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High Performance Work
Practices: linking strategy
and skills to performance
outcomes

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High Performance Work Practices: linking strategy and skills to performance outcomes

Johnny Sung
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Executive summary

This report, funded by the Department of Trade and Industry (DTI) brings together the results of ten case studies of 'high performance work practices' (HPWPs) facilitated by Best Companies©, and a survey of 294 companies facilitated by the Chartered Institute of Personnel and Development (CIPD).

The case studies have been drawn from a sample of companies included in *The Sunday Times 100 Best Companies to Work For 2004*. The aim of the case studies is to demonstrate the following:

- Good practice in a range of high performance workplace practices;
- Change management issues related to the implementation of high performance work practices;
- The business benefits of implementation;
- The effects of implementation of high performance work practices on skills policies.

The purpose of the wider survey of CIPD members was to establish how far the HPWPs identified in the ten case studies were adopted by other UK organisations and the relationship between the level of adoption of high performance work practices and a range of organisational outcomes.

WHAT ARE HIGH PERFORMANCE WORK PRACTICES?

High performance work practices are not radical 'new practices', they are simply work practices that can be deliberately introduced in order to improve organisational performance. Those organisations that adopt HPWPs are referred to as 'High performance work organisations' (HPWOs). The concepts of HPWOs and HPWPs may be unfamiliar to some businesses. However, the practices associated with HPWOs are unlikely to be new. Many of the staff that use and implement HPWPs would not necessarily see themselves as in the vanguard of modern management practices, but merely as implementing what they see as 'common sense good practices'. These practices

include appraisals, flexible working and other practices that deliver business results.

A widely accepted definition of HPWPs is that they are a set of complementary work practices covering three broad areas. These broad areas are sometimes referred to as 'bundles' of practices and cover 35 work practices in this research:

1. High employee involvement practices – e.g. self-directed teams, quality circles and sharing/access to company information.
2. Human resource practices – e.g. sophisticated recruitment processes, performance appraisals, work redesign and mentoring.
3. Reward and commitment practices – e.g. various financial rewards, family friendly policies, job rotation and flexi hours.

Some practices can impact on more than one area, for example, having flexible working arrangements may enhance both employee involvement as well as employee commitment to the organisation. Job rotation is often used as a means to increase the employees' knowledge and long-term commitment to the organisation. But it is also by default a practice that will increase work involvement and at the same time increase their level of skills.

WHAT DID WE LEARN?

The survey of the CIPD companies confirms that many of the HPW practices have already been adopted by UK organisations, e.g. appraisals are used in 95% of the sample, whereas other practices, such as share

options for all employees, are only adopted by 16% of organisations.

The report provides evidence that the level of HPWP adoption as measured by the number of practices adopted, is linked to organisational performance. Those adopting more of the 35 HPWPs have greater employee involvement, are more effective in delivering adequate training provision, motivating staff, managing change and providing career opportunities. Similarly those adopting more of the 35 HPWPs have more people earning over £35,000 and fewer people earning less than £12,000.

The case studies illustrate a relationship between the range of HPWPs used and the performance goals of the organisation, the type of sector a business operates in and how the relevant product strategy in a particular organisation is employed to achieve results. For example, Timpson, in retail services, makes extensive use of performance/turnover information for a wide range of purposes on a weekly basis – e.g. creating a sense of competition, cross-learning and immediate feedback. As a result, Timpson, unlike all other case studies in the report does not have any formal performance appraisal. W L Gore has implemented a high degree of flexibility to create innovative teamwork, leading to high levels of innovation, and Flight Centre designs its system to maximise the benefits of a standardised approach to an expanding business – known as the “One Best Way”.

There is evidence that some of the ‘bundles’ of HPWPs work better than others in generating specific outcomes. For example, in order to achieve better support for staff and enhance organisational competitiveness, the use of the human resource and reward & commitment practices appear to be superior tools to employee involvement practices. The case studies also suggested that different HPWPs or ‘bundles’ of practices, are likely to be used in different sectors to achieve different business outcomes. For example, the companies in the financial services sector made intensive use of financial incentives, whereas in manufacturing and business services more use was made of high involvement practices. But to all of these companies, HPWPs are simply common sense practices that have

brought results and the case studies demonstrate the context in which these practices are used.

Key lessons in the case studies are also that leadership is crucial in creating, shaping and driving these high performing organisations. In none of the cases are high performance work organisations (HPWO) developing skills for the sake of skills. Skills development is very focused and designed to achieve specific business outcomes and levels of performance. The case studies show that all employers expect more than technical skills from their employees. For example, in W L Gore, all recruits enter an induction programme and are required to follow a course in communication and listening skills as these are regarded as critical skills for the success of the organisation. St. Luke’s, the advertising agency, recognises that learning and personal development are essential to sustain the creativity and high skill levels on which the business depends. To this end appraisals are taken very seriously, as is the idea of lifelong learning. Every employee is allocated £150 every year “to make themselves more interesting” and this can be spent on almost any relevant activity they choose.

In most of the case studies, training and continuous development was also regarded as a ‘given’, and so it is not a matter of ‘HPWOs training more’. In a HPWO, it is more important to focus on training that is linked to performance requirements rather than on quantity. Furthermore, tacit skills and institutional knowledge are relatively more important than technical skills in many of the HPWOs studied. So in a HPWO, skills policy is about creating a work environment in which employees can learn all the time as part of their normal work and where they can take advantage of the system to effect performance and innovation.

High performing organisations tend to be leaders in their industries, creating best practice rather than following it. In most of our case studies HPWPs have been used to create business success from the very birth of these companies. However, to ensure their continued success these practices are usually subject to constant modification in line with the requirements of business objectives.

The background to the study

This report, funded by the Department of Trade and Industry (DTI) brings together the results of ten case studies of 'high performance work practices' (HPWPs) facilitated by Best Companies[®], and a survey of 294 Companies facilitated by the Chartered Institute of Personnel and Development (CIPD).

The case studies have been drawn from a sample of companies included in *The Sunday Times 100 Best Companies to Work For 2004*. The aim of the case studies is to demonstrate the following:

- Good practice in a range of high performance workplace practices;
- Change management issues related to the implementation of high performance work practices;
- The business benefits of implementation;
- The effects of implementation of high performance work practices on skills policies.

The purpose of the wider survey of CIPD members was to establish how far the HPWPs identified in the ten case studies were adopted by other UK organisations. In particular, the survey sought to ascertain whether there was correlation between the adoption of HPWPs and other organisational outcomes and business benefits. Both the survey and the case studies were conducted between June and October of 2004.

HPWPs have recently been brought to the attention of a much wider audience as a result of evidence about the impact of these practices on business performance. In addition, they are also associated with the impact of globalisation and the emergence of the new 'knowledge' economy. These changes have all encouraged organisations to examine how they implement their workplace practices.

Those organisations that adopt HPWPs are referred to as 'High performance work organisations' (HPWOs). The concepts of HPWOs and HPWPs may be unfamiliar to some businesses, however, the practices associated with HPWOs are not new. High performance working practices, in a nutshell, refer to the careful design of work organisation and practices so that they are systematically linked to the achievement of organisational objectives and performance. They are work practices that are deliberately introduced in order to improve organisational performance.

WHAT ARE HIGH PERFORMANCE WORK PRACTICES?

The precise definition of HPWPs is subject to continuous debate. However, the general definition that is widely accepted is that they are a set of complementary work practices covering three broad categories: high employee involvement practices, human resource practices, and reward and commitment practices¹. These broad areas are sometimes referred to as 'bundles' of practices and cover 35 work practices in this research.

¹ These categories are consistent with two recent UK reports – Ashton and Sung (2002) and Thompson (2002).

HIGH INVOLVEMENT

High employee involvement practices encourage a much greater level of trust and communication between employers and employees through involving them more in the organisation. High involvement is in turn accompanied by a high degree of empowerment and the exercise of discretion among the workforce. These practices are shown in our case studies and the survey results, to be linked to higher levels of staff motivation, leadership, communication and teamwork.

Common involvement practices are:

- Circulating information on organisational performance and strategy
- Providing all employees with a copy of the business plan and targets
- Staff Association
- Internal staff surveys
- Staff suggestion schemes
- Quality circles/total quality management
- Self-managed or self-directed teams
- Cross-function teams
- 'Kaizen' – specific efforts on continuous improvement in work systems

HRP – HUMAN RESOURCE PRACTICES

Many of these practices are specifically targeted to create a greater depth of human capital investment and hence skill formation within the organisation. The higher levels of skill in turn are linked to improvements in the quality of work and the services delivered to the customer. The evidence is that these will in turn lead to higher organisational performance – e.g. higher levels of productivity and innovation.

Common human resource practices are:

- Annual appraisal
- Formal feedback on job performance from superiors/employers
- Formal feedback on job performance from customers/clients
- Reviewing vacancies in relation to business strategy
- Formal assessment tools for recruitment (e.g. competencies etc.)
- Annual review of employees' training needs
- Training to perform multiple jobs
- Continuous skills development programmes
- 'Structured' induction training
- 'Work-(re)design' for improved performance
- Workforce diversity for competitive edge
- Mentoring
- QA assurance (e.g. ISO9000 or other similar schemes)
- The Business Excellence Model or equivalent

REWARD AND COMMITMENT

Reward and commitment practices facilitate a greater sense of belonging and commitment to the organisation. Financial rewards such as profit-sharing, share options and performance-related pay are powerful tools to establish a sense of stake-holding within the organisation. Where it is effectively implemented, performance-related pay gives explicit recognition to the contribution individuals and teams make towards organisational performance. However, financial rewards are not the only tools that are used to create greater commitment among employees. Egalitarian terms and conditions, free employee facilities and benefits (some extended to family members) and family-friendly policies also have significant effects in creating a sense of identification with the organisation and, in some cases, a greater sense of common purpose. In this way, rewards and commitment practices are used to create long-term positive impact on employees and the achievement of organisational outcomes.

Common reward practices are:

- Performance pay for some employees
- Performance pay for all employees
- Profit-sharing for some employees
- Profit-sharing for all employees
- Share options for some employees
- Share options for all employees
- Flexible job descriptions
- Flexible working (e.g. hours, locations, job-share etc.)
- Job rotation
- 'Family-friendly' policies
- Non-pay benefits (e.g. free meals, gifts or health packages)
- Benefits covering spouse or family members

It is also important to point out that some practices can impact on more than one of these three broad areas. For example, having flexible working arrangements may enhance both employee involvement as well as employee commitment to the organisation. Job rotation is often used as a means to increase the knowledge and long-term commitment of employees to the organisation. But it is also by default a practice that will increase work involvement and at the same time increase their level of skills.

Central to the effective implementation of HPWPs is organisational leadership and the culture this creates. This is illustrated in Diagram 1 that also shows how this leadership works through the three categories of HPWPs – namely, high involvement practices, human resource

practices and reward and commitment practices – to achieve organisational objectives. These objectives are depicted in the outer ring and may include financial performance, innovation or other organisational objectives. The crucial point we seek to make through diagram 1 is that an organisation does not necessarily require all of the HPWPs in order to move to the outer ring. However, it is important to recognise that some practices may form synergetic 'bundles' that then produce a greater impact on the organisational results identified in the outer ring.

As we have already mentioned, HPWPs are not new. Ironically, the lack of public awareness about the link between these practices and higher levels of performance means that even some of those companies which have introduced what we term high

DIAGRAM 1: HPWPS AND ORGANISATIONAL OBJECTIVES



performance working practices would not have thought of their practices in these terms. The practices listed for the three categories (high involvement, human resources and reward practices) are either understood or used by most organisations.

There are also problems in the way in which these practices have been used which may have led to confusion. First, instead of an agreed list of practices, research on HPWPs has been characterised by the use of various 'lists', in some cases containing different practices. Take for example, Becker and Huselid (1998) who use more than thirty practices in their US study, while Guest (2000) uses eighteen practices in his UK study. These lists overlap with each other, and while they are essentially studying the same organisational phenomenon, the use of different lists by researchers can create confusion.

The lesson here is that it is not necessarily the number or specific type of practices that matter, but the way they are linked to performance. This means that for newcomers to the subject of HPWPs, it would be wrong to seek one 'magic list'. After all, it is quite possible to replace one practice with another practice, or with combinations of other practices that deliver the same results. Indeed, the results of the survey and the case studies show that there are a variety of ways to deliver

improvements in performance through the use of HPWPs.

Second, the use of different terminology by researchers has caused confusion. In some cases HPWPs are called 'high-commitment management' (Walton, 1985) or 'high-involvement management' (Lawler, 1986). More recently they have been termed 'high performance organisations' (Lawler et al, 1998; Ashton and Sung, 2002) or 'high involvement work practices' (Wood, 2001). Whilst these studies are referring to the same general phenomena the use of different 'labels' has undoubtedly added to the confusion. Without a single and well-defined term, researchers have missed many opportunities to sell the ideas to the policy and business communities.

The approach in this study is to circumvent these debates and focus on the outcomes of the practices. The emphasis, both in the presentation of the survey and case studies, is therefore on the relationship between these management and work practices and organisational performance.

Although many of these individual HPWPs are not new, what is new is the systematic way in which they are used (sometimes through combinations of practices known as 'bundles') to bring about a higher and sustainable level of organisational performance (Purcell et. al., 2003). HPWPs

are therefore the 'leveraging links' between work activities and the intended business outcomes².

For example, there are many organisations that claim to practise teamwork and to value innovation. However, not all of these organisations have created a suitable environment by, for example, giving a higher level of task discretion to employees, which would enable them to transform the benefit of team-working into higher levels of innovation. A further example is the use of financial incentives. Performance pay schemes may reward the employee for doing their existing job well. However, they do not necessarily reward employees for thinking of improvements beyond the confines of their present job. The question is whether a one-off payment to reward good ideas is good enough to sustain an innovative culture. Furthermore, the implementation of new ideas often means introducing new working arrangements and new skills to operate them. This in turn requires a positive attitude toward continuous learning on the part of all employees. It is therefore worth finding out whether employees treat 'learning' as a positive and integral part of their work. It is this form of 'holistic' thinking, always knowing the links between work practices and performance outcomes that is central to the effective implementation of HPWPs.

WHY ARE HPWPs IMPORTANT?

Research from different parts of the world has consistently shown two main benefits of HPWPs, both of which reinforce each other. Firstly, HPWPs may create sustained performance improvements in organisations. Secondly, HPWPs may create a better workplace in terms of employee satisfaction and a sense of personal achievement. When these two benefits work together, this translates into higher levels of financial performance, strong employee commitment, sustained competitiveness and innovation.

These have been extensively documented in Ashton and Sung (2002) and a summary of these research findings and business benefits is as follows:

- Quantitative research has shown a strong link between HPWPs and enhanced performance using indicators such as productivity and profitability.
- The links between HPWPs and business performance can be identified in organisations located in many countries or territories, e.g. US, UK, Japan, Europe, Australia, Korea, Mexico, Brazil, Taiwan and New Zealand.
- The links have also been identified in a variety of industrial contexts, e.g. paper mills, steel plants, apparel, service sector, auto assembly, aerospace, financial services, personal services and even public sector administration.
- The benefits have been identified using different study methods e.g. examining single-site companies, multiple-site companies, long term studies and have produced similar results in linking HPWPs and enhanced performance.
- The practices may be more effective when grouped together in 'bundles'. A good example here is that the isolated use of quality circles is not as effective in producing results as when the practice is supported by wider employee involvement/ empowerment practices.
- Other 'quantifiable' benefits that have been identified include increased sales and increased market value for shareholders.
- Significant employee benefits have been identified. These include greater levels of employee satisfaction, commitment and development of trust in work relations. These benefits are often accompanied by lower levels of turnover of employees.
- Workers in HPWPs may earn more and are likely to benefit from higher levels of skill.

The remainder of this report is divided into two parts in order to demonstrate some of the benefits in the UK context. The first part, using the survey of CIPD members, studies the extent and use of HPWPs in the UK. The second part shows how these HPWPs are used in ten UK companies to generate performance improvements.

² For an academic discussion about the nature of the causality involved in establishing these links to performance see Guest, et. al. (2003) and de Menezes and Wood (2005).

The 2004 HPWPs survey

THE SAMPLE

This joint DTI and CIPD survey was conducted in the latter part of 2004. Six thousand questionnaires were sent out to a random sample of CIPD member organisations. 294 replies were received. Table 1 shows the industrial sectors from which the sample is derived.

TABLE 1: THE INDUSTRY SECTOR OF THE SAMPLE (SIC 92)

	No.	%
Manufacturing	84	28.3
Electricity, gas and water supply	5	1.7
Construction	9	3.0
Wholesales and retail	31	10.4
Hotels and restaurants	8	2.7
Transport, storage and communication	15	5.1
Financial services	26	8.8
Real estate, renting and business services	92	31.0
Public admin, defence and social security	2	0.7
Education	3	1.0
Health and social work	3	1.0
Other community, social and personal services	16	5.4
Total =		294

THE SPREAD OF HPWPs

We used this survey to:

1. Establish how HPWPs have been utilised in the UK
2. Identify how respondents rated various organisational outcomes and
3. Record the financial performance of the organisation.

However, despite our best efforts, few respondents provided information on the financial performance of their organisations. Consequently, the analysis of the survey is based on the first two sets of information.

Table 2 shows the level of HPWP adoption within the sample. A number of interesting patterns are revealed.

