that employees will work harder and smarter in organizations where they are incited to make decisions concerning the conduct of their jobs and participate in the business as a whole (e.g., Cotton, 1993; Lawler, 1986).

While there are different theories of employee involvement, they all call for decision-making power, incentives for employees to take responsibility for their performance, skill development, the provision of information to make decisions, and job security. The motivation theory that underlies employee involvement suggests that these practices are complementary and generally need to be implemented together to create an effective work system. While research has shown that employee involvement is an integrated set of practices, researchers have seldom agreed on what the exact combination of practices should be. As a result, most studies have used measurement scales representing multiple practices determined by factor or cluster analysis to address the natural variation in the practices used by firms (Ferne & Metcalf, 1995; Huselid, 1995; Koch & McGrath, 1996; Lawler et al., 2001; Scholarios, Ramsay, & Harley, 2000; Wood & de Mensezes, 1998). A 2013 review of the high performance work literature identified 61 unique practices, but that decentralized participative decision-making was a “core” practice and the most commonly investigated practice across 193 studies (Posthuma, Campion, Masimova, & Campion, 2013).

Research on Employee Involvement and Organizational Performance

Research generally 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. 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 both organizational success and employee well-being. The consistency of positive results from employee involvement across a number of studies in so many sectors of the economy suggests that the benefits of employee involvement are real and robust across most sectors.

Studies examining employee involvement practices as part of a larger set of “high-involvement” or “high-performance” practices have generally indicated positive relationships with organizational performance. In one of the first studies on HR and performance, Ichniowski (1990) found that firms that used HR practices (including training and flexible job design) had higher sales per employee and higher overall firm performance. He concluded that a complementary set of HR practices, which includes elements of employee involvement, were positively related to firm performance if they were implemented together. Numerous studies of gain-sharing, profit sharing and employee ownership plans show that they increase organizational performance (Lawler, 2003; Rosen, Case, & Staubus, 2005). Many of these studies show that giving employees a piece of the act is most effective when it is combined with other employee involvement practices such as problem-solving groups, participative decision making and the provision of business information.

The most widely-cited paper on HR practices and performance is Huselid (1995). It reported significant relationships between HR practices and two performance indices: sales per employee and gross return on assets. The two HR indices were labeled “skills and work structures” (which included employee participation programs) and “motivation” (which included

incentive rewards). For large organizations, studies conducted by the Center for Effective Organizations at the University of Southern California have found consistent relationships between the adoption of employee involvement by the Fortune 1000 companies and several measures of financial and market performance (Lawler et al., 2001). Finally, Combs et al. (2006) examined 92 studies of high performance work practices and estimated a low, but significant, overall correlation of .20 with organizational performance. They concluded that employee involvement practices, including incentive compensation, training, information sharing, and team working, were all positively and significantly correlated with performance. A more recent meta-analysis using data from 29 countries yielded similar estimates of this relationship worldwide (Rabl, Jayasinghe, Gerhart & Kuhlmann 2014).

While the positive correlations between EI and HPWS with unit and organizational performance have been consistent across various settings, research over the last twenty years has also shown these practices to have greater impacts on some organizations than others. Research has moved away from a universalistic theory of practices on performance to a contingency or fit based theory of effectiveness (Delery & Doty, 1996; Boxall & Mackey, 2009; Kaufman, 2010). Specifically, studies have identified industry conditions, company strategy, organizational climate and the nature of the tasks performed by workers as moderators of EI and HPWS effectiveness.

HPWS appear to be more common and more effective in high growth industries and industries with competitive rivalry to incentivize innovation in management practices (Datta, Guthrie & Wright, 2005; Batt, 2002). Research has also demonstrated that strategy also plays a role in the effectiveness of EI and HPWS (Guthrie, Spell & Nyamari, 2002; Lepak & Snell, 2002; Youndt & Snell, 2004; Michie & Sheehan, 2006; Camps & Luna-Arocas, 2009).

Specifically, HPWS are more common and effective in firms pursuing differentiation or innovation strategies (Batt, 2002; Guthrie, 2002; Lepak et al. 2007). Finally, EI is more effective in firms with low capital intensity where human capital is more central to operations (Batt, 2002, McClean & Collins, 2011).

In addition to research on the moderating conditions of the EI and performance relationship there has also been some debate over the relationship of employee involvement to firm financial performance for two main reasons. First, there is some evidence that employee involvement practices are often accompanied by wage increases that are needed to attract higher-skilled employees, and they may offset some or all of the gains in productivity. Unfortunately, only a small number of studies have actually examined the effect of employee involvement on wage costs and profitability. Cooke (1994) concluded, based on a sample of manufacturing firms in Michigan, that the use of self-managed teams and quality circles was associated with both higher wages and productivity. In that study, the productivity gains outweighed the higher labor costs incurred by the firms. Employee involvement was associated with 21% better net performance as measured by value added per employee less wage costs, even though those firms had 6-7% higher wages. On the other hand, Cappelli and Neumark (2001) found that the productivity gains from high-performance work practices are largely offset by increased labor costs. With two waves of data from the 1992 and 1997 National Employer Survey (NES), they concluded that firms did not see an increase in labor productivity as measured by output per dollar spent on labor.

The second major point of debate is the question of causality. While many studies find a positive correlation between the adoption of high-involvement practices and organizational performance, the question arises as to whether high involvement leads to increased business

performance, or whether firms with above-average performance are more likely to adopt involvement practices. There is the possibility that firms with high performance have the resources needed to make investments in employees and adopt high-involvement practices. It may also be the case that firms with higher-quality managers and employees are more likely to perform better and also to adopt high involvement practices.

Reverse causality, self-selection, and heterogeneity bias have been specifically addressed in several studies. In response to questions about reverse causality, Huselid and Becker (1996) conducted a longitudinal study with a second wave of data from Huselid's (1995) earlier work. They did not find statistically significant results and argued that the differences were largely due to measurement error and range restriction that occurred because the research design focused only on firms that adopted the high-performance practices during the two-year study period. Using statistical methods to correct this bias, Huselid and Becker (1996) estimated results similar to Huselid's (1995) estimates, but these findings have been widely debated (Gerhart et al., 2000).

The direction of causality was also addressed by Wright, Gardner, Moynihan, & Allen (2005), who examined 68 empirical studies that reported significant correlations between HR practices and performance and found that only five used a research design in which HR practices were used to predict future organizational performance. They found significant correlations between involvement practices and performance, but the results were inconclusive as to the direction of causality. Their results were similar to those of Guest, Michi, Conway, and Sheehan (2003), who found that HR practices were related to higher profits among a sample of firms in the U.K., but that the correlation disappeared when prior performance was controlled. Overall, the research on employee involvement suggests that the positive relationship between employee involvement and organizational performance is reciprocal and evolves over time. Except in cases

of new facilities or greenfield projects, organizations are not likely to see large changes in employee involvement practices from year to year. Further, the effects of employee involvement on profits may also take time to materialize. More recently high involvement practices have been examined in two long-term longitudinal studies in the U.K. (Birdi, et al, 2008; Tregaskis, et al., 2013) and on balance the research evidence is clear that employee involvement is positively correlated with individual productivity, operational performance, and financial results.

Research on Employee Involvement and Growth, Development and Wages

Advocates of employee involvement have made strong theoretical arguments that employee involvement practices should also lead to higher skills and wages for employees. The primary reason is that employee involvement requires higher levels of responsibility and subsequently requires higher wages to attract and retain qualified employees. Increased participation in decision making creates additional value for the organization but also demands more training and skills.

There is evidence that employee involvement reduces demand for unskilled labor (Caroli & Van Reenen, 2001) and increases investment in employee development (Frazis, Gittleman, & Joyce, 2000; Black & Lynch, 1996; Lawler et al., 2001). Cappelli and Neumark (2001) found that high-involvement practices were associated with increased labor costs per employee, which suggests that it increased investment in employee training and wages. Organizations that adopt employee involvement practices are also likely to invest in technology, particularly information technology, which requires additional education and training to operate (Black & Lynch, 1996; Bresnahan, Brynjolfsson, & Hitt, 2002). Using data from four representative surveys from 1992 to 2006, Green (2012) concluded that employee involvement has promoted the use of higher order cognitive and interactive skills in workplaces across the UK.

Along with increased skills, employee involvement should lead to increased wages (Bartling, Fehr & Schmidt, 2012; Osterman, 2006; Steigenberger, 2013). One reason is that employee involvement increases productivity, which should increase an employer's ability to pay workers. Another reason is that employee involvement can increase the power of employees to demand higher wages either formally through union representation or indirectly as a byproduct of their expanded contributions and new roles within organizations.

However, research results regarding the relationship between employee involvement and wages are mixed. Several studies have concluded that organizations with employee involvement and related practices generally pay higher wages (Chadwick & Fister 2001; Cooke, 1994; Freeman and Lazear, 1995). More recently Bockerman and colleagues (2013) examined a nationally representative survey from Finland and found that workers in high involvement jobs enjoyed a 15% to 36% wage premium. Other researchers have concluded that wages rise in some cases and not in others. For instance, Batt (2004) found that employee discretion at work was positively related to wages, while the use of specific practices (e.g., problem-solving teams) were not.

Finally, there are studies that conclude that wages do not rise with the adoption of high-involvement practices. Osterman (1994; 2000) found no relationship between the adoption of high-performance work practices and subsequent wage increases. Similarly, Handel and Gittleman (2004) concluded that there is little evidence that high performance work is associated with higher wages.