TABLE 2: THE PERCENTAGE OF RESPONDENTS WHO HAVE ADOPTED THE PRACTICES

	%
Annual appraisal	94.9
'Structured' induction training	92.5
Annual review of employees' training needs	89.8
Circulating information on organisational performance and strategy	82.0
Formal feedback on job performance from superiors/employers	79.3
'Family-friendly' policies	78.6
Reviewing vacancies in relation to business strategy	74.6
Formal assessment tools for recruitment (e.g. competencies etc.)	73.6
Continuous skills development programmes	70.9
Internal staff surveys	68.5
Benefits covering spouse or family members	68.1
Flexible working (e.g. hours, locations, job-share etc.)	65.8
Training to perform multiple jobs	62.4
Non-pay benefits (e.g. free meals, gifts or health packages)	60.7
Cross-function teams	59.3
QA assurance (e.g. ISO9000 or other similar schemes)	56.3
Mentoring	54.6
Performance pay for some employees	51.9
Staff suggestion schemes	51.9
Flexible job descriptions	45.4
Formal feedback on job performance from customers/clients	44.1
'Work-(re)design' for improved performance	42.7
Providing all employees a copy of the business plan and targets	42.4
Workforce diversity for competitive edge	40.7
Quality circles/total quality management	35.3
Performance pay for <i>all</i> employees	35.5
Staff Association	31.5
Share options for some employees	30.9
Self-managed or self-directed teams	25.8
Job rotation	24.1
The Business Excellence Model or equivalent	23.7
'Kaizen' – continuous improvement in work systems	23.7
Profit-sharing for some employees	22.0
Profit-sharing for <i>all</i> employees	19.7
Share options for <i>all</i> employees	15.9

The first point illustrated by Table 2 is the enormous difference in the level of adoption of HPWPs in the UK. There is an almost universal adoption of annual appraisals and induction training, but many financial rewards, such as profit-sharing and share options, are only offered by a minority of organisations.

The second point is that many of the 'softer' HPWPs, such as family-friendly policies and non-pay benefits, have been more widely adopted than previously thought. There are actually more organisations which have these types of practices than use self-managed teams, staff surveys, quality circles or job rotation. Previously, these 'softer', but equally important practices, have largely been ignored by researchers.

Thirdly a number of important HPWPs including business excellence models, total quality management, job rotation and self-managed teams, are only adopted by a minority of organisations. One explanation could be that these practices are too costly for some firms to implement; another could be lack of information about such practices. Another issue raised by these findings is the low take-up of financial rewards in addition to basic salary and leads one to question how important are they in enhancing performance. These are some of the issues we explore through the case studies.

THE LINKS BETWEEN HPWPs AND ORGANISATIONAL OUTCOMES

One of the distinctive features of this survey was our attempt to explore the link between HPWPs and a range of organisational outcomes, over and above that of financial performance. To establish these we used

questions on how well the respondent thought the organisation had achieved a range of outcomes. These included how effective they had been in creating organisational flexibility, how well they managed change, how well they had created employee involvement, how well they had met organisational goals and so on. In general we used a five point self-rated scale, ranging from 'unsatisfactory' to 'excellent' to measure these outcomes. Those items not measured by the scale: staff turnover rate, % of staff earning less than £12,000 p.a. and % of staff earning more than £35,000 p.a., are reported as percentages.

The level of HPWPs adopted is measured through simply counting how many of the 35 practices were reported by each organisation. The 35 practices are those listed under the three broad categories earlier in the report. Within the sample, this ranged from a minimum of one HPWP at the bottom of the scale to 33 at the top. On average (the mean) organisations adopted 18 practices. Table 3 provides a general profile of HPWP adoption within the sample. Around 60 percent of the sample has fewer than 20 practices.

TABLE 3: THE DISTRIBUTION OF HPWP ADOPTION

Number of practices	% of sample
<10	5.1
10 or <20	54.2
20 or <30	39.3
30 or more	1.4

Table 4 shows a range of organisational outcomes associated with adopting more HPWPs³.

TABLE 4: CORRELATION BETWEEN THE LEVEL OF HPWP ADOPTION AND ORGANISATIONAL OUTCOMES

Creating employee involvement	.391**
Delivery adequate training and development provision	.371**
Motivating staff	.364**
Managing change	.357**
Providing career opportunities	.348**
Ensuring effective teamwork	.331**
Ensuring job satisfaction among staff	.323**
Ensuring effective communication	.314**
Providing quality leadership	.310**
Maintaining good industrial relations	.282**
Staff commitment	.266**
Creating innovation/new ideas	.257**
Creating organisational flexibility	.248**
Creating support for staff	.243**
Meeting business/organisational goals	.192**
Competitiveness	.170**
% earning more than £35,000	.170**
Minimising employee stress	.153**
Ensuring workforce diversity	.145*
Ensuring work-life balance	.139*
Providing job security	.129*
Staff Turnover Rate (%)	-.103
% earning less than £12,000	-.108*

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Of particular interest are the facts that in general:

- Those adopting more of the 35 HPW practices score more highly on creating employee involvement;
- Those adopting more of the 35 HPWPs have more people earning over £35,000 and fewer people earning less than £12,000;

- The more HPWPs an organisation uses the more effective it is in delivering adequate training provision, motivating staff, managing change and providing career opportunities;
- The more HPWPs an organisation uses the lower the staff turnover.⁴

³ For those who are unfamiliar with the correlation measures, 0.1 – .29 represent a small correlation; 0.3 – .49 represent a medium correlation.

⁴ % of Staff Turnover and % of staff earning less than £12,000 show negative correlations but these are positive outcomes as it means that the adoption of HPWPs reduces the staff turnover and the % of people earning less than £12,000.

THE LINKS BETWEEN HPWPs BUNDLES AND ORGANISATIONAL OUTCOMES

Earlier we suggested that HPWPs could be usefully grouped into three distinct areas or bundles, namely: high employee involvement practices, human resource management

practices and reward and commitment practices. Table 5 shows a range of organisational outcomes associated with adopting more HPWPs by HPWP category.

TABLE 5: CORRELATION BETWEEN THE LEVEL OF HPWP ADOPTION AND ORGANISATIONAL OUTCOMES BY HPWP CATEGORY.

	HPWP Bundles		
	High involvement	HR	Reward & commitment
Meeting business/organisational goals	.084	.153**	.224**
Ensuring job satisfaction among staff	.217**	.293**	.260**
Motivating staff	.236**	.357**	.262**
Staff commitment	.211**	.256**	.163**
Providing job security	.130*	.123*	.056
Ensuring work life balance	.078	.141*	.105
Providing quality leadership	.179**	.292**	.260**
Providing career opportunities	.188**	.324**	.310**
Ensuring effective communication	.211**	.295**	.239**
Ensuring effective teamwork	.237**	.333**	.207**
Creating support for staff	.109	.281**	.162**
Creating employee involvement	.305**	.361**	.266**
Minimising employee stress	.106	.171**	.076
Creating innovation/new ideas	.178**	.205**	.238**
Competitiveness	.077	.162**	.161**
Creating organisational flexibility	.118*	.235**	.229**
Ensuring workforce diversity	-.002	.244**	.055
Delivery adequate training and development provision	.274**	.396**	.194**
Maintaining good industrial relations	.204**	.237**	.232**
Managing change	.208**	.352**	.278**
Staff Turnover Rate (%)	-.129*	-.093	-.029
% earning less than £12,000	-.121	-.071	-.076
% earning more than £35,000	.065	.107	.245**

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Where you see statistically significant correlations (marked with * or **) for all three HPWP categories, the results indicate that all types of HPWP are collectively working together to improve organisational performance. For example, all 3 categories of HPWP have a positive impact on motivating staff. However, for competitiveness, only HPWPs categorised as human resource management or rewards and commitment would appear to be correlated with higher performance.

Several main findings stand out here:

- Firstly, that some outcomes are positively associated with all three bundles. The three bundles appear to be interchangeable and all appear to be equally effective in creating outcomes such as staff satisfaction, motivation and commitment, in providing leadership quality, career opportunities, effective communication and effective teamwork, in creating employee involvement and innovation, and in delivering adequate training, good industrial relations and managing change.
- Other outcomes were linked with the use of only one or two bundles. For example, human resource and reward and commitment practices appear to be the main driving forces behind the ability of an organisation to meet its goals. Here the effect of high employee involvement practices, in contrast, appears to be weak. Yet, if the outcome is to create a better sense of job security, then here the greater adoption of employee involvement as well as human resource management practices are important.
- In general the relationship between the use of HPWPs and ensuring work-life balance is weak. However, whatever positive effect HPWPs in general may have on work-life balance is mainly channelled through the use of a higher level of human resource management practices. Similarly, human resource management practices are the only effective HPWPs that generate a greater level of workforce diversity.
- Lower staff turnover is associated with the use of all three bundles, but the employee involvement bundle is the only one with a statistically significant link. This may be as a result of the high levels of trust between

employees and managers associated with the use of this bundle.

- Higher levels of earnings are associated with the adoption of reward and commitment practices. This finding is probably 'expected' in the sense that the greater use of such a reward strategy in an organisation is likely to result in a higher proportion of employees earning more, other things being equal. However, it is not significant in reducing the proportions of lower paid employees (those that earn less than £12,000 per year). To achieve this objective it may be that, as Table 4 suggested, you have simply to use as many HPWPs as possible.

ARE SOME BUNDLES MORE EFFECTIVE IN SOME INDUSTRIAL SECTORS THAN OTHERS?

What our findings suggest here is that the choice of which bundle or bundles of practices to use in order to achieve a given organisational outcome or objectives is influenced by the type of sector in which the organisation or company is operating. In other words, some of these bundles are more effective in some industrial sectors than others.

In order to highlight the differential use of HPWPs in the different industrial sectors, we focused on a smaller set of organisation outcomes and examined how they relate to the three categories of HPWPs within four industrial sectors⁵. The survey data did not enable us to examine all industrial sectors as the number of companies was too small.

Table 6 shows the correlation between the three categories of HPWPs and a selected set of organisational outcomes in the four sectors. In order to simplify the presentation of the results only significant results are reported. The absence of a symbol means that HPWPs are not correlated with the particular organisational outcome.

⁵ The classification follows that of SIC92: (1) Manufacturing; (2) Real estate, renting and business services; (3) Financial intermediation; (4) Combining (i) Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods; (ii) Hotels and restaurants; and (iii) Transport, storage and communication.

TABLE 6: CORRELATION BETWEEN THE LEVEL OF HPWP ADOPTION AND SELECTED ORGANISATIONAL OUTCOMES BY SECTOR

	Manufact- uring	Business service etc.	Financial services etc	Wholesale & retail etc.
Meeting business/organisational goals	HR RC	RC		HR
Motivating staff	HR RC	HI HR RC	HR RC	
Providing quality leadership	HR RC	RC	HI RC	HR RC
Ensuring effective teamwork	HI HR RC	HI HR RC	HR	
Creating innovation/new ideas	HI HR RC	HR RC	HI RC	
Competitiveness	RC	HR RC		
Creating organisational flexibility	RC	HR		HR RC
Delivery adequate training and development provision	HI HR	HI HR RC	HR RC	
Managing change	HI HR	HR RC		HR RC
Staff Turnover Rate	HR (-)			
% earning less than £12,000				
% earning more than £35,000	RC			HR

HI – High employee involvement practices

HR – Human resource practices

RC – Reward and commitment practices

When we undertook the case studies we found that the companies in the financial services sector made intensive use of financial incentives (reward and commitment practices), whereas in the manufacturing and business service sectors more use was made of high involvement practices. This finding is reflected in the survey results that show that when we look at the achievement of different business outcomes, then we find companies in different sectors making use of a different combination of practices. For example, in achieving innovation and generating new ideas, we find that in manufacturing all three bundles are used, whereas in business services, only human resource and reward and commitment practices are used. Companies in financial services use a combination of high involvement and reward and commitment practices and in the wholesale & retail sector, none of the HPWP bundles are associated with generating higher levels of new ideas.

In providing quality leadership, companies in manufacturing utilise human resource and reward & commitment practices, as do companies in the wholesale and retail sector. Those in business services rely exclusively on reward and commitment practices to provide quality leadership and those in financial services rely on a combination of high involvement and reward and commitment practices. Thus, the use of these different bundles would appear to be influenced by the sector in which the company operates and the business outcome expected. Put another way, in order to achieve a given business outcome you would need to use a different bundle, or combination of bundles, depending on the industrial sector and the product market you are competing in.

The human resource practice and reward and commitment practice “bundles” are used to deliver the same outcomes across most sectors and this is the case with regard to staff motivation. The achievement of other outcomes such as providing quality leadership and managing change are usually associated with the use of human resource practices, although depending on the sector, other bundles may also be used.

In wholesale and retail, relatively little use is made of these bundles in meeting their organisational objectives, which may mean that the companies rely on more traditional command and control techniques of management or that these objectives are not that important to them.

What is clear is that these HPW practices would appear to be used in different ways, in different sectors, in order to achieve given business objectives. This hypothesis receives some support from the more detailed examination of specific case studies that follow.

The case studies illustrate in detail how companies have developed and used a variety of HPWPs. These case studies serve to highlight the links between industrial sector and product market, the organisation’s product strategy and the adoption of different HPWP bundles. A successful HPWO needs to match the three factors appropriately. The case studies also explore the impact that the implementation of HPWPs have on skills policies.

The case studies

What can we learn from the case studies?

The case studies have been chosen from *The Sunday Times 100 Best Companies to Work For 2004* lists. The companies have been chosen to represent a variety of industrial contexts, sizes and product strategies. They therefore highlight a range of performance issues and different ways of using HPWPs to tackle these issues. The names of the companies involved in the case studies are:

- Aspect Capital
- Bacardi & Martini UK
- Data Connection
- Flight Centre
- i-level
- Pannone & Partners
- Quest Diagnostics
- St. Luke's
- Timpson
- W L Gore

Before you read the cases, we would like to highlight a number of points that have arisen from the analysis of the ten case studies in order to maximise what we can learn from them.

HOW DIFFERENT ARE HPWPs?

As we have said HPWPs are not radical 'new practices'. The ten case studies show that what makes these practices effective is the very careful strategic combination of practices that are appropriate in tackling the specific performance issue in question. The irony is that many of the staff that use and implement them would not necessarily see themselves as in the vanguard of modern management practices, but merely as implementing what they see as 'common sense good practices' that deliver business results. All of the ten case studies illustrate this. To name a few examples, W L Gore has implemented a high degree of flexibility to create innovative teamwork leading to high levels of innovation, while Flight Centre designs its system to maximise the benefits of a standardised approach to an expanding business which they describe as "One Best Way". Others such as i-Level and Bacardi & Martini use strong organisation values to guide work practices. Timpson concentrates on seeking the best personalities to ensure high levels of customer care. To all of these companies, HPWPs are simply common sense practices that have brought results.

HOW MANY HPWPs ARE NEEDED?

We have already described a list of 'typical' HPWPs that may form performance bundles. From the DTI/CIPD survey, it is evident that there is a relationship between adopting more HPWPs and performance outcomes. However, for the purposes of learning from the case studies, it is more important to identify the ways in which practices are designed to support each other for specific outcomes. In this sense, the case studies demonstrate the context in which these practices are used rather than the number of HPWPs adopted and outcomes.

The range and manner in which HPWPs are used by the companies therefore depends on the specific performance goals of the organisation, the industrial context, and how the relevant product strategy in a particular organisation is employed to achieve results. For example, Timpson, in retail services, makes extensive use of performance/turnover information for a wide range of purposes on a weekly basis. These include creating a sense of competition, cross-learning and immediate feedback. As a result, Timpson, unlike all other case studies in the report, does not have any formal performance appraisal. The fact that Timpson shops only have one or two people in each service unit makes it less appropriate to place too much emphasis on the general concept of teamwork. Instead, they rely on the combination of financial rewards and a good communication system to support the front line staff who are located in different parts of the country.

DIFFERENT HPWPs ARE LIKELY TO BE USED IN DIFFERENT SECTORS AND TO ACHIEVE DIFFERENT BUSINESS OUTCOMES

The quantitative survey has shown that the use of HPWPs differs by sector but what these case studies suggest is that the use of these practices may also be influenced by the dominant business objective.

For example, where the product market requires innovation and creativity, in the development of new products as in W L Gore – a manufacturing firm, or the development of one-off creative solutions as in St. Luke's – a services firm, the companies tend to stress the importance of developing high levels of trust to enable a widespread

sharing of ideas, and the building up of collective capabilities within the organisation. In these companies, teamwork and informal sharing of ideas, support for learning, and constant questioning of systems designed to enhance skills, are common. Also we find a greater emphasis on developing and maintaining trust within the organisation and practices designed to celebrate the values of the company.

In the financial services sector, the case study there, Aspect Capital, suggests an emphasis on personal rewards and using rewards as one of the central practices around which learning support and cultural values are geared.

In the legal industry, continuous development in professional skills, such as keeping in touch with changes in legislation, is a given by virtue of the needs of the industry. Hence, HPWPs focus on other areas of organisational activities: this is illustrated by Pannone & Partners who make use of team rewards for a job well done, rather than rewarding individuals according to the value of contracts they bring in. In an organisation that has more than 500 staff members, this helps create and sustain a coherent team culture.

THE IMPORTANCE OF PEOPLE AND PEOPLE POLICIES IN HPWPs

The majority of the HPWPs require the practices to be built on the basis of strong employee commitment to the organisation's strategy. This provides the basis for high levels of trust. In all the case studies, sound and coherent people policies are therefore the basis for successful HPWPs and for sustained organisational performance.

What is also important here is that the people policies have to be consistently applied. This does not mean that the practices have to be rigidly implemented. Rather, it means that the objectives of the policies must be seen as fair and consistent. The intended effect is to make the people policies meaningful to the employees in order that they can have a 'stake' within the organisation. The lesson here is that HPWPs are less likely to be successful in a divided organisation with contradictory objectives and values.

THE IMPORTANCE OF LEADERSHIP IN HPWOs

Leadership is central in shaping issues such as the culture and expectations within an organisation. All of our cases show that leadership is very important in both the conception as well as the development of a HPWO. At the outset leadership is crucial to identify the main business strategy and how HPWPs might deliver results⁶. However, once HPWPs start delivering results, leadership goes beyond a few individuals and becomes embedded in the organisation and leadership can be seen everywhere. For example, in the case of W L Gore, leadership can be readily identified in all the self-managed teams. The delegation of authority to make decisions, and the widespread commitment to organisational values, mean that the conditions are present for most members of the organisation to exercise leadership. The end result is that innovation, problem-solving and collaboration occur any time and anywhere. Similarly, Flight Centre achieves widespread leadership through an egalitarian culture that encourages the idea that 'everyone is a leader'.

WHAT IS THE BUSINESS CASE FOR ADOPTING HPWPs?

The survey results show a strong business case for adopting HPWPs. Twenty-two out of twenty-three of the organisation outcomes tested were correlated with adopting more HPWPs. Some of the stronger correlations, such as those between HPWPs and motivating staff, managing change, effective teamwork, communication and greater job satisfaction are clearly providing a business case for HPWPs. Likewise, all of the case studies demonstrate the effect of HPWPs on a range of areas such as innovation, performance, teamwork, employee commitment, employee welfare, competitiveness, productivity and creating the flexibility necessary to adapt to change.

⁶ In the case studies on the relationship between people management and organisation performance by Purcell et al (2003), a similar characteristic of leadership was identified. Purcell et al called it the "Big Idea" – i.e. a clear mission underpinned by values and culture which in turn defines how organisational goals are to be achieved.

Whilst not all of the cases have attempted to design their work systems to achieve all of the above objectives simultaneously, many are in a position to do so by virtue of being a HPWO.

DOES HIGH PAY NECESSARILY GUARANTEE THE CREATION OF A HPWO?

In our survey, there was a positive correlation between organisations with greater adoption of HPWPs and the proportion of employees earning over £35,000 p.a. However, the proportion of employees earning over £35,000 is probably a consequence of high performance working and not the other way round. In most of the case studies, good pay features in their success but while good pay is important in rewarding good performance, it is not necessarily the cause of it. In this context, most case studies would suggest that pay, as far as the employees are concerned, is often a 'hygiene factor' (i.e. an underlying factor that sustains commitment) in a high performing organisation. Other business challenges and the quality of the work environment are more effective in retaining good employees and therefore their long-term commitment to the organisation.

THE NATURE OF SKILLS IN A HPWO

Our case studies provide a number of interesting lessons on skills and how skills operate in the context of a HPWO. The case studies show that all employers expect something more than technical skills from their employees. As a result, they spend considerable time and resources in identifying those 'other' skills during recruitment, developing them in employees' early years with the organisation, and subsequently maintaining and improving them. In none of the cases are they developing skills for the sake of skills. Skills development is very focused and therefore essential to business performance. As in the case of Aspect Capital, vast resources and time are spent in training their employees in both the sales teams and in the financial modelling teams and the results of the training are reflected by the employees' performance vis-à-vis their performance targets.

The transmission and development of skills are seen as an essential part of the managers' job. They are a crucial component of the company's competitive advantage and therefore not something to be delegated to the training department.

In nearly every case study, training and continuous development can be regarded as a 'given', and it is not a matter of 'HPWOs training more'. As we have already said, in a HPWO it is more important to focus on training that is linked to performance requirements rather than on quantity. Furthermore, tacit skills and institutional knowledge are relatively more important than technical skills in many of the HPWOs studied. As the training for tacit skills and institutional knowledge are more informal than formal, there are immense implications for skills policy in HPWOs. Thus, in a HPWO, skills policy goes beyond the formalisation of training (e.g. £X spent every year per employee). It is about creating a work environment in which employees can learn all the time as part of their normal work and where they can take advantage of the system for performance and innovation.

The implication of making learning the normal environment of work is that, in a HPWO, skills policy has two components: (1) a maintaining element – training/learning that is necessary to maintain the basic operation and (2) a motivating element that enables employees to internalise training/learning so that training/learning is something that they enjoy and will make their work even more exciting and motivating.

The former element of the skill policy in a HPWO is therefore identifiable and often measurable (e.g. 'we will give everyone induction training or continuous development', or £X allocated to a training budget), but the latter (the motivating component) is not. The greater the attention paid to the "motivating" component of a skills policy (e.g. making sure staff have a high level of job satisfaction and an environment of empowerment and career prospect), the more individuals obtain from the effect of the skills policy as a whole.

The above argument is consistent with another recent CIPD study conducted by Purcell et al (2003) in which an organisation's performance is found to be a function of 'ability' + 'motivation' + 'opportunity'. Like our current case studies, Purcell et al argue that beyond possessing the basic skills to do a job, what produces performance is the leveraging effects of motivation and the opportunity to 'go the "extra mile"'.

IMPLEMENTING HPWOs AND MANAGING CHANGE

As leaders in their respective industries, HPWOs are adept at handling change. This is clearly highlighted by the cases such as Bacardi & Martini and Quest Diagnostics. Innovative practices in HPWOs mean that they are quick to respond to new business needs and can develop new capabilities. However, the irony of a HPWO is that they tend to be leaders in their industries, creating best practice rather than following it. In these circumstances, you will read many practical examples in the case studies about tools leading to change and the achievement of specific organisational objectives. A further set of case studies by John Stevens (2005) that focus particularly on the problems and change issues associated with implementing HPWPs in more traditional organisations is available from the Wales Management Council.

The ten cases studies

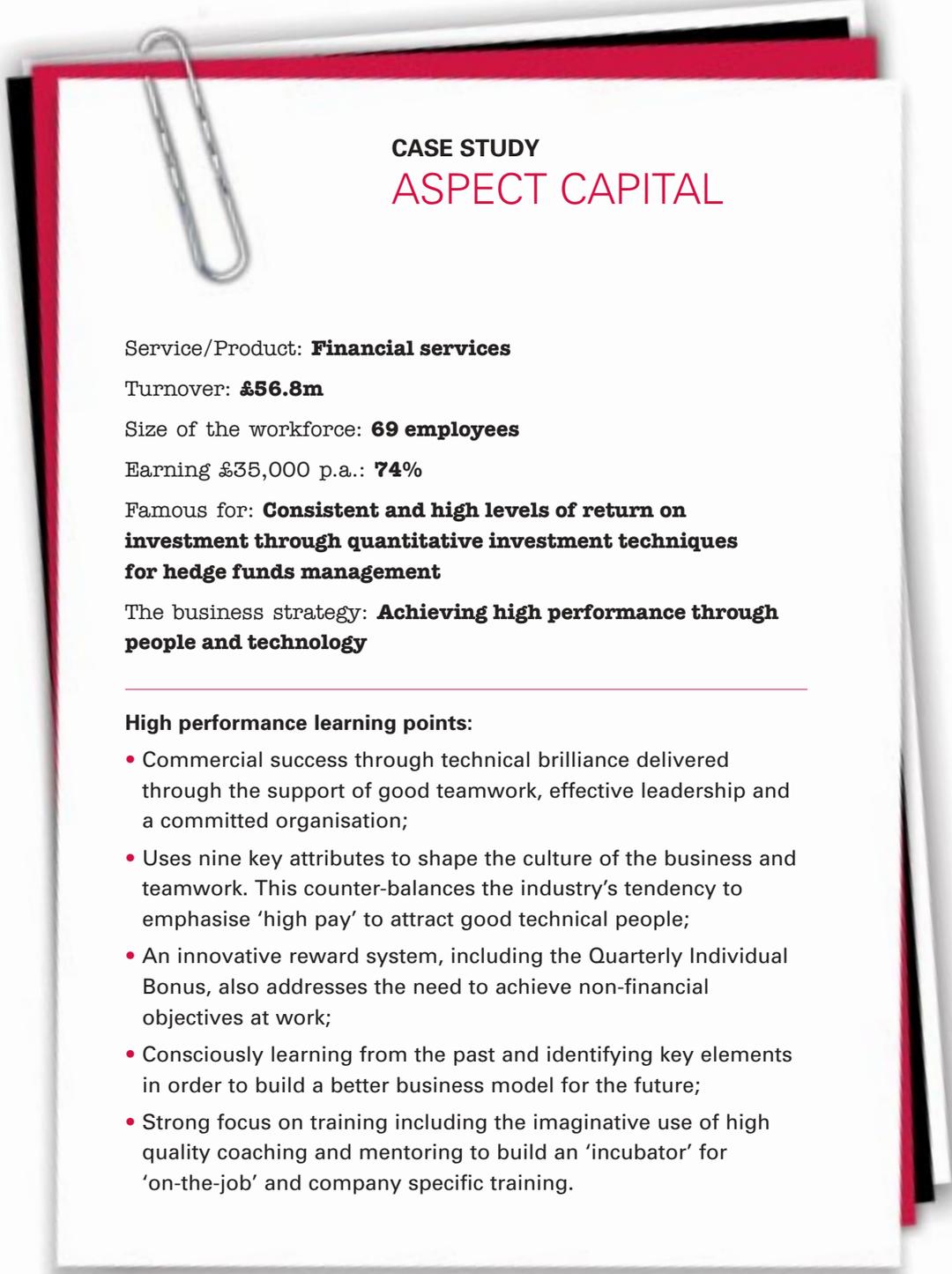
The ten case studies follow, but if you are interested in learning about the experience of a particular sector or the use of specific practices, the table below provides a summary of the notable HPWPs found in each company. A synopsis of each case study, which details the specific learning points in each case, is also located at the beginning of each case study.

TABLE 7: HPWPs IN THE TEN CASE STUDIES

	High employee involvement	HR practices	Reward & commitment practices
Aspect Capital Services	<ul style="list-style-type: none"> • People culture through a 'cultural plan'. 	<ul style="list-style-type: none"> • Incubator for all round training. • Appraising against 9 attributes for all round performance. 	<ul style="list-style-type: none"> • Use Quarterly Individual Bonus or 'QUIB'.
Bacardi & Martini UK Manufacturing	<ul style="list-style-type: none"> • Behaviour code through 'PACT'. • Use 'Agile Team' to bring innovation. • Employee Engagement Survey. • Morale indicators. 	<ul style="list-style-type: none"> • Use "PACT" to appraise. • 'Back to the floor' for managers. 	<ul style="list-style-type: none"> • Family-friendly policies. • Family/spouse inclusive benefits.
Data Connection Services	<ul style="list-style-type: none"> • Internal employee survey. • Quality circles for improvement and innovation. 	<ul style="list-style-type: none"> • Recruit top candidates exclusively at the entry level. • Life-long continuous development. • Strong internal career development. 	<ul style="list-style-type: none"> • Significant entry salaries. • Significant profit-sharing through an Employee Trust.
Flight Centre Services	<ul style="list-style-type: none"> • Seven channels of communication at all levels. • Self-directed business teams. 	<ul style="list-style-type: none"> • 'One Best Way' for world-wide operation. • Continuous training for leadership. 	<ul style="list-style-type: none"> • Profit-sharing. • Wealth Wise. • Money Wise.

TABLE 7: HPWPs IN THE TEN CASE STUDIES CONTINUED

	High employee involvement	HR practices	Reward & commitment practices
i-level Services	<ul style="list-style-type: none"> • Re-design work for better communication. 	<ul style="list-style-type: none"> • Continuous development. • 'Wild card' training allowance. • 360 degree appraisals for all. 	<ul style="list-style-type: none"> • Profit-sharing. • 'Leveller' of the month award.
Pannone & Partners Services	<ul style="list-style-type: none"> • Extensive informal communication – all under one-roof. 	<ul style="list-style-type: none"> • Continuous professional development. • Appraisals for career development. 	<ul style="list-style-type: none"> • Work-life balance priority. • A 'fairness' incentive system.
Quest Diagnostics Services	<ul style="list-style-type: none"> • Quality systems. • 'Road-map' to define performance. 	<ul style="list-style-type: none"> • Workforce diversity as source of competitiveness. • Personal development plans. 	<ul style="list-style-type: none"> • Performance-related pay.
St. Luke's Services	<ul style="list-style-type: none"> • Client-based teamwork. • 'Quest Group' to look after collective interest. 	<ul style="list-style-type: none"> • Appraisals for life-long learning. • Extensive informal continuous development. • 'Making yourself more interesting' training fund. 	<ul style="list-style-type: none"> • Collective ownership.
Timpson Services	<ul style="list-style-type: none"> • Newsletter to recognise achievement, performance and to create competition. • Self-directed shop 'unit'. 	<ul style="list-style-type: none"> • Tailor-made in-house training. • The 'Happy Index'. 	<ul style="list-style-type: none"> • Significant performance-related pay.
W L Gore Manufacturing	<ul style="list-style-type: none"> • Extensive use of autonomous teams. • Kaizen improvement systems. 	<ul style="list-style-type: none"> • Extensive informal continuous development 	<ul style="list-style-type: none"> • Collective ownership. • 100% performance related pay.



CASE STUDY ASPECT CAPITAL

Service/Product: **Financial services**

Turnover: **£56.8m**

Size of the workforce: **69 employees**

Earning £35,000 p.a.: **74%**

Famous for: **Consistent and high levels of return on investment through quantitative investment techniques for hedge funds management**

The business strategy: **Achieving high performance through people and technology**

High performance learning points:

- Commercial success through technical brilliance delivered through the support of good teamwork, effective leadership and a committed organisation;
- Uses nine key attributes to shape the culture of the business and teamwork. This counter-balances the industry's tendency to emphasise 'high pay' to attract good technical people;
- An innovative reward system, including the Quarterly Individual Bonus, also addresses the need to achieve non-financial objectives at work;
- Consciously learning from the past and identifying key elements in order to build a better business model for the future;
- Strong focus on training including the imaginative use of high quality coaching and mentoring to build an 'incubator' for 'on-the-job' and company specific training.

A case of achieving high performance through people and technology

With traditional investment in the stock market becoming increasingly uncertain, the financial services sector has seen the rapid growth of hedge fund managing companies. Aspect Capital is one of these successful new companies in the financial services sector.

Not only has Aspect Capital been very successful in producing remarkable returns for its investors since 1997, it has achieved its successful profile by taking a different approach from other financial companies.

THE INDUSTRIAL CONTEXT AND ASPECT CAPITAL'S BUSINESS STRATEGY

The financial services sector is highly competitive in global terms and is often characterised by the need to sustain a high level performance through very attractive financial incentives. So for Aspect Capital, striking the balance between rewards and performance is important. However, it is even more important to create a high performing workplace in which workers find hard work both fulfilling and worthy of committing their career to.

Aspect Capital was founded in 1997, by Anthony Todd, Eugene Lambert, Martin Lueck and Michael Adam, who had all been involved in the successful development of a previous company. This previous venture turned out to be a pioneer in quantitative investment management techniques for hedge funds management.

Deriving their technical knowledge from previous experience and their studies, the founders of Aspect believe that the financial markets do not function entirely as market economics would suggest, i.e. the result of supply and demand. They believe there are real and persistent factors which influence relative market returns and as a result within Aspect Capital, research and trading have been designed specifically to capitalise on these 'market imperfections'.

The founders of Aspect had a particular vision about financial markets. They believed the stock market had had a long period of growth that could not continue indefinitely. Their view at the time was that "...there would be a risk of an extended period of re-adjustment, consolidation or, possibly, a serious decline in the stock market." They also thought that if and when the returns from the stock market started to wane, people would increasingly look to alternative investments. Aspect's founders wanted to position themselves to be an attractive alternative investment manager for institutions that were keen to diversify away from the 'long-only' (expecting stock returns to always be on the up) investment. The subsequent growth of hedge funds proved that Anthony and his team were right.

Vision alone, however, would not be enough to guarantee success. In addition to a thorough understanding of the product market, Aspect Capital has been very good at developing and incorporating IT technology to deliver its business objectives. As computing and software costs came down, Aspect Capital implemented another winning strategy – using statistical modelling to develop new investment products, and to provide superior information to enhance its trading performance.

Anthony and his team wanted to apply quantitative techniques across a broader range of financial products, believing that this would provide a more stable environment to generate a superior rate of return for investors. Thus, at Aspect Capital, research and development turned their attention to a wider range of trading models, using an extensive database of historical data to ensure their performance across a diverse range of market conditions.

BUILDING A TECHNOLOGICAL SYSTEM WITH A PEOPLE STRATEGY

The other explicit goal of Aspect Capital is to build a business which people feel passionate about working in. Anthony commented, "Aspect Capital is designed to re-capture some of the dynamism that we had in the previous company in the early 1990s." Aspect Capital was so serious about the people strategy that it wrote a 'cultural plan' in 1998. The origin of the cultural plan was that, given the nature of the business and its environment in the financial sector, a people culture was often hard to find. "Issues such as looking after your staff, providing a challenging and dynamic environment, focusing on team work, creating a fair, sociable and open workplace are the things that are frequently over-looked in the industry", commented Anthony. "A great working environment will increase our chances of success. We don't just want to build a successful business, but we also want to build a workplace that we want to actively work in ourselves."

Whilst other financial sector employers distribute performance bonuses focusing on the employee's ability to achieve 'hard' (financially measurable) targets, Aspect Capital uses its cultural plan in order to promote nine key attributes to make Aspect Capital a better workplace. A significant proportion of Aspect Capital's bonus system takes into account an employee's rating on the following nine attributes:

- Teamwork
- Initiative
- People Management
- Project Management
- Attitude
- Attention to Detail
- Professionalism
- Communication
- Productivity

To signal other values which are equally important to the workplace, Aspect Capital creates specific social activities to encourage a sense of community among staff, a wide range of benefits including healthcare covering spouses and dependants, and external activities such as charity work to reflect Aspect Capital's concern about its external environment.