Osterman (2004) attributed the lack of consistency in the findings concerning pay changes to differences in the data and the measurement of high involvement and employee wages across studies. In a re-analysis of data from the 1997 National Establishment Survey

(NES), he also raised the possibility that the wage benefits of employee involvement are not spread evenly across different types of organizations, or even within organizations to different types of employees. Osterman concluded that core blue-collar employees enjoy higher wages in high-performance work systems, while managerial and clerical employees do not. He argued that this may account for the non-findings in some studies, given that they fail to differentiate between core and managerial employees; they also do not account for the fact that front-line employees in high involvement workplaces likely reduce the need for higher-paid managerial employees. This argument regarding the adoption of employee involvement in traditional low-wage manufacturing was supported by Appelbaum, Bailey, Berg, and Kallenberg (2000). They found significant wage increases from high involvement in steel and apparel manufacturing industries, but not in medical imaging.

Research on Employee Involvement and Employee Attitudes and Motivation

Employee involvement practices are theorized to positively affect organizational performance through some combination of creating more efficient work processes and increasing the motivation of workers (Bodah, McHugh, & Kim, 2008; Huselid, 1995; Ichniowsky et al., 1996; Lawler, 1986; Wood & Wall, 2007). That is, the positive effects of employee involvement on organizational performance come from the increased utilization of the knowledge and skills of employees. This increased efficacy of workers then motivates them to give extra effort, resulting in higher productivity coupled with lower absenteeism, grievances and turnover, all of which ultimately have a positive effect on the bottom line.

A major critique of the early research on “high-performance” practices was that most studies of the performance effects of employee involvement tended to assume a positive effect on employee attitudes, abilities, and effort when examining organizational performance. They

focused on the relationship between practices and organizational outcomes, such as sales per employee, return on assets, and market returns leaving the effect of the work practices on employees as a “black box”. Research over the last 10-20 years research has shifted toward employee attitudes and motivation as the source of the productivity and profitability gains that arise from employee involvement. This work has consistently shown positive effects of involvement practices on employee attitudes and work climate. For example, Freeman and Rogers (1995) reported that 79% of non-managerial participants in employee involvement programs report having “personally benefited from [their] involvement in the program by getting more influence on how [their] job is done” (p. 340). Freeman, Kleiner, and Ostroff (2000) further concluded that employee involvement practices are associated with increased job satisfaction and greater trust in management. Newer studies in Europe and China find similar relationships between employee autonomy and empowerment with employee well-being and happiness (Cheng 2014; Fan et al., 2013; Van der Meer & Wielers, 2013; Yanadori & Jaarsveld, 2014)

There is also research which shows 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), innovation (Fernandez & Moldogozlev, 2013), safety (Probst & Brubaker, 2001) and employee retention (Koys, 2001). Several studies have shown that high involvement contributes to “HR climates” that are associated with greater employee commitment and discretionary effort. There are many studies which find that employee involvement, as part of a larger set of “high commitment” work practices, positively influences employee attitudes, absenteeism, turnover, and subsequent firm performance (Arthur, 1994; Lam & White, 1998; Scholarios et al., 2000; Tsui, Pearce, Porter, & Tripoli, 1997; Takeuchi, Chen & Lepak, 2009). Overall, research suggests that employees

respond positively to high-involvement practices under most conditions, and this leads to greater job satisfaction and organizational commitment. These attitudes then have benefits for employee performance, safety, and the service climate in organizations.

This research shows that employee attitudes and well-being provides one of the critical pathways through which employee involvement leads to organizational performance. The common link between these studies appears to be the process of social exchange in which employees see EI practices as an effort to promote worker interests and well-being and reciprocate with positive attitudes and discretionary effort towards company goals (Evans & Davis, 2005; Kizilos, Cummings & Cummings, 2013; Takeuchi et al. 2007; Kehoe & Wright, 2010). This means that in order for employee involvement programs to thrive the employees need to interpret the involvement practices as a genuine reflection of value that the organization places in the front-line worker. (Takeuchi et al. 2007; Chuang & Liao, 2010; Messersmith, Patel, Lepak & Gould-Williams, 2011). While most studies show that employees are likely to perceive involvement practices in a positive manner, this may not always be the case (Nishii & Wright, 2008; Nishii, Lepak & Schneider, 2008; Kuvaas, 2008; Searle et al. 2011).