RECRUITMENT AND SKILLS

As a result of both these technical and cultural requirements, recruitment is not an easy task. For example, Aspect Capital recruits some of the brightest mathematicians and programmers for its research and IT teams and they are the backbone of the quantitative approach to the hedge funds management and identification of new financial products. Often, these are skills that you have to 'pay over the odds' to recruit, as the industry has a very competitive salary structure. Pay is important in attracting the highly skilled into the company, but it is not sufficient to ensure that highly skilled individuals will necessarily bring performance into the organisation, especially an organisation that relies on teamwork. The fact that Aspect Capital is dealing with complex financial products means that high skill is only a starting point. 'Trainability' – the potential for future development and possession of the nine attributes – is all important for Aspect Capital.

"We look for people with a particular skill set. But in fact, it is relatively easy to find the particular skills. To find the right kind of people with whom you want to work, that is far more difficult. We spend a long, long time hand picking key individuals who can bring 'something else' to the company, often taking eight or nine months before appointing the right individual." Anthony emphasised.

FINANCIAL APPRENTICESHIP

Aspect Capital deals with very complex financial products and therefore must take care and time to train its new recruits. For example, a new recruit into the research team will attend external courses on hedge funds and financial markets. Additionally, recruits straight from academia can spend time in the Financial Engineering team, learning about Aspect Capital's quantitative approach to hedge fund management, the different areas of research and how research interfaces with the sales team and its investors' needs. This training can take from five days to one year to complete, depending on the experience of the individual. This time spent within Financial Engineering, working with senior financial engineers, is also a useful way of assessing a new recruit's strength in every area of Aspect Capital's research operation in order that they can be effectively deployed.

For the sales team, the training is equally thorough. Hedge funds have grown so fast, in a very short space of time, that there is a relatively small reservoir of experienced and successful sales people, which means that Aspect Capital often needs to train its own sales and marketing staff. The long process of sales training is derived from a combination of internal on-the-job training and external training at specialist institutions. Internally, the sales and marketing staff have to work with, and learn from, the research team in order to build a high-level understanding of complex financial products. Externally, the sales staff receive formal training on sales, presentation and negotiation skills.

Sales and marketing training in the hedge fund context is very specific. As there is a high demand for very good hedge funds, the sales team is not just selling. They are essentially facilitating the due diligence process for the clients and also providing 'after sales' support on an on-going basis, which includes performance updates. As a result, training for sales and marketing staff relies on a complex process of identifying essential client opportunities – through networking, attending conferences, keeping an eye on the press, reports and financial surveys – and successfully presenting a complex financial product to an investor. It takes up to two years to train a competent sales and marketing employee, who is able to deal with all of Aspect Capital's financial products effectively.

LINKING REWARDS TO FAIRNESS, HARD WORK AND PERFORMANCE

At Aspect Capital, everyone is regarded as essential in running the business. "You have to have the top flight researchers, the IT technology to implement it. Then you have to have the top flight dealing team – people who have the knowledge to place orders in the market efficiently. Otherwise, the quantitative model won't be effective. You have to have the most diligent sales staff to interface the products and clients. You also have to have the first class administration running the front office, the middle office and the evaluation." Anthony sees everything being important, and teamwork is defined at the enterprise level. "The investors can see our performance out there, and this is a very performance-driven industry, as far as hard financial results are concerned. You have to pay people well in order to get the most excellent people in the company."

The financial industry tends to pay over the odds to get the best people. Aspect Capital uses its salaries and bonuses to ensure a balance between performance and other values. "We are very keen to get excellent people into the business. But also, it is true that in addition to excellent skill sets, we are looking for people to bring something else, something different."

Aspect Capital's approach is embodied in the quarterly review exercise (the Quarterly Individual Bonus or 'QUIB'). The main purpose of QUIB is to ensure frequent planning. At the start of each quarter, objectives are set for the company, for each department, and are agreed with each employee. All these are viewable by everyone in the company. At the end of the quarter, each employee's performance is reviewed, with reference to these objectives and awarded a QUIB score ranging from 0 to 200 in increments of 25. A score of 100 reflects a good performance with all objectives achieved. A score in excess of 100 is awarded for exceptional effort. A score of 50 or below reflects concerns over serious issues. Everyone in the company has a QUIB multiple, which ranges from 10% for junior employees, 15% or 20% for senior employees and 25% for directors. A bonus is paid each quarter equal to the individual's QUIB multiple, times their quarterly salary, times their QUIB score. The score focuses primarily on performance against objectives and, to a lesser extent, personal issues and future potential.

In addition there is an annual compensation scheme at the end of the year where every employee is entitled to enter into the discretionary profit share scheme. The potential bonus pool is dependent on the company's profitability during the previous financial year. Each individual is assessed on their contribution to the business during the year. An important element in the process is a review of each individual against his or her peers on the basis of the nine characteristics mentioned previously. In addition, at the employee's discretion, the profit share can be deferred. Any deferred portion is increased by the company by 50% and notionally invested in a range of Aspect funds. These practices mean that Aspect Capital is able to create a balance between achieving 'measured' performance and softer issues such as teamwork, people management skills and communication. At the same time, if profit share is deferred, the stake so created helps to align the objectives of the employee with that of the company.

Aspect Capital uses financial incentives to create excellent performance. The QUIB scheme is also a way to ensure a sense of fairness among those who participate. It is understood that all staff are expected to perform reasonably in relation to their position and although this does not mean that staff have to be 'super-performers', the company will not carry anyone who persistently performs below a reasonable QUIB score. This ethos might seem harsh, but the sense of fairness is widely shared among the staff, who all have to build and contribute to team success in a very demanding environment.

The vision of Aspect Capital's founders has been realised. Not only is Aspect Capital performing well but it has the commitment of its staff. *The Sunday Times 100 Best Companies to Work For 2004* survey reported that 93 percent of the staff thought that their leader was full of energy, and eight out of ten were inspired by such leadership and its strong principles. Nine out of ten employees at Aspect Capital trusted their colleagues to do a good job (the second highest score in the survey), and 77 per cent of the staff got a buzz from working at Aspect Capital. Clearly, Aspect Capital represents one of the rare examples where, in a harsh target-driven environment, a job can still be fulfilling, enjoyable and most of all, extremely well rewarded.



CASE STUDY

BACARDI-MARTINI UK

Service/Product: **Drinks manufacturer**

Turnover: **£400m**

Size of the workforce: **550 employees**

Earning £35,000 p.a.: **19%**

Famous for: **A leader/inventor of the 'ready-to-drink' market**

The business strategy: **Managing change and innovation through a value-based and people culture**

High performance learning points:

- Consciously removes barriers between senior and shop-floor staff in order to ensure smooth operation at all levels;
- Successfully created a set of organisational values to communicate, guide and reward behaviour appropriate to team performance;
- Uses appropriate training and recruitment to enhance the match between potential and existing employees and the needs of a 'value-based' organisation;
- Uses profiling instruments to support a better linkage between recruitment, performance and career progression of employees;
- Uses surveys and the 'morale indicator' to gauge/improve the organisation's performance on issues such as business direction, leadership, performance, strengths and weaknesses;
- Established appropriate behaviour, expectations and systems including the 'Agile Team', to manage organisational change.

Managing change and innovation through a value-based and people culture

Bacardi-Martini Limited is a UK-based, international company with around 550 staff. With a single UK site in Southampton, specialising in bottling and distributing premium alcohol beverage brands, Bacardi-Martini has a turnover of £400 million a year. In addition to bottling and distributing its

own wholly owned brands, Bacardi-Martini also distributes brands for its trading partners such as Jack Daniel's, Southern Comfort and Glenmorangie malt whisky. Over half of the Southampton plant's production is for export markets.

THE INDUSTRIAL CONTEXT AND BACARDI-MARTINI'S BUSINESS STRATEGY

Despite its relatively long history, Bacardi-Martini has had a phenomenal success in the recent trendy 'ready-to-drink' market with the creation of the Bacardi 'Breezer'. Bacardi-Martini told us that the company knew that the Breezer market was the next 'big product' from its new market research, but it was surprised at the scale of its popularity and the number of imitators who followed Bacardi-Martini into the 'ready-to-drink' market.

Behind these successes is Bacardi-Martini's particular approach to its business. In fact, apart from its much acclaimed family and 'people-focus' culture, which has secured four successive top-ten places in *The Sunday Times 100 Best Companies to Work For 2004*, Bacardi-Martini has implemented most aspects of a 'high performance working organisation' (HPWO). This has been the bedrock of its success and achievements. In order to take advantage of high performance working, the leadership of a company has to understand how high performance work practices support its own strategy in relation to its product market.

A VALUE-BASED PEOPLE CULTURE THROUGH LEADERSHIP

In the case of Bacardi-Martini, it starts with the Chief Executive. Described by colleagues as "... a slight lady in stature but with huge personality and charisma", Stella David not only created many aspects of the Bacardi-Martini work practices and performance systems, but was also singled out by employees at Bacardi-Martini as "inspiring" and "accessible" in the *The Sunday Times 100 Best Companies to Work For 2004* survey. To the employees, Stella David is highly visible within the everyday operations of the business. It is a common event at Bacardi-Martini to see Stella David having her lunch breaks at the free restaurant with operations staff, forklift drivers and other shop-floor staff, where working relationships are improved and informal discussion takes place. Not only is Stella on first name terms with all staff, she sends them a birthday card and company gift each year.

Some may say that such activities are trivial. However, the belief that senior staff have to be close to front line staff is fundamental at

Bacardi-Martini. This is particularly reflected by a practice known as 'back to the floor'. Under 'back to the floor', every senior executive at Bacardi-Martini will return for a day to a shop-floor unit once every three to six months. During that day, senior executives will spend the day working as part of the team in a particular unit of the business. More importantly, however, they are managed by the team leaders and the teams themselves. For that day, not only do senior executives take on a different role, they listen and learn while they are in that role.

This 'back to the floor' approach is an unusual way to make senior staff "visible and accessible". But, perhaps more importantly, it is an opportunity to hear the views of individual employees, such as what the issues are and what the constraints may be. This information is taken back to subsequent senior executive meetings and informs the development of appropriate action plans. Hence, Colleen Potter, the HR manager at Bacardi-Martini, describes the seriousness of the exercise, "... in order to bring about listening, sharing and understanding, the Executive Board are prepared to roll their sleeves up and go and talk to people and find out what the issues are."

The high visibility and accessibility of the leadership has two major benefits. Firstly, they facilitate the creation of an HPWO and secondly, they enable the leadership to strengthen a value-based organisation, often a characteristic of HPWO. At Bacardi-Martini, the company values are embodied by what they call PACT:

- Productivity
- Accountability
- Creativity
- Teamwork

PACT describes everything an employee needs to know about Bacardi-Martini's business and its critical success factors. PACT is the way to do things. In other words, productivity, accountability, creativity and teamwork are thought to be the performance factors. All employees should incorporate those factors into their daily work. As a result of the importance of PACT, employees' performance is measured by PACT.

PACT is visible everywhere at Bacardi-Martini – on notice boards, printed information, company gifts and mugs. Within performance appraisals, training, individual and team objectives are set against PACT and reviewed on a regular basis. Progress made on these objectives is then linked to annual bonuses and profit and performance-related pay is applicable to all employees, regardless of status. PACT is therefore both a set of values and a means of creating an effective organisation.

To balance the demands PACT makes on Bacardi-Martini's staff, the company has an extensive range of benefits, assuring employees that they are valued by the company. Such provision includes free hot meals at the restaurant, private health care, life insurance, sports facilities, helplines, discounted products and, a rare provision these days, the final salary pension scheme. A significant emphasis within these benefits is that employees' family members are "automatically" entitled to the benefits, including live-in partners. Bacardi-Martini believes that it is important to the business that staff feel good. It is important to signal to staff, with concrete benefits, that organisational performance can safeguard jobs and the wellbeing of all employees and family members. By linking performance to benefits, Bacardi-Martini makes it explicit that organisational performance and employee benefits are closely related.

PACT is not just concerned with what people do, but also how people do it. Hence, Bacardi-Martini has also introduced the 'behaviour code', which establishes the expected social behaviour to underpin performance:

- Focus on the situation, issue or behaviour, not on the person
- Maintain the self-confidence and self-esteem of others
- Maintain constructive relationships
- Take initiative to make things better
- Lead by example

Within the above general principles, a 'local behaviour code' is also incorporated into some departments, e.g. specific requirements on flexibility and attendance. The appraisal and bonus assessments take into account both PACT achievement and measurements against the behaviour code.

ENHANCING A VALUE-BASED ORGANISATION

In order to ensure a delicate balance between PACT, a people culture and a sense of fairness, a number of issues became important. Firstly, all assessors/managers had to be trained in review techniques, interpersonal skills and reviewing collaboratively, and were given full guidance on allocation of points towards the bonus. Secondly, not everyone was comfortable with the organisational practices that Bacardi-Martini has adopted, hence, recruitment was a very important process in order to avoid disappointment.

Through a competency-based methodology, PACT also shapes the recruitment process at Bacardi-Martini. In order to create career progression opportunities for staff, vacancies are always open to internal candidates first, regardless of their previous role, before being advertised externally. All candidates – internal and external – are assessed in terms of their suitability vis-à-vis the PACT values. The emphasis in these competency-based interviews is on what the candidates have done and not on what they would do. In addition, because PACT is supported by the behaviour code, candidates' personality profiles are also assessed through a formal profiling instrument. Bacardi-Martini has been very satisfied with the introduction of these techniques, as they brought a better linkage between recruitment, performance and career progression.

As much as Bacardi-Martini is working hard to ensure its PACT values amongst all employees, the company is also very keen to create two-way communication. In addition to the 'back to the floor' initiative there is a standard open door policy. There are also three formal channels – the 'Involvement Group', the 'Employee Engagement Survey' and the 'Morale Indicators'. The Involvement Group is attended on a monthly basis by the HR department and representatives covering the whole of the organisation including the trade union. The Group discusses issues from different areas of the business and seek solutions. Often, the Group covers matters ranging from grievance procedures to social events. The Involvement Group is an important channel for employees to deal with their immediate concerns.

Some Group representatives, who have been given training on listening and communication skills, also act as a source of 'buddy' support should employees want to talk to someone other than their line managers.

The yearly Employee Engagement Survey deals with broader issues and is anonymously completed by over 90 per cent of the employees. The survey polls staff views on the business direction, leadership, performance, strengths and weaknesses. Because the survey covers strategic issues, it is the main tool for the company and departments to form action plans. Working with the teams, line managers use the information from the survey to identify specific issues to form local action plans. The link between the surveys and action plans means that employees often see the instrument as a means of empowerment. The minute the survey is completed, the HR department starts receiving queries from line-workers asking when they can see the results. At times, the survey results also generate a degree of competitiveness amongst the teams, with some teams wanting to know how to better their results in comparison to other teams.

The morale indicator, in contrast, with only ten questions is a small monthly instrument to gauge the wellbeing of employees and how they feel about their work and support. The indicators provide a form of continuous feedback on the mood of the workforce, plugging the gap between the yearly Employee Engagement Surveys.

MANAGING PERFORMANCE AND CHANGE THROUGH INNOVATION

These elaborate systems of values, culture, behaviour code, feedback and rewards have not been created in isolation or for show. They are the foundations of Bacardi-Martini's ability to bring innovation, improve performance and, most important of all, manage change.

As you may expect, the sales and marketing departments are very passionate about the brands but what is surprising is the level of pride that employees across the organisation also demonstrate in the business. This is something that Bacardi-Martini actively

encourages with initiatives such as making each meeting room representative of one of the brands. For example the Bombay Sapphire meeting room is decked out in the blue of the bottle with the ten botanicals that go into the gin displayed in the cabinets. These initiatives clearly work as Bacardi-Martini scored the highest of any company against the question 'Are you proud to work for your company?' in *The Sunday Times 100 Best Companies to Work For 2004* survey.

Like most competitive organisations, Bacardi-Martini has to demonstrate a high level of plant-specific effectiveness. This means that continuous improvements have to be demonstrated and change and innovation are part of a normal day's work.

Such a radical change took place in 1999 with the appointment of a new operations director, John Speirs. With the new appointment, John was able to introduce the concepts of the 'Agile Team' and 'Agile Thinking'. At its heart, 'Agile Thinking' is a form of lean production with the emphasis on continuous improvement. The concept involves an Agile Team comprising staff from different areas of work. The team is specially trained to examine every work process within the organisation in order to identify ways to reduce waste and improve efficiency and effectiveness.

The team members do not take over ownership for continuous improvement but work with every department in order to identify new and improved working processes. The ownership rests with the departments themselves. This approach means that new ideas may be derived from a variety of perspectives within the Agile Team but, at the same time, ownership for improvement stays with the relevant department concerned. This approach turns out to be a subtle way of changing employees' view about their jobs. Instead of thinking, "Oh, it is time that we came up with more ideas or thoughts", employees believe that " ... it's part of my job that I have to find better ways of working and improvement". The success of Agile Team has removed the need for suggestion boxes as innovation and better work processes are now 'part of the job'.

Over a period of four years, the Agile Team has achieved numerous successful waste and efficiency improvements on production lines, sales activities, warehouse and distribution, data management and purchase, quality assurance, personnel, plant services and stock control. The following are just some of the many examples:

- Line filler changeover (reduced from 4 hrs to 75 mins)
- Production line packer changeover (reduced from 110 mins to 60 mins)
- Production process efficiency improvements £4.4 million per annum
- Point of sale warehouse relocation with no disruption to the business
- Pallet holding reduced from 1.2 million to 457,000
- 'Kanban system' eliminated overstocks with no failed deliveries on customer orders
- Service level improvements in warehouse and distribution – 85% up to 97%
- Warehouse Utilisation – re-design of layout and use of smaller bays – greater space efficiency
- More controlled management of materials at suppliers based on a replenishment system
- Write off reduced – finished goods £765k to £210k; materials £872k to £61k.

These examples only represent a small selection from a long list of achievements. However, the real lesson to be learnt is the way change is nurtured and delivered. Like most other companies, the barriers to change included the inevitable scepticism, lack of trust and difficulties associated with behavioural change. In order to handle possible resistance to change, Bacardi-Martini has ensured that the agile process is clearly linked to other existing systems, e.g. communication, the behavioural code and PACT values. In this sense, Bacardi-Martini has created the classic culture of a HPWO, adopting complementary systems to drive performance in the most exciting way. What is also a real bonus for the employees is that, as a result of Agile Thinking and the resulting changes, people can now see the difference this has made to the business and that improved efficiency is important to safeguard jobs.



CASE STUDY DATA CONNECTION

Service/Product: **Computer software**

Turnover: **£29m**

Size of the workforce: **290 employees**

Earning £35,000 p.a.: **47%**

Famous for: **Winning contracts from some of the biggest clients in the global market through innovative products and quality service**

The business strategy: **Business performance through world-class talent and quality delivery**

High performance learning points:

- A clear business strategy of quality and innovation is used to succeed in the hotly contested global market;
- Major focus on building business successes through the recruitment of exceptional talent;
- Recruitment restricted to entry level. Systematic personal development plans and small group coaching used to nurture future talent;
- Use an 'employee benefit trust' to build stake-holding and commitment among employees;
- Performance rewarded through generous profit sharing;
- Financial rewards complemented by other non-financial practices, including flexible working, to create effective work-life balance.

Business performance through world-class talent and quality delivery

Data Connection is one of the world's most successful companies in communications technology and their performance record is impressive. As well as winning the number 3 spot of the *The Sunday Times 100 Best Companies to Work For 2004*, the company

has consistently achieved profits exceeding 20% of total revenue during each of the past 22 years. With IT industries experiencing a significant downturn in the last two to three years, Data Connection's performance is in stark contrast with its competitors.

Data Connection has achieved its leading position through a combination of quality service, innovative products and world-class technical workers. "I thoroughly recommend Data Connection: the quality of their people, software and support has been first class every time we have worked with them," Lucent Technologies commented. In fact, in addition to Lucent Technologies, Data Connection has won a long list of international clients including British Telecom, General Dynamics, Lockheed Martin, Nortel, Siemens, Cisco, IBM, NEC and other international giants. Over 90% of Data Connection's services and products are for the export market, especially the USA, where the competition has been the toughest. Such an international profile has twice earned Data Connection the Queen's Award for export achievement and no matter how you measure performance, Data Connection is a world-beater.

THE INDUSTRIAL CONTEXT AND DATA CONNECTION BUSINESS STRATEGY

Data Connection was founded in 1981 by Ian Ferguson, the current chairman, and six colleagues who previously worked with him at IBM. This experience at IBM was extremely useful as Ferguson and colleagues learnt much about successful operations, winning valuable clients and keeping them. As the communications technology industry has relatively low entry barriers, international competition is high. Often only the very best talent will bring the best results. As Ferguson explained "Our success is due to our sustained ability to recruit, develop and retain truly exceptional talent across the breadth of our operations, including engineering, support and commercial management."

This strategy served Data Connection well, as staff numbers grew steadily from a handful to over 290 employees, of whom 216 are software engineers. Profits grew in parallel fashion reaching \$12m in 2002/2003.

In its day-to-day operation, Data Connection has adopted a three-pronged strategy. Firstly, Data Connection recruits the very best candidates to work for the organisation. The

idea is to impart innovation and the very best quality into its service and products for clients. Secondly, once its international reputation is built up, Data Connection targets return business as the basis of steady growth and a source of steady profit. Thirdly, Data Connection uses its profit to support a balance between research products, which may not have any immediate return, and services/products that will bring revenue in the current year. Research products are the source for future new products and innovation. The result is that Data Connection now has hundreds of customers and thousands of different products across a spectrum of communications technology.

Like other leading companies in the same industry, Data Connection is currently facing immense competition from the entry of companies from the developing countries, where the cost of software development is a lot lower. The global downturn in recent times has also affected the way Data Connection handles its market. In the early days, Data Connection's reputation alone would have secured enough customers to make a handsome profit. In recent times, Data Connection has responded with a significant marketing team comprising 25 to 30 staff to tackle the ever increasing competition in the industry. However, Data Connection firmly believes that the original strategy holds. Ferguson explained: "Over the last few years, customers have learned the hard way that it is necessary to scrutinise suppliers for their financial stability, and for their ability to deliver what they promise."

Another senior member of staff at Data Connection concurred, "The way we feel we have been successful in doing this is by ensuring quality. In this industry, quality is something that you have a reputation for and that is why you get customers coming back to you again and again. Because if you deliver what you say you're going to deliver, and it works, and you do it on time, in this industry, that's very rare. And so you will find that the customers are prepared to pay a premium for quality." This strategy means that not only is Data Connection successful, it has also found a way to create a high value-added niche.

RECRUITING NOTHING BUT THE BEST TALENT

Data Connection functions around teams. It builds its teams through recruiting individuals of 'exceptional' ability. Historically, Data Connection has found A-level results a better predictor than degree class for individual performance. Typically, the applicants are expected to have all A grades at A-level. Beyond that, the company looks for good interpersonal skills, technical aptitude, energy and enthusiasm.

To become a Data Connection employee is not easy. For a start, there are over 3000 applications for the 20-25 vacancies available each year. Data Connection takes recruitment so seriously that there are a number of hurdles that potential candidates have to go through. Firstly, candidates attend a preliminary interview which lasts a whole day and includes tackling technical problems. Data Connection uses this preliminary interview to identify appropriate aptitudes in software engineering because that's what it's all about.

Candidates invited back for a second interview face further tests. These include attending a social gathering organised on their behalf. On a Wednesday afternoon, the candidates spend some time at Data Connection with current staff and then they are taken out for a meal. The evening meal is intended to be a chance to get to know the potential candidates socially. The candidates then spend the whole of the following day at Data Connection, during which time they do a presentation as well as having another interview with one of the senior managers.

At Data Connection, recruitment is almost entirely for entry positions as they believe that it is of utmost importance for future success, to identify young talent and train them in the company's culture. Graduates that started in August 2003 will typically be earning a package of £30,000-£40,000 by the end of their first year. As starting salaries, these are very high by any standard and postgraduates are often paid more.

A PROCESS OF CONTINUOUS DEVELOPMENT, APPRAISALS AND PERFORMANCE TARGETS

Continuous development is a serious business in Data Connection and is a fundamental part of a manager's responsibility. During their first year, a new recruit may also be given a mentor to provide day-to-day advice and guidance. But, more importantly, everyone has a formal individual development plan that records the development process of an individual every three months. The development includes technical skills as well as personal skills development. The exercise is so important that continuous development literally goes on forever. Everyone has at least one full review and three or four development plans each year. "I can show you my development plan that goes back over 20 years", company accountant and human resource director, Derek Brooker, proudly emphasised.

In addition to this, a review is carried out by the employee's manager and normally held every nine months. In order that the manager pays sufficient attention and time to the development of an employee and still has time to do his/her work, Data Connection makes sure that a manager only looks after 4 to 6 employees. This review also doubles up as an appraisal and lists all the tasks that an employee has done. It gives an assessment and some advice about how they can improve their performance, and this overall assessment is then linked to both long-term and short-term development goals. Indeed, considerable investment is made into developing the 250 staff, with £3m spent each year on training.

The review and development plan are very important in growing the business. Data Connection uses this development process to identify the potential of a new employee, including strengths and weaknesses. An employee will be encouraged to become a technical guru if they are particularly strong on the technical side. On the other hand, if the employee is good at managing people, they move all the way up through

managerial positions and responsibilities. "It is the norm that staff who are at the very senior level of management were taken on as graduates... including managing a business unit that generates £10million a year." Brooker commented.

Targets are set, but they are not part of an individual's appraisal or review. Targets are set for the five business units and the manager has to manage the team to deliver the targets. All the business unit managers report to the Chairman.

PERFORMANCE, REWARD AND STAKEHOLDING

Data Connection has a strong notion of profit share. Through the employees' benefit trust, Data Connection is owned by the employees. Every year the majority of the profit that Data Connection makes is distributed to the employees as the company is keen to reward employees handsomely for producing profits year after year.

Individual employees' profit shares are based on contributions, which are carefully assessed and measured every six months. Each manager makes an assessment of the staff for whom they are responsible, that then builds up into the unit's contribution which, in turn, builds up into a company list. In the final analysis, Data Connection has an overall list where every member of staff is ranked and the profit share is allocated based on that ranking.

As the company has been making significant profits since its beginning in 1981 – profits exceeding 20% of total revenue every year – profit sharing has been a very important motivating factor for future performance. It also forms a significant commitment factor as profit sharing is only allocated to those who are employees at the company. The profit share scheme guarantees an additional 7.5% of salary and depending on the contribution, an additional sum varying from £1,250 to more than £100,000 in 2003. Brooker emphasised, "There is a lot of loyalty amongst our employees. People are loyal to the company because they know that we look after them. One of the things that we always try to achieve is the position where

people should not have to worry about their remuneration package. This leaves them free to concentrate on what they're doing."

However, the low staff turnover cannot be attributed solely to profit sharing. According to the *The Sunday Times 100 Best Companies to Work For 2004* survey, 83% of staff felt cared for by management and felt that they were always supported when they needed to learn new skills.

FLEXIBLE WORKING AND STAFF RETENTION – THE COMPANY MEETS YOU HALF WAY

"If you have very good people, you want to hang on to them." In order to retain good staff, Data Connection encourages flexible working wherever possible to meet staff needs. This support is reflected by an unusual move that took place some years ago. There was a feeling that some staff did not want to work in the south-east – in fact they didn't want to work anywhere near London. Data Connection therefore opened an office in Chester, and those who wanted to move went to work there. This was further illustrated by the company opening offices in Edinburgh, Washington (USA) and San Francisco. This development of becoming a multi-site, global company evolved partly as a result of staff's desires to work in certain areas and also from Data Connection's need to have people in different locations as the business grew.

With many offices in different parts of the world, Data Connection has created another employee benefit – people can work from Enfield, Chester, Edinburgh, overseas offices or home. Not surprisingly, *The Sunday Times 100 Best Companies to Work For 2004* survey also showed that 75% of staff were happy with their work-life balance.

To be a world class performing company, Data Connection seeks and values its exceptionally targeted workforce. It has a simple formula, that is, with success, you need to reward hard work, innovation and commitment handsomely. For 23 years, the formula has worked wonders for Data Connection.



CASE STUDY

FLIGHT CENTRE UK

Service/Product: **Travel agency**

Turnover: **£19.4m**

Size of the workforce: **550 employees**

Earning £35,000 p.a.: **14%**

Famous for: **One of the world's fastest growing travel agencies with over 1,000 locations in 2004**

The business strategy: **Shared high performance and profit – one big global family and “One Best Way”**

High performance learning points:

- Able to bring coherence to a global team through the practice of “One Best Way” and a variety of communication devices – some traditional and some innovative;
- Use the “One Best Way” system to enhance staff mobility globally and deliver customer satisfaction;
- Incentivise employee performance through ownership, self-managed teams, transparency and ‘no-cap’ performance-based reward;
- Use a flat hierarchy to encourage ‘unity’ and the emergence of leaders and leadership;
- Training and development, including the use of a learning centre, are fundamental in providing new skills and leadership;
- Use of many company benefits such as Money Wise and Health Wise, to support the well-being of staff.

Shared high performance and profit – one big global family and “One Best Way”

Flight Centre, the low cost travel specialist, began operating in the UK in 1995 and the business grew rapidly. By 2004, Flight Centre had expanded to 84 high street shops with a total of 500 staff. Such rapid growth was unusual at a time of intense competition in

the flights and travel market. Not only had prices and profits been slashed, but the downturn following the 9/11 attack had meant that some of the major airlines were no longer paying any commission to travel agents, which used to be 10-15%. This left

Flight Centre needing to re-position and, with the continuous search for innovative ways to create profit, the company has continued to thrive.

THE INDUSTRIAL CONTEXT AND FLIGHT CENTRE'S BUSINESS STRATEGY

Like its competitors, Flight Centre UK prides itself on the one-stop client package and guaranteed cheapest flights. Travel consultants at Flight Centre organise everything for the client, from booking flights, accommodation and tours through to travel insurance and visas. But unlike others, Flight Centre's approach is to provide a high level of service that will not only surpass customer expectations, but will have them coming back regularly to Flight Centre and to the same consultant.

Being part of a global company is seen as a major advantage in this business, giving Flight Centre the ability to offer their flights 50% cheaper than competitors in some cases. However, being global could also be a potential disadvantage, with shops spread all over the UK and worldwide. In order to ensure a sense of being part of a global team, with a shared philosophy and culture and equally importantly, to ensure consistent levels of service and high performance, Flight Centre uses a system known as the "One Best Way".

"One Best Way" is a standard organisational system for the everyday operation of Flight Centre shops, wherever they are located. The standard system is not static and unresponsive. If an innovative practice is developed in one shop in the UK, it will be extensively discussed and then, if useful, adopted across Flight Centre businesses worldwide. As Susan Garret, Managing Director of Flight Centre UK, commented, "Obviously, we don't say that there is only one way, and we won't even look at other ways of doing things. It's become a best practice and then, we'll decide whether that's the best way forward for all of us globally. So that's something that we will continue to revisit... but there is one best way". In fact, staff at Flight Centre "get together four or five times a year to work out as a global company which is the best practice and all of us follow that practice."

The "One Best Way" approach has an added benefit for staff mobility, both in geographical and developmental terms. While there are many different units throughout the world, staff can move from one branch to another, or set up their own branch, knowing that the basic operating systems will be the same. Susan Garret, who herself moved from South Africa to the UK just three months before, noted: "I think what we base that on is because we are a global company. It enables our staff to pick up their business and move across to Australia and know exactly how we operate, because we all work in the same way."

This consistency is equally important in customer service. "The customers know no matter what country they are in, they will get the same level of service. So our stores, no matter where you go, look exactly the same, our consultants wear the same uniform. The way we handle our transaction is done the same way throughout the world."

EVERYONE RUNS THE BUSINESS: PROFIT SHARE AND TEAM PERFORMANCE

Flight Centre UK wanted to create a hard-working and fun company. One way to achieve that is to make ownership central to what the company does. Following a recent corporate restructuring exercise, instead of being a centrally-organised company, each shop effectively became a business and now makes its own decisions about what costs are required for the everyday running of that specific shop. It is about "each business actually owning what they do and being accountable and responsible for what they do", Lin Hilditch, Human Resources Manager, emphasised.

High performance is incentivised, not only through the shop level of ownership, but through individual ownership. As well as targets for each shop, and for each team within that shop, each member of staff has their own targets to achieve. In addition, each individual staff member profit shares and manages expenditure in order to produce a profit. As such, business sense and performance are central skills for each member of staff. Hilditch further commented, "...all of our people in our stores run their own profit and loss statements. They all

work on incentives and commission. They're all 100% in control of their own business. When people are employed, we train them in the Flight Centre way of running a business. And I think if anyone asks me what is the best thing that I have learned from Flight Centre, and that's right from day one, it's how to run a business."

Flight Centre's approach is performance oriented. Staff are paid a basic salary, and there is no cap on the commission that they can earn. Some of the most successful staff in 2003 earned £30,000 within a year of joining. As each person has a profit and loss account, each individual has a target on costs. So everyone pays for their own phone, their own desk, their own accounting fees and when they make a profit, they get a percentage of their profit.

Flight Centre UK is keen to stress that every individual within each shop is part of the success of that shop. So while targets are monitored individually, the close-knit teams work together to support and develop people, new and established. As Hilditch remarked, "There's the rest of your team. Even though we talk about the individual, it's very much a team focus and by keeping those teams small, it means they work for each other. So if somebody is out on a training course or on holiday, the rest of the team will look after your client base for you and will be given the same level of service because, at the end of the day, what goes around comes around." In fact, the teams are so important that ultimately the team chooses any new employee. Potential recruits are sent to work at a shop for a day, as part of the final stages of recruitment so that staff at the shop can see if they can work as a team.

COMMUNICATION IS KEY

Part of the continued success and high performance of Flight Centre UK is the constant communication between different shops in the UK, and between the leaders in different areas. This communication takes a number of forms.

Information is shared in weekly meetings between management and team leaders, and then fed through to everyone else. A newsletter is regularly circulated to all staff,

including details of everyone's progress and a national handbook is produced once a month, providing individual rankings and team performance across the UK. Another communication tool is the Intranet, which has figures, facts and successes updated on a daily basis. This tool is particularly useful not only for sharing information, but in enabling teams to compare their performance against others. This enables a very high level of "healthy" internal competition between teams to drive up performance and profit.

Regular conference calls are held between HR managers or directors nationally and they also attend national and global business forums in order to share good practice and information about what has worked elsewhere. In addition, regular SWOT (Strengths, Weaknesses, Opportunities and Threats) meetings are held among 6 of the key UK management teams and everyone attends a national conference in the UK.

In order to reward good performance, there are monthly meetings in each area to recognise the top performers. Those recognised as among the very best travel to Flight Centre's 'Global Competition on Performance', which has awards recognising different rankings including best improved performance. This form of communication is important in sharing and developing the company culture and ethos across widely spread units. It is also useful in creating a healthy competition. As Garret remarked, "everyone is talking to each other constantly".