Recent work on how employees react to HPWS suggest that the ways in which the motivation for implementing the practices is perceived by employees is a key determinant in whether they embrace the practices. If employees perceive that the practices are only implemented to increase productivity or get more out of employees, they tend to resist and undermine the changes. For example, using data from a large supermarket chain, Nishii and colleagues studied the attributions that employees make for the “why” of high involvement practices and found that employees who view the practices as a “win-win” situation have different behavioral and attitudinal reactions to the practices than those who felt the practices

were implemented simply to get the most out of employees (Nishii & Wright, 2008; Nishii, Lepak & Schneider, 2008).

Research on Employee Involvement and Workload, Stress, and Injuries

While there is significant research demonstrating the benefits of employee involvement, there is an alternate perspective which argues that employee involvement practices are implemented as a means to subvert unionism and increase workloads rather than to benefit employees (Bodah et al., 2008; Goddard, 2004; 2010). There is the possibility of employers using expanded responsibility of front-line employees to increase job demands, raise production targets and decrease headcounts without supporting employees, developing skills, and increasing wages. If increased performance demands are accompanied by the threat of layoff or the 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.

Using data on British employees, Ramsay, Scholarios, & Harley (2000) argued that new work practices in general have had the effect of increasing stress and workload on employees. Increased stress from employee involvement is thought to arise from several sources. First, while employees are given discretion in their jobs, the pace of the work usually increases (Berggren, 1993). Second, the nature of the work itself can become more stressful for front-line employees as responsibility and uncertainty increases. Third, Barker (1993) argued that self-managed teams encourage workers to monitor each other, which can be an even more coercive and stressful form of control than traditional supervision. There has been some research which finds workplace transformation increases workloads, work hours, and stress (Mackie, Holahan and Gottlieb, 2001; Danforth, et al, 2008; White, et al, 2003). There is also some evidence that employee

involvement leads to greater stress and insecurity for supervisors who are included in involvement practices (Mahoney, 2007). In a study of telephone operating companies, Batt (2004) found that while workers in participative teams had higher job satisfaction related to their increased discretion, their supervisors reported lower perceived job security and lower job satisfaction relative to supervisors in work groups without participation.

In addition to stress there have also been studies which conclude that work transformation may be associated with injury (Fairris and Brenner 2001; Brenner, Fairris, and Ruser 2004). While the empirical evidence for increased stress, injuries, and hours is mixed, the negative findings are balanced by the larger number of studies showing positive effects of employee involvement on stress and safety. 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 extreme versions of involvement practices. Employees are also likely to have more negative experiences with involvement practices if they are not fully implemented. Being held responsible for production and given variable pay but not control over work processes leads to anxiety and role overload (Jensen, Patel and Messersmith, 2011).

Advocates of employee involvement acknowledge that the nature of work performed by front-line employees often involves greater risk, higher-level skills, and more difficult decisions. However, when high-involvement practices are implemented, these new stresses are thought to be outweighed by the motivational and psychological benefits of greater autonomy, responsibility, and the opportunity to develop and use new skills and knowledge. Appelbaum et al. (2006) argued that additional discretionary effort from employees does not necessarily mean that their workload has increased; only that employees are performing higher order work. In a representative sample of UK employees Wood and de Menezes (2011) found enriched jobs and

high involvement management practices both negatively related to anxiety on the job. A 2011 meta-analysis found that lack of control or autonomy on the job is related to a wide range of negative psychological symptoms including fatigue, sleep disturbances and loss of appetite independent on work hours and workload (Nixon et al, 2011).

As for the relationship between EI and workplace safety, there is a significant body of work that shows that individual involvement practices including information sharing, participation and team working promote a climate of safety and reduce accidents on the job. Studies done in industrial settings including chemical plants and manufacturing demonstrate that teams with more decision-making authority and control over the different aspects of their work have fewer work-related injuries (Hechanova-Alampay & Beehr, 2001; Kaminski, 2001). In a study of Canadian companies, Zacharatos, Barling and Iverson (2005) found that HPWS promote both trust in management and a safety climate which in turn increased employees safety awareness and the number of accidents on the job.

Conclusion

Employee involvement is a core aspect of the healthy workplace and this review of the research foundations of employee involvement suggests clear benefits for firms and workers. At the same time, it also seems clear that employee involvement has not met the promise suggested by the strongest advocates as a means to truly transform all workplaces into healthy workplaces or “mutual gains enterprises.” Many questions remain concerning the future of specific employee involvement practices, but given the evidence that many involvement work practices yield a consistent competitive advantage along with benefits for workers, there is good reason to believe that employee involvement practices will continue to be utilized. However, 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 are simply assumed best practice 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.

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Table 1.1
EMPLOYEE INVOLVEMENT PRACTICES

| | PRACTICES |
|-------------|---|
| Knowledge | Skill Based Pay Commitment to training |
| Information | Gainsharing Open books |
| Power | Job Enrichment Work teams |
| Rewards | Gainsharing Employee ownership Profit sharing |