LEADERSHIP, UNITY AND EGALITARIAN TREATMENT

Flight Centre UK seeks to operate a flat hierarchy between their 'shop front' travel consultants and the 'back office' management and operations. Leadership by example is key to their operations: "...we don't have any 'managers' at Flight Centre, everybody is a leader. That means that, in a store environment, the leader is in exactly the same role that the consultant is doing. So they have proven they can do that and, therefore, they can train and teach the other guys how to do it by actually showing them the way as opposed to telling them how to do it," Hilditch commented.

Within the flat hierarchy, the front line staff are seen by Flight Centre as the 'driving force', being supported in their work by a range of departments. This flat hierarchy is consistent with both the "One Best Way" ethos and the company's core philosophy of "Unity" to ensure that all staff are treated equally. For example, everyone wears the same recognisable uniform regardless of their position. Flight Centre staff feel that this increases the accessibility of the leaders. Hilditch emphasised that: "When staff see Sue Garret walking in and wearing the same uniform, it really sends a very strong message to everyone."

Similarly, everyone is treated in the same way when it comes to benefits and perks of the job, regardless of their position in the company. Garret emphasised that this "unity" was not only a philosophy, but a discipline: "I mean because everyone is driven by the same end result, there are no perks for anyone... no-one has a private office. No-one has a secretary. Everyone does their own back office work. When we travel we all travel together in the same class. It's a very fair structure. ... You are celebrating unity. You are celebrating unity as a discipline. It's very flat."

SHAPING BEHAVIOUR AND DRIVING UP PERFORMANCE AND INNOVATION THROUGH INCENTIVES

Profit sharing is a key element in driving up performance. However, a range of incentives are used in order to shape the kinds of behaviours that Flight Centre recognise as key to success. Innovation is highly rewarded, particularly in a market where profit margins are slim and innovations can make a big difference to the everyday business. Each year a Director's Award is given for innovation.

Indeed, as Garret, Managing Director in the UK, reflected: "There is no secret in Flight Centre's successes. We highly incentivise and you get the right behaviour." One example was in insurance policies, where profits are slim but, with innovation, good commission can be earned. In order to enhance performance in selling these potentially more profitable products, Flight Centre restructured its incentives system to reflect the importance of these products.

"In a matter of 8 weeks, we've gone from selling an average of six policies per person to 15, and that is through driving the right behaviour. So I think it's about understanding people's behaviour and listening to our consultants about how difficult it is to sell a £64 flight and make enough margin to make a profit off it." As such, it is not only about demanding high performance and outcome in certain areas, but about rewarding that behaviour.

DEVELOPING HIGH FLYERS AND TEAM MEMBERS: TOP FOR TRAINING AND DEVELOPMENT

Leadership potential is continually sought among staff and this practice is backed by internal promotion. This internal career path has meant that 90% of Team Leaders have been promoted internally. A continuous programme of training and development starts from day one. This means that Flight Centre focuses on developing its own people from the first day through to their full potential. As a result, Flight Centre was recently awarded the number one place for training and development at *The Sunday Times 100 Best Companies to Work For 2004*.

A range of training and personal development is provided both in the office, and in the Flight Centre UK Learning Centre, and covers a range of areas that are built up as the individual develops. A Leadership Development Programme is provided specially for those identified as having leadership potential. To support training and development, monthly one-to-one sessions are given. These one-to-one sessions are even more regular for new employees, and provide continuous feedback and the opportunity for staff to air any problems or areas for development.

FIT, HEALTHY AND HAPPY AT WORK

Flight Centre sees staff fitness and well-being as a key factor in high performance and happiness at work. Staff have access to two benefits packages aimed at ensuring their personal and financial health and well-being. These are called Health Wise and Money Wise.

As Hilditch commented, "They actually originated with the CEO. For example, Health Wise was something that he wanted to offer

to the staff as a more Flight Centre focused benefit, as opposed to outsourcing it to Medicare. He established the facility that could get to know the staff, would understand the stresses and strains of the job, and could really look after our staff."

Staff are introduced to the Health Wise on joining. They have a personal health and fitness consultation, followed by "a lifestyle assessment". An individual training plan can then be formulated. "It could be a fitness assessment, it could be a lifestyle assessment, it might be you're wanting to lose weight or you might be wanting to train for the London marathon and they'll actually go out and assess that and set up the programme for you that's relevant", stated Hilditch. Personal training sessions can be organised to get them started, and training equipment can be taken home.

Fitness and being active are not only encouraged to promote well-being and happiness, but are seen as key attributes of the kinds of high performers, who work hard and play hard, that Flight Centre tends to recruit. Indeed, an active social life is also a priority for Flight Centre UK. Regular fun team events and social events that bring together staff from different outlets are organised by the Health Wise team.

Money Wise operates in a similar way, providing professional financial advice to staff, helping them to make the most of their hard-earned rewards and profit. This again promotes staff performance and commitment. Money Wise staff regularly visit the different Flight Centre branches around the UK, offering confidential advice as well as group presentations. Advice covers pension schemes, healthcare and bonus schemes that operate within Flight Centre UK, and can also include advice on issues from basic budgeting, money management and tax, through to advice on products such as insurance, mortgages and investments.

Taking all the Flight Centre's practices together, it is clear that Flight Centre strives hard to foster performance and to look after those who create the performance. This balance is reflected by the results in *The Sunday Times 100 Best Companies to Work For 2004* survey. Flight Centre came out top on more questions than any other company, coming number one on 17 out of a total of 65 questions. For Flight Centre, driving for performance does not come at the expense of being a good employer.



CASE STUDY i-LEVEL

Service/Product: **Digital media agency**

Turnover: **£12.3m**

Size of the workforce: **60 employees**

Earning £35,000 p.a.: **33%**

Famous for: **One of the most innovative digital media companies with 25 industry awards in five years and an ambition to become the “defining media company of the decade”**

The business strategy: **Spotting a new product, finding a new approach and building a new industry**

High performance learning points:

- Builds the necessary expertise to support an emerging on-line media market;
- Uses a set of five values to guide the creation of better customer service for a new industry;
- Uses work re-design to remove hierarchy, to encourage participation, creativity, communication and collaborative teamwork;
- Uses 360 degree appraisals to encourage the transparent assessment of the performance of all, including the directors, and to support the value-set of the organisation;
- Recruits on the basis of the personal attributes necessary to win over new business; these include the passion for success!
- Uses various devices to support creativity and innovation such as personal recognition and team-based ‘pitch competition’.

A case of new product, new approach and building a new industry

Compared with other established advertising giants in the industry, i-level is a new kid on the block. However, with a total of 25 industry awards in the past five years, plus the latest accolade of Revolution magazine’s Agency of the Year and one of the Sunday Times Top 50 small companies to work for in

2004, the vision of its two founders – Charles Dobres and Andrew Walmsley – has come true.

i-level originated from two separate ideas. Walmsley was doing an MBA project that examined whether there was an emerging

digital media market. His research showed an increasing gap between advertising media buyers' demands and what the market could deliver. Dobres was disenchanted with the inadequate treatment offered by traditional advertising agencies for online clients. The end result was the formation of i-level in 1999. i-level's aim was to specialise in digital media advertising, via the internet, e-mail and mobile phones, with a declared mission of becoming the "decade-defining media agency". Its very focused approach to a new digital media industry – which i-level helped to define – resulted in immediate success, with the signing of easyJet and then companies such as Yell and Smile as early clients. i-level currently represents other famous names such as Coca Cola Enterprises, BT, VSO, Specsavers, William Hill and the government's publicity procurement agency, COI Communications.

THE INDUSTRIAL CONTEXT AND i-LEVEL'S BUSINESS STRATEGY

Despite the emergence of online advertising opportunities in the latter part of the 1990s, via web sites, email and mobile phones, most traditional advertising agencies were slow to capitalise on the emerging demand. In fact, because the systems of television, cinema, radio and press advertising had been so well established, most traditional advertising agencies were treating online advertising as an 'add-on'. As a result, although these agencies had web or online media planning departments, most of these 'add-on' departments tended to be small, consisting of just a few persons. Online advertising had yet to be treated as equal within the traditional media advertising industry. Dobres recalls his observation of a previous traditional media advertising company: "No-one really wanted to be involved too much and the clients would get a couple of slides on on-line stuff at the end of a presentation... or they would never spend any money on it."

Deriving its guiding principles from five values – humanity, openness, diligence, enthusiasm, integrity – i-level wanted to fundamentally change the way the advertising industry dealt with clients for online media. Dobres and Walmsley believe that the five values, together with the way they communicate i-level's service approach

to clients, form the strategic principles to their immediate success and i-level's profitability in every year since its existence.

Dobres' analysis on the success or failure of the industry is deceptively simple. "In advertising, including online media, there is a truism that says 'you win a client because of great work; you'd lose a client because of poor service', but great work is quite subjective. So the poor service is guaranteed to lose you a client."

As a result of this understanding, i-level's strategy was to create a workforce that would utilise the five values to deliver a dedicated customer service. And in order to create a well-defined market, i-level adopted the education campaign for their potential clients that: "You need a specialist, and online media is a specialist discipline which requires new practices, unlike the press or television." By projecting a proper 'solution' to the customer, i-level simply advertised itself as "We do online media. That's it." With this strategy, i-level won the easyJet account within the first few days. Other big clients followed within the next six months.

CREATING AN ENVIRONMENT FOR SUCCESS

i-level's five guiding principles – humanity, openness, diligence, enthusiasm, integrity – are in effect a framework to ensure better internal and external fit.

Internally, this has led to a complete re-design of the way that people work. Most importantly, i-level sees hierarchy, and the physical arrangements to support hierarchy, as an obstacle to communication, creativity, teamwork and organisational values. In the traditional big media companies, hierarchy is reinforced by putting workers in 'boxes' or rooms, in long corridors and on different floors. Dobres believes that these physical arrangements allow hierarchy to create "a degree of significant separation in various forums." So a complete open plan office is the environment in which staff at i-level conduct their normal day-to-day operations.

The benefits of such an approach, to an organisation with 60 staff, can be subtle – just how do you create an efficient communication network among that many

people? By allowing staff to chat as informally and as often as they need, the environment creates what Dobres calls “ambient knowledge”, seen as the necessary ingredient to enhance communication, ideas and collaborative work. “For example, people can place the wrong emphasis on teamwork. You don’t make people be a team. You create an environment and processes, and then they’ll work as a team.”

If this open plan approach is done well, i-level believes that, to some extent, this can even become the alternative to staff opinion surveys and appraisals. For example, i-level believes “knowledge is power” and that, in traditional organisations, too many work arrangements enable only a few key individuals to hold the relevant knowledge about the organisation. i-level wants as much information as possible to be available to staff and to allow staff to participate in all the debates. An open plan office with all the necessary “ambient knowledge” is seen to facilitate this. Dobres explained, “I think what we do for people is to help them feel ‘I know what’s going on’. And that sense of knowing what’s going on gives people the ‘permission’ and the environment to talk to anyone else because if they are willing to tell me that, they’re probably willing to have a discussion with me”.

i-level carries out a 360 degree appraisal system once every year for everyone, including senior management, and this is another tool to link into its five values and appraise performance. But because i-level places so much emphasis on the open office and its community environment, senior staff actually believe that “To appraise staff once a year, that is good. But our approach is also try to do it every single day, in that open office environment!”

PERSONAL ATTRIBUTES FOR ORGANISATIONAL PERFORMANCE – IN SEARCH OF “PASSION”

What is the difference between the traditional media advertising market and the digital/online media market? “From a functional point of view, the difference is specialisation. But from an emotional point of view, the difference is passion,” Dobres commented. “You can’t create passion. You have to have it, but if you have it you

have to communicate it. This will lead you to the market.”

The connection between performance and “passion” presents an interesting angle to recruitment and development. As the industry is still relatively new, the chances are that many people do not have the necessary skills. Hence, i-level tends to look for people who really want to make a difference in this industry, and not just because they really like online advertising or digital media. Dobres explained, “This is someone who when they get into something, they will be absolutely passionate about it, and they will not just ‘do the job’.” Hence, a lot of the recruitment effort at i-level is on ascertaining the attitude orientation of potential staff. “In a fast growing company, your recruitment is something that can bring a company down if you don’t get it right.”

The common denominator is passion, but i-level wants to recruit as many different people as possible. i-level sees diversity as a strength in an industry that requires different ideas and innovation. In addition, i-level is constantly seeking appropriate staff to be promoted to lead the company. This gives this passion for success a goal.

i-level also finds that if passion is the fundamental building block for performance, pay takes on a different role. Pay is important. i-level put aside 15% of its pre-tax profit in 2003-4 for performance bonuses, and share options are available to all staff. However, it is emphasised that: “People want to work at i-level because it is the kind of workplace they want to work in.” In this instance, pay becomes a hygiene factor (i.e. there is a minimum level of pay that is important, but beyond that it is what i-level represents that matters). Pay is necessary, but not the primary motivating force.

SUPPORTING PERFORMANCE THROUGH CREATIVITY AND INNOVATION

i-level encourages staff creativity through recognition and support. Formal recognition is important and the “i-level Monthly” and all-staff meetings help to do this. Through these, recognition is regularly used to celebrate innovation. For example, recognition is given through the “Leveller of

the Month" award, in which a member of staff is nominated by staff for the greatest contribution to the agency and the winner also gets a prize. i-level believes that it is important to promote a particular culture and to back it with formal recognition and sometimes "spot bonuses".

i-level also enters a significant number of external competitions and awards. To put together a paper or a case study for an award, requires an entire media campaign to be condensed into just one or two sides of A4. The practitioners write the competition entry, but consult senior staff such as Dobres or Walmsley and then senior staff help junior staff to "fine tune" their output. Entry into these competitions, and winning such awards, brings the additional benefit of giving exposure to this work not only externally, but within the company.

In addition, an internal "pitch competition" is organised among teams, which are given fictitious briefs to respond to. This competition is intended to encourage media practitioner innovation. Well-known people from the industry are invited to judge the competition and again prizes are given.

As well as the external courses for the necessary technical and craft skills in media advertising, i-level has an unusual "wild card" training budget, whereby everybody who works at i-level is given an annual allowance for personal training and development purposes which should have no apparent connection with work. The idea is to develop the skills and interests of staff in areas not considered before. This is expected to enhance i-level employees' innovative ideas at work through experiences outside the immediate areas of work.

At i-level, innovation comes from unexpected directions. This is a reflection of the kind of passion that means people want to do things better and do them well. For example, an IT information management system, known as the 'campaign management system' has been designed and introduced to significantly improve the quality of workflow and job satisfaction of staff. The introduction of the IT management system tackled a number of issues

simultaneously. Work with a media client normally takes many stages, from planning to placing media space on websites and is often labour and process intensive. i-level observed that the more complex the process was, the greater the chance a mistake would be made. From a commercial point of view, i-level was not happy with the inefficiency but, more importantly, it also meant that media practitioners were bogged down with administration – the kind of work that they did not find particularly motivating.

The IT solution turned out to be a workflow re-engineering project. Partnered with a software developer and taking 18 months, i-level has designed its own "campaign management system" to manage workflow. It was the first in the industry and i-level retains part ownership of the intellectual rights to the system. Under the new campaign management system, it brings together all the stages of work into one single interface. This compares much more favourably with the previous system, which required spreadsheets and other monitoring devices. "It's really quite revolutionary. Which means that we have something which is creative, and time-saving - we estimate about 30% saving in the process so far, and it's still developing. It is crucial to make the job far more interesting for planner/buyers while the administrative work is now handled with fewer mistakes."

PERFORMANCE IN MANY WAYS

Walmsley and Dobres wanted to create a different and high performing workplace and, at the same time, to be financially very successful. The level of year on year profitability that i-level has delivered reflects that. This performance even carried i-level through the global downturn in 2001-2. Many media advertising agencies went under, made redundancies or merged with rivals. Nobody was laid off at i-level, though the industry was badly affected, and i-level still managed to grow that year. i-level continued to invest in training throughout the period and Dobres recalls his reaction to the crisis: "We think this will take 18 months for us to come out of. If we don't lay anybody off, continue and develop, at the end of it, we will be ahead in terms of capacity and ability over everybody else. We will profit from it. And that's exactly

what's happened." In fact, a contingent redundancy plan had been made, but has since been destroyed.

"Investing in staff during an economic downturn", is almost a fantasy idea in human resource text books. But for i-level, it is true because, as Dobres added, "The way through is about belief and passion, and at the end of the day, we also make good money out of it."

CASE STUDY

PANNONE AND PARTNERS

Service/Product: **Legal firm**

Turnover: **£26m**

Size of the workforce: **500 employees**

Earning £35,000 p.a.: **29%**

Famous for: **Using work-life balance as a reward for a hugely committed workforce**

The business strategy: **Balanced growth for competitive advantage**

High performance learning points:

- Builds a business strategy which reflects the organisation's self-awareness, which enables it to capitalise on its strengths;
- Clearly demonstrates the importance of the managing director taking the lead to create the organisational culture necessary to support its strategy;
- Able to create a workplace environment through work-life balance which establishes the link between a highly motivated workforce and a strong commitment for organisational success for all;
- Uses an emphasis on quality of work experience to cultivate a strong sense of fairness within the workplace which secures the retention of the best staff;
- Rewards staff through time off to engage in private pursuits rather than the use of financial incentives. Performance appraisals not linked to the financial reward system. Values employees' own time above excessive time commitments to the company;
- Use of an 'under-one-roof' strategy to tap into the benefits of internal communication through undefined networks. This effective form of communication creates a sense of openness and ownership of organisation.

Balanced growth for competitive advantage

In May 2004, Manchester Online reported that whilst the majority of legal firms in the region had been struggling to make any growth in what was a very difficult year for the industry, Pannone & Partners was the fastest growing legal firm in the Northwest

of England, returning a 20% growth in turnover and a 22% growth in profit.

Pannone & Partners' success was based on a 'balanced growth' strategy. The 'balanced growth' strategy, which contrasts strongly

with that adopted by the firms' competitors, means two things. Firstly, the firm maintains its involvement in both the commercial and private client sectors. Pannone & Partners' strategy appears to be in the minority, as most of its large competitors have been concentrating on the more 'lucrative' commercial sector.

Secondly, in order to maintain a more effective and coherent workforce with its own brand of people culture, Pannone & Partners has chosen to stay with a single-site strategy – with all its staff based in the Manchester office – while many of its competitors have been opening offices in other cities in order to build market share.

THE INDUSTRIAL CONTEXT AND PANNONE & PARTNERS' BUSINESS STRATEGY

In 1989, changes were made to the advertising law in the legal industry. Subsequently, marketing professionals began to appear in large law firms, bringing about visibly greater competition among legal practices. However, higher competition also means that profit margins from client fees may be squeezed, especially in the private client sector. The knock-on effect brought two developments in the legal industry: a growth in mergers in order to capture greater market share and to diversify into a wider range of specialisms; and larger legal firms concentrating on the commercial sector where higher fee returns are possible.

Pannone & Partners chose to maintain an equal profile between the commercial and private client work. As well as being a historical factor, achieved through early mergers between legal firms with different client bases, this strategy of having a 'balanced approach' brought greater stability to the business.

In the commercial sector, there are more peaks and troughs in terms of the volume of business compared with the private client sector. Indeed, the commercial sector has had a very difficult period in which growth has been relatively flat. This has been reflected by the general slow growth among most commercial client firms in 2004. The private client sector such as personal injuries, on the other hand, is largely unaffected by fluctuations in the economy.

Thus, for Pannone & Partners, the private client sector provides a certain degree of stability. This approach makes the firm almost unique among its competitors. Deborah Ascott-Jones, Pannone & Partners Director of Marketing, said "You cannot find another legal firm of a similar size in Manchester who has the same profile as us!" And with stability, there comes enhanced job security and greater focus in work.

However, it would be wrong to assume that Pannone & Partners wants stability for the sake of it. The key to the firm's strategy is to not be dependent on any one sector, in which case any significant economic fluctuation may create massive redundancies and the associated negative effect on staff morale, their commitment to the company, sense of achievement, and the immense interruptions in their career and private life. "The 'balanced approach' gives us lots of business continuity-type advantages." Rachel Dobson, the Director of Human Resources emphasised.

In addition to job security, the Partners in the firm are very clear that they want to strike a balance between creating a successful firm and encouraging staff to "have a life" outside work. To the people working at the firm, at the end of the day, their work is part of achieving a particular lifestyle. "If we wanted to have a mega, mega successful firm and earn twice what we earned, then I guess we could. But the fact is that we don't want to. To do that I think you would have to grow more rapidly, with more mergers and have multi-sites, but we're not interested in either." Rachel Dobson commented. "When I joined, there was a turnover of £6m and I think the total staff was about 200, and now it's almost £30m and a total staff of over 500. But the firm has retained its character which is quite an astonishing achievement." Pannone & Partners is very careful about how the firm grows and how it may affect the employees' welfare. Namely, achieving high performance should not be at the expense of quality of life.

OBTAINING PERFORMANCE THROUGH WORK-LIFE BALANCE AND RETAINING GOOD STAFF

Within this brand of people culture, 'work-life balance' is seen as the most strategic tool to build a competitive organisation.

Recruitment agencies have told Pannone & Partners that it is one of the most sought after employers by people who are on the market looking for a better employer. The firm's well-known work-life balance policy and strong market position mean that the firm does not have to consider offering special packages in order to attract the best people. In the south, it is well known that legal firms are often competing with each other for better candidates through endless offers of flexible packages. "People just want to work for us," Dobson explained.

To some extent, the north-south divide in the job market has enabled Pannone & Partners to chart the course it wants. The conditions in the south-east, in comparison, are more buoyant than those in the Northwest. However, good fortune alone cannot guarantee a leading position, and Pannone & Partners' way of creating an exciting and happy workplace has not been achieved by accident. Indeed, one person, Joy Kingsley, the Managing Partner, was singled out as responsible for developing the firm's particular performance ethos.

At the conceptual level, most effective ideas are often quite simple, and Kingsley's approach is no different. Fundamentally, Kingsley sets out to create an excellent working environment so that all staff – partners and other employees alike – can work effectively together as a closely-knit unit, all under one roof. Within this organisational format, hard work, informality, good communication, participation, fairness and a good work-life balance are all basic ingredients of a high performing workplace. To this end, good performance is not only rewarded financially – through bonuses – but also through more time off for private pursuits and other activities outside work. Indeed, Kingsley emphasises the latter over the former.

Ultimately, Pannone & Partners uses this strategy to retain good people. By retaining good people, who are important to the firm's future success, Pannone & Partners can give more to its employees for a better work-life balance. The result is therefore a reinforcing virtuous cycle.

"Keeping staff here is hugely important to us, and it is a top priority. We have a very low turnover of staff, and that isn't an accident. I think one of the big reasons that people stay is because of our approach to people and work," Dobson emphasised. "Another reason is the philosophy and the recognition that people have a life outside work, and Joy believes that it is the most important thing to absolutely everybody. It doesn't matter who they are, time is the one thing that you can't buy, and the ability to have time back is something that people value hugely, and it's one of the ways that we reward people. And so, if something good happens, like winning a major client, we do give people days off." At Pannone & Partners, giving days off to staff means giving time off to all 500 staff. "And that is one big successful and happy family".

INCENTIVISING WORKPLACE PERFORMANCE IN THE LEGAL PROFESSION – FAIR PLAY AND FAIR PAY

Teamwork is very important in legal work, which is normally organised around specialisms. At Pannone & Partners - these include commercial litigation, insolvency, personal injury, family and intellectual property. Normally, good performance would be measured by the results of each team, such as the value of contracts. However, the firm places an emphasis on fairness when it comes to judging performance. Performance incentives are not based upon the amount of billing, but on doing a job well.

The potential problem with legal work is that if billing were the sole criterion for performance, then all lawyers would 'cherry pick' their work. In other words, they would do the work which they thought was easiest to bill and which had the largest billing potential, as opposed to the work which was more difficult or, on the face of it, less

glamorous. This approach could create a tension between individuals and teams. Pannone & Partners considers this sort of tension to be potentially harmful to the performance and cohesion of the organisation as a whole. A performing organisation needs to go forward together. "Staff who do well will be paid better than those who don't, but doing well is made up of much more than just billing," Dobson explained. "It would not be fair that performance is somehow linked to the department that they're in, and some staff are in a position to bill more than somebody who is just as good and just as able, and works just as hard in another department."

As 'fairness' is the basis on which to judge performance and rewards, a four-year qualified solicitor in one department will earn broadly the same as a four-year qualified solicitor in the other departments. The same rule applies to other personnel. In Pannone & Partners' case, financial reward for good performance is therefore distributed on a collective basis. When the firm has a good year, everyone will be entitled to a bonus and days off, rather than just a chosen few. Appraisals are used, but there is no direct mechanism to link appraisal to pay. Appraisals are more of a vehicle to examine career and developmental issues.

SUPPORTING WORKPLACE PERFORMANCE WITH OPENNESS AND COMMUNICATION

Joy Kingsley is keen to encourage an extremely open workplace in which information and ideas are allowed to flow freely among all staff. Dobson explained that, "You will get to know just about everything, though sometimes this can create some difficulties. But, as a general practice, what a fantastic thing ... And because Joy does it, everybody else does it. People just love openness to information and discussion."

A new partner once commented, during his induction to the firm, that secretaries at Pannone & Partners could tell him more about the financial report than he had ever known as a co-owner of his previous firm.

It is a common mistake to see good communication as having some magic formula. There is no communication 'solution' that can be bought off the shelf and introduced within any given organisation. Indeed, Pannone & Partners shows that in a firm with more than 500 people, it is difficult to talk about a system. It is more a case of creating the kind of environment and expectation that generates a vast amount of useful communication within the organisation. Much of it is in an organic form that occurs without any pre-defined mechanisms. "We often describe our approach to communication as 'cream bun management'". Dobson commented. When the cream buns appear one afternoon in the office, all employees know that good work has been done and that they will be rewarded with days off. This form of communication is highly dependent on human interaction and the tacit knowledge of how an organisation works. It may, therefore, explain Pannone & Partners' overt desire to maintain a one-site policy.

TECHNOLOGICAL INNOVATION TO SUPPORT BALANCED GROWTH

Technology is often not used to any significant extent in the legal industry. For Pannone & Partners IT is used just like other work practices, as a tool to enhance its chosen approach to performance.

The one-site approach has been most useful in enabling the firm's culture to drive performance. However, it has also put the firm at a potential disadvantage, as it may not be able to offer the same kind of service to clients in other localities. Pannone & Partners therefore developed its own proprietary software to overcome this disadvantage. The software essentially enables the firm to manage, maintain and serve clients via the internet on a national basis.

The software is very important for Pannone & Partners as complaints by clients would not be acceptable within the quality assurance process. It is vital to create a quality audit trail for the clients, within an easily accessible environment. "Clients want

to be able to look at their files over the internet. They want to see what we're doing almost at the time of our doing it. The clients demand incredibly high standards for reporting back to them – e.g. how often they have to be contacted, and what quality standards have to be adhered to. The software enables us to serve clients nationally without necessarily having local offices.”

One can observe the different efforts that have been made to maintain an effective but simple approach to performance. The few devices that Pannone & Partners has to drive performance are all geared towards supporting the work ethos that the firm wants to pursue. Therefore, if we contend that a happy, well-balanced and highly committed staff is the basic ingredient for a competitive and high performing workplace, then Pannone & Partners is well on its way to winning the race. Pannone & Partners' work-life balance and staff retention strategy is reflected in their position in *The Sunday Times 100 Best Companies to Work For 2004* survey, with their number one spot in terms of lowest numbers of staff reporting that they would leave the company tomorrow if they had another job (12%) and reporting work-related stress (15%).



CASE STUDY

QUEST DIAGNOSTICS

Service/Product: **Clinical trials, diagnostic products and services**

Turnover: **£32.6m**

Size of the workforce: **243 employees**

Earning £35,000 p.a.: **12%**

Famous for: **Quality service and systems to cater for a global client base**

The business strategy: **Quality service, innovation and workforce diversity for global competitive advantage**

High performance learning points:

- Use of various systems to create the quality necessary to achieve success in a highly regulated industry and build a very particular business culture;
- Use of a 'Road Map' to define targets and systems to meet business goals;
- Use of flexible and innovative work organisation to meet the needs of a global market;
- Use of a single review system to link performance and personal development to reward;
- Use of measurable indicators to link progress in workforce diversity to organisational goals as defined by the 'Road Map'.

Quality service, innovation and workforce diversity for global competitive advantage

Having a formal workforce diversity policy and programme is extremely rare in most industries. Not only has Quest Diagnostics established such a forward-looking policy, it has also achieved one of the goals that it set out to achieve within its workforce diversity programme - namely, becoming one of the best companies to work for. In 2004, this goal

became a reality. When Quest Diagnostics was rated one of the best 50 small employers to work for in the UK.

Quest Diagnostics is an international leading company of biomedical diagnostic testing, information and services. Their clients include patients and consumers, doctors,

hospitals, pharmaceutical companies, biotech companies, health insurers, employers and government agencies. Although the testing facilities in the UK are located in the south-east of England, its operation covers samples from wherever Quest Diagnostics operates in Europe and beyond.

Quest Diagnostics achieved its 'best employer' goal against a context of difficult circumstances. Recent times have been very difficult for the industry as a whole. Many companies continued to suffer from the global business downturn after 9/11. Equally, the many pharmaceutical company mergers took place leading to generally lower levels of research and development activities, plus combined and rationalised operations. As a result, testing activities also declined significantly. By maintaining rigorous effort in applying its core values, of which quality and innovation are crucial, Quest Diagnostics has seen strong financial performance in 2004, which was reflected in global earnings per share up 20% from 2003.

THE INDUSTRIAL CONTEXT AND QUEST DIAGNOSTICS' BUSINESS STRATEGY

The clinical testing industry has a particular environment that makes gaining a competitive advantage an interesting endeavour. On the one hand, the industry has to comply with stringent standards and regulations. This means that, in comparison to other industries, there is less room for any vendor to differentiate its services from its competitors. Everyone has to have high standards. On the other hand, there is plenty of room to innovate technologically for new services and better testing of products. It is important that companies innovate to stay ahead of rivals in the industry.

On top of this, a large part of the demand in the industry is of a derived demand nature. Business volume is highly dependent upon the research and development activities of the large international pharmaceutical companies. When changes such as mergers take place, this can substantially affect the future of the clinical testing companies if they are not sufficiently diversified. There is also a cyclical pattern in which there can be a period of mergers, which is followed by a period of consolidation and expansion, when business will increase again.

Quest Diagnostics has adopted a quality service approach to secure the business of its customers. This approach means that it achieves its values and goals through its people and flexible approaches to customers' needs. "Our quality approach means that whoever is contracting our service they can be absolutely 100% confident in the quality of service that we provide ... the 100% confidence goal is the only thing that differentiates between ourselves and our competitors," Linda Fairley, the Human Resources Director explained. The quality focus in fact drives everything Quest Diagnostics does, including the way Quest Diagnostics markets itself.

QUALITY IN EVERY SENSE

Very few people would realise that diagnostic testing is the starting point of quality patient care management. Quality service at the diagnostic testing stage allows doctors to detect disease earlier, make diagnoses more accurately, prescribe therapies sooner and monitor results with better information. Every client, whether in the private sector or public hospitals, relies on this foundation to deliver their quality care. Establishing this connection means that Quest Diagnostics can secure the business.

Not only does Quest Diagnostics recognise this link, it educates its workforce that quality delivery underpins their systems and is the reason behind their success. A lot of what the industry does is driven by the regulatory bodies and following standards often leads to the misunderstanding that it is enough to be compliant. Quest Diagnostics knows that, in this sense, standards are in fact a common denominator. Exceeding the 'minimum' will win business customers over.

As a result of this quality strategy, Quest Diagnostics has a specific 'Road Map' to performance, supported by specific targets under five headings – quality of service comes first, followed by satisfied employees, satisfied customers, aggressive innovation and profitable growth. By hitting targets under each heading each year, Quest Diagnostics is making progress towards its performance Road Map.

For example, quality delivery is underpinned by specific targets, as well as the adoption of quality systems. Specific targets may include report amendment reduction by x per cent – reports that require amendments mean that the completion of a job is delayed. Quality systems may include the use of Six Sigma (a data-driven quality control technique) as a tool for operation as well as for building business culture. Fairley emphasised that as a result of these activities and systems, “We can demonstrate to the clients that whatever sample you send here, we treat in the same way regardless of whether it comes in on a Monday or a Friday, January or June, you can be confident of our results and the quality of the work ... If you send a sample to the US or the UK you’ll get exactly the same quality results.”

PERFORMANCE, MOTIVATION AND REWARDS

Employees’ performance is established through a review process. This review then links to two elements: continuous development for the staff concerned and performance feedback. The review is a standard meeting between managers and employees in a particular business unit to discuss various aspects of their work in the period under review. The outcome includes a personal development plan for the following year. The personal development plan defines what developments will take place and also a rating based on the previous year’s performance.

Depending on the budget allocation, the performance rating may attract a salary increase. So, a ‘commendable’ rating might lead to an x percent increase in salary. “Sometimes it’s not so much the salary increase that the workers are motivated by, because the increases are in line with general market increases.” Fairley commented. “A lot of employees are more motivated by the actual performance rating they get. They want to be an ‘excellent’ or an ‘outstanding’.”

There is another source of recognition, which is in the form of a bonus. This is a practice introduced from the US parent company and it has now become a global scheme. By comparison, the bonus scheme is a more explicit and important recognition of employees’ contribution to the financial

success of the company. The bonus scheme is based partly on the local business unit’s financial results and partly on the corporate financial results of Quest Diagnostics world wide – USA, UK and Europe, and on achievement of operational goals. And depending on how each business unit performs, employees can earn 10% of their base salary if they achieve all the goals and targets, up to a maximum of 15% if they exceed all targets.

INNOVATION AND BUSINESS PERFORMANCE

Innovation at Quest Diagnostics takes many forms and it may involve processes or products. The Road Map provides some examples of the types of innovation: accelerating the process of development of DNA extraction; increasing the number of tests in a particular area of testing; identifying partnerships for better services or products, and adopting technology to enable new services.

The last item is an interesting illustration of innovation at Quest Diagnostics. The service at Quest Diagnostics emphasises not just the quality, but also consistent quality with fast turnaround time. This is particularly important to make the global operation of the different testing facilities seamless and irrelevant to the location and time zone of the customers.

Already, Quest Diagnostics operates on a seven-work-days-a-week pattern. Working quicker is one thing, but working quicker and bringing the results to the customers in the form they want is even more critical. Quest Diagnostics therefore introduced a report system online so that the customers can see their data in ‘real time’. This means that for those customers who do not want to wait for a lab report to be posted or faxed to them, they can track the results by logging on to the internet and monitor the progress of the test online. The customers have been most impressed, and the innovation has attracted a great deal of positive feedback.

However, the most interesting point here is not the innovation itself. It is the way that innovation has been formalised into the Road Map. The Road Map does not restrict innovation as, by definition, innovation takes

place in many circumstances. What the Road Map does is to direct a collective focus on the importance of achieving high level business performance through innovation, and the targets are just a start. And most important of all is that the effort for innovation – at least for those targeted in the Road Map – is measured. This is a very different approach to most other companies where it is accepted that innovation is more organic and fluid. The consequences are that most organisations simply focus on the conditions for innovation and the recognition for it. Quest Diagnostics shows that you can approach innovation differently.

WORKFORCE DIVERSITY AND PERFORMANCE

As Quest Diagnostics has recognised that the basis for quality work is the ability to get the best involvement from its workforce, then workforce diversity has become one of the main vehicles to establishing the link between workplace performance and human resource practices in an organisation.

Diversity at Quest Diagnostics is a formal policy of inclusion, and it is fundamentally about valuing the strengths each individual brings to the business, and striving to create a work environment where each individual can succeed and contribute. Through inclusion, diversity creates a means for higher employee satisfaction for all. Through inclusion, diversity also creates a business case as Quest Diagnostics has the workforce to tackle its ever-increasingly diverse business environment globally and professionally. The 4 'Rs' of workforce diversity – respect, reputation, representation and results – are measurable and built into the Road Map to bring specific achievement to the organisation. For example, respect leads to specific diversity education in the organisation; reputation leads to the recognition of 'best employer'; representation leads to recruitment and development practices; results should be demonstrated by critical business feedback such as employees' and customers' satisfaction surveys.

As well as the benefits already mentioned, workforce diversity has made impacts in many other areas of Quest Diagnostics' operation. For example, Quest Diagnostics does not have an employee association. Better communication and industrial relations, as Quest Diagnostics shows, can be built by mechanisms such as workforce diversity and employees' satisfaction as a performance goal.

Diversity is not a management-led initiative. There is a Diversity Committee, which is made up of employees at the grass roots level. The Committee comes up with ideas and it looks at the different elements that make up diversity and decides each year what the company should try to improve. "So this year for example, one of the goals that the Committee has set is to investigate how possible it is to obtain the two-tick symbol (for disabled workers)," Fairley explained. "They set targets each year and, at the end of the year, the company will review each business unit's diversity plan and whether we achieved what we set out to achieve."

As a case study, Quest Diagnostics has much to offer in many aspects of its operation - e.g. service quality, flexible working, staff development and innovation. However, the formalisation of workforce diversity and approach to innovation are worthy to be singled out as unusual and inspiring. While many companies are still thinking only about compliance with equal opportunities legislation, Quest Diagnostics seems to be thinking a few years ahead. But, fundamentally, workforce diversity makes perfect sense for a company which is keen to derive performance from people and perform business on a global scale.



CASE STUDY ST. LUKE'S

Service/Product: **Advertising agency**

Turnover: **£19m**

Size of the workforce: **80 employees**

Earning £35,000 p.a.: **48%**

Famous for: **Social responsibility, creativity and co-ownership by its employees**

The business strategy: **Sustaining performance through an innovative culture**

High performance learning points:

- Challenge conventional models of managing an advertising agency in order to achieve high levels of creativity;
- Use work and organisational re-design to experiment with new ways of supporting employee development and creativity;
- Focus on delivering 'creative' solutions to meet clients' needs;
- Innovative concept of 'teams' is designed to ensure high levels of client retention;
- Created support systems necessary to enhance the effectiveness of these 'client teams';
- Use culture of social responsibility, trust and accountability, together with co-ownership, to cement the common interests of workers and the organisation;
- Use of a variety of forms of learning to support and grow creativity.

A case of sustaining performance through an innovative culture

INDUSTRIAL CONTEXT AND BUSINESS STRATEGY

St. Luke's was created as a co-operative in 1996 and rapidly achieved the status of a leading-edge company using innovative practices. St. Luke's is about using the creativity of its co-owners to produce marketing solutions for its clients in the extremely competitive world of advertising.

The first thing that hits you as you enter St. Luke's building is the absence of a reception area - you are immediately in the heart of the organisation.

Having grown to 120 employees from the initial 26 co-owners in the boom years of the industry it has since shrunk to 80 as it weathered the recent recession in marketing

business. While its competitors were sacking staff, St. Luke's successfully followed a policy of 'no redundancies'. This is a small company that lives and breathes innovation, having made extensive use of high performance practices as a means of sustaining an innovative culture, although the staff that use them would not necessarily use those terms.

Although advertising companies depend on creativity, they are generally somewhat conservative and traditional in their organisation. Typically, they have a Board at the top of the hierarchy, under them the 'creatives' who develop the adverts, under them the 'planners' who create the strategy, then the 'suits' who handle the accounts and at the bottom the support staff. Each group of staff remains relatively self-contained in their own section. The way they operate is that the client first presents the agency with a problem. The planners then develop a strategy following which they present the creatives with the brief. Having produced the solution, the creatives then hand it over to the suits who have the job of selling it to the client.

St. Luke's set out to challenge this model. From the start, there was a very strong commitment to being experimental, to doing things differently. As Nina Kowalska explained, they threw out the conventional model, their fundamental belief was that "Organisations are about individuals, and in order to get the best out of people you have to create an environment where people will thrive. We looked at every part and way that we functioned in terms of relationships between different departments, creative processes, benefits of employees, and we tried to see what we could do in each of those areas."

The result is an organisation that continues to re-invent itself in a purposive manner through the use of a strong culture. Underlying this process of change are at least two guiding principles. The first is to develop ways of working that ensure clients receive a creative solution to their advertising needs. The second is to ensure that the employees have space to develop their own creativity and learning.

CREATING THE CONDITIONS FOR SUSTAINED CREATIVITY

Having rejected the conventional approach to organising work in functional groupings, St. Luke's decided to group its work activities around the needs of the client. This meant using teams dedicated to specific clients. As a minimum, these consist of an account handler, a planner to conduct the research, identify trends and come up with initial ideas, and creatives who work on the ideas for the advert and turn it into a reality. Once the client presents a problem, the goal of the team created to work with them is to explore that problem and deliver a creative solution through a collaborative effort.

To facilitate this process, work is located in 'brand-rooms', these are spaces dedicated to each client, where the team works together on the solution. These rooms provide the shared space for interaction between team members, with the clients' materials all around them. There, the team members immerse themselves in the business of the client, in their product or service and through that process of interaction create solutions. Nina Kowalska, 'Social Entrepreneur' at St. Luke's commented, "We believe that the work is better because of the way that we work. And if the work is better, the client will be happier. If the client is happy, we will work with that client longer; we will have a great relationship with them. Therefore, they will stay with us a longer time, and you know that will give us financial stability." For the team, it is crucial that the client is involved in the process, thereby arriving at a solution that is right for them and which they have actively been involved in producing, giving the client ownership. It creates a strong relationship with the clients, resulting in high levels of client retention.

The implementation of these high performance work practices is not without its problems. It is hard work to bring together the right mix of people and skills in the project teams and it is costly in terms of the time spent in meetings and negotiating solutions. Many hours are spent discussing options and strategies. However, these are seen as the necessary costs of producing creative solutions and high levels of client satisfaction.

To facilitate the effective operation of these teams, a whole set of support activities and practices have been established. Some of these central services include, the traffic and production departments which ensure projects happen in time, the art-buying department who manage all print communication, and the TV production department which manages all TV advertising. Of crucial importance is the fact that knowledge is made freely available. Everyone has access to business information. The financial accounts of the various teams are open to all staff. In addition, there is a knowledge manager who is responsible for disseminating knowledge and information and whose job it is to keep everyone up-to-date with information, research and trends in the market. The knowledge manager also works as a member of different client teams. Extensive use is made of IT and email for communications. However, as the use of workspaces and practices such as hot-desking encourage people to move around, most of the effective communication, dissemination of information and decisions making, takes place through face-to-face interaction.

As for other management practices, these are continually changing. This is partly because of the growth in the number of co-owners, but primarily a result of the fact that if procedures are not working the co-owners can, through their position in the company, question them. This usually instigates a debate within the company about what more appropriate procedures would look like. In this way the staff are fully empowered and participate in shaping management practices. The organisation has to be responsive to its members and it is likely that this, more than anything else, has resulted in the extremely strong commitment among staff to the organisation, with over 80% describing their employment at St. Luke's as a 'dream job'.

The growth in size of the organisation presented significant problems in maintaining the responsiveness of

management to co-owners and to sustaining creativity. Once they reached about 80 staff they found that they could not operate as a single group. They tried to reintroduce a system of two sub-groups but found that this was splitting the company culture. St Luke's has now settled on a more formal structure consisting of a Board of four members with some external expertise brought in to provide a wider business perspective. However, the decisions made by this group can be, and have been, challenged by the "Quest" group. This consists of six staff shareholders who are voted for annually by employees and their remit is to represent the interests of shareholders (who are also the workers of the company).

The company has experimented with different forms of management system over the years. Initially a Board of two members, plucked from experienced staff, was established to meet legal requirements. They later experimented with the use of groupings of co-owners described as 'Chambers', there was a knowledge chamber, an operational chamber and a welfare chamber and so on. These provided a forum where people met to discuss business issues. This proved unsatisfactory and was replaced with a system of operational heads and more recently by the Board of four members. In addition to this formal arrangement, the company uses focus groups to discuss business issues and it is not at all uncommon for people talk to the Quest group over a cup of tea. Informality still reigns supreme.

However, there is always room for improvement and a genuine sense that if you experiment you have to be willing to admit if it's not working, and you need to be brave enough to try something different. For example, there is an awareness that middle management requires some help in developing their people management skills, and forms of peer mentoring and external mentoring are being looked at as possible ways of tackling this. It is a hallmark of high performance work organisations that they are constantly seeking better ways of managing people.

PROVIDING THE CONDITIONS FOR PERSONAL GROWTH

The second principle that underpins this company is that work should be organised around the needs of individuals for personal growth. This is seen as essential for the personal development of staff but also necessary to sustain the creativity and high skill levels on which the business depends. To this end appraisals are taken very seriously, as indeed, is the idea of life-long learning.

St. Luke's initially started with a 360° annual review, conducted by line managers and a person nominated by the appraisee. An email was sent out to relevant staff asking for information under five different criteria. A written report was then prepared for discussion during the appraisal, covering personal development, training needs, pay, holidays etc. After five years there was some dissatisfaction as some staff felt their appraisals had been hurried, while others felt they were more thorough. This dissatisfaction was important because the appraisals affected their personal development and pay review. To counter this, a more formalised and thorough approach was developed. In addition to the annual review for those who have an identified development need, there is 4-6 month check (known as an MOT) on progress.

Other support for lifelong learning takes a number of forms. £150 is provided annually for staff "to make themselves more interesting" which can be spent on almost any relevant activity. Training courses are used where appropriate, for example for developing time management, social communication skills and writing skills. The planners all go through formal courses provided by the Institute of Practitioners of Advertising (IPA) and they also use a similar course provided by the IPA for account handlers.

However, much of the learning that takes place is through more ad hoc and informal activities. This is especially important for the creatives. "You know any training that creatives do is giving them access to stuff that is going to stimulate them, so we have a really extensive library, we have people who organise trips to galleries, we have artists

come in, so we're bringing people in constantly. Creatives are probably walking around now going off with their camera and doing stuff because that's the nature of the people. They almost do their own training in a funny kind of way. You know sometimes a creative might say I'd really like to go on a comedy course, or something and that's fine: they can go and do that," Nina Kowalska commented. The important point here is that all learning is valued and efforts are made to introduce opportunities for it whenever possible in order to enhance the skills of employees.

As for rewards, salaries are determined individually and then subject to an annual increase determined by the pay review. After six months with the company all new employees obtain shares in the company and these are distributed every twelve months to all staff. Here again the company is continually seeking to improve its practices. Under consideration is the use of a base salary supplemented by individual and business performance components, but there remain problems of how you measure individual performance and so on to be overcome.

CREATING A CULTURE OF COMMITMENT AND TRUST TO WELD THE CO-OWNERS TOGETHER

At St. Luke's, change is continuous and regarded as central to the generation of the creativity that provide its competitive advantage. Trust and accountability are at the core of this culture. Staff are trusted to work from home, to determine when they need time off. In return their commitment is 100%. The company aims to provide an attractive working environment which reflects its commitment to the staff. Yoga classes are provided once a week, aerobics twice a week, there is an excellent café which provides subsidised healthy food, free fruit and breakfast. Each employee is provided with access to a confidential helpline which can give advice on a range of issues from personal hobbies to taxation, house purchase, mortgages, legal matters as well as counselling.

The commitment to environmental and social issues is also strong. St. Luke's supports staff involvement in external

community-based activities through a system of social shares and the provision of time to enable them participate in external activities. This currently involves 40% of staff. The company also implements an extensive environmental strategy, monitors emissions and funds projects aimed at nurturing the next generation of creative talent.

Maintaining this strong culture and its associated high performance working practices requires time and effort. Some of this is through formal activities such as 'the making the agency more interesting fund' which provides £1000 for each of 8 teams to come up with ideas to make the place more interesting. This can be a physical idea, a policy or an event and reflects the fact that innovation is central. They are currently exploring how they can make better use of space through the use of adjustable meeting spaces and are experimenting with a new internet system that will provide virtual brand rooms, accessible by their clients.

Driving this is a central concern about people: "It's about people, it's about individuals who have got passions and beliefs, who really care about things beyond advertising, frankly. You know, for a lot of people, being here is a tool to do other things in life, and it just so happens that this is a really great place to work and we do some great work, but actually their passions lie elsewhere as with most people," Nina Kowalska commented.

To maintain such a culture means celebrating achievements when you win pitches and galvanising people when they are a bit flat, perhaps after they have just lost one. It also means continually changing the rules, practices and procedures to ensure that all staff are fully motivated to give their best.

St Luke's is an organisation dedicated to sustaining its market position through innovation. To achieve this, it has built a culture that focuses firmly on the clients and their needs. To ensure that the solutions provided to their clients are creative, St Luke's has taken the time and trouble to guarantee that the development of such creativity is encouraged and fully supported by the company.



CASE STUDY TIMPSON

Service/Product: **High street shoe repair and key cutting**

Turnover: **£57.7m**

Size of the workforce: **2869 employees**

Earning £35,000 p.a.: **2%**

Famous for: **A family business that transformed its original shoe business to a multi-product high street shop**

The business strategy: **A people strategy for superior customer service and business performance**

High performance learning points:

- The ability to continue to diversify and to handle change is crucial to continuous success;
- The application of “upside down management” to create leadership, empowerment and customer service;
- Combines the development of skills which are no longer widely available such as shoe repairing, with the development of effective business management skills for every employee;
- Uses network organisation, to link geographically dispersed shop units, in order to enhance competition among shop units. Units' performance is transparent to all and is rewarded through bonuses for achieving excellent performance;
- Continuous innovation used to enhance long-term competitiveness and viability.

The people strategy for superior customer service and business performance

Timpson is one of the few British high street businesses that comes with a long family history – stretching back to 1868 when the first shop was opened in Manchester. The current chairman, John Timpson, is the fourth generation of the family who transformed Timpson from the original shoe business to a multi-product high street shop.

Now Timpson not only repairs shoes - the original service since the shoe retail business ceased in 1987 - it also sells services in engraving, key-cutting, house signs, watch repairs, signs and locksmiths. Since the 1980s, the number of shops has grown from 150 to 315 and this continuous diversification and growth reflects Timpson's ability to

change to meet new demands and its ability to bring together a workforce that can meet these challenges.

Not only is Timpson successful in business, it received two awards in 2004 for being one of the best places to work – ranked 2nd on the European 'Great Place to Work' list and 6th on *The Sunday Times 100 Best Companies to Work For 2004* list. So where does Timpson get its winning strategy from and what are the secret ingredients of Timpson's success?

John Timpson learned his business ideas the hard but natural way – as a sales assistant in the shoe shop in the 1960s. And there are no secrets to Timpson's success – he wrote a book, entitled 'Upside Down Management', to tell everyone about his ideas.

THE INDUSTRIAL CONTEXT AND BUSINESS STRATEGY OF TIMPSON

Having made a successful transformation from selling shoes to shoe repairs in the 1980s, the business environment for Timpson continued to change. In the early days, shoe repairs represented 95% of Timpson's turnover but this business has since steadily declined. The shoe repairs market is now 10% of its former size. Timpson's strategy to address this has been to diversify into complementary services that it can deliver from its existing high street shops and to constantly seek new services to replace declining demand. Key-cutting, engraving and watch repairs are examples of successful replacement services that have been developed. New services such as locksmiths and jewellery repairs are currently being put into place.

Interestingly, despite the continuous change in the variety of services provided, Timpson has not altered its approach to building a successful business; namely: a customer focused/quality service strategy. John Timpson learned two things from his shop-assistant days: customers are the beginning of everything a shop does; and managers have to learn to delegate and instead concentrate on supporting front line staff. Hence, he strongly adheres to the principle that "...because the people who serve our customers run the business, everyone else is there to help." John described this as

"upside-down management", reflecting that his lack of expertise in shoe repairs probably helps him to focus on the development of the business and supporting his staff. Rather than focusing on mending shoes or cutting keys himself, John focuses on enabling others to provide a great service to customers. "I suppose the thing I've learnt is that it's a great advantage in some ways to run a business that you're not capable of doing yourself. I can't repair shoes, I tried but I'm useless. You can be just as effective as long as you actually listen to people, stand back and let other people get on with it."

This may appear a simple approach, but the Timpson strategy is actually very elaborate as it is built on motivating and empowering staff to maximise sales while working without the constraint of many rules. "Firstly, we invest total authority in our shop staff to do what they think is best, no company rule must get in the way. Secondly, we have to 'amaze' our customers. If we can do that with every customer, things will start to change". John gave the following example: "If a kid comes into the shop and only has £10 from his saving tin to do an engraving for his granny, our shop staff can take a decision to accept the business even though we would have charged a lot more under the normal circumstances." As a result, Timpson does not advertise in the media. The aim of its quality service and empowerment approach is to harness the power of their customers and get them to do their advertising. This means that if there are 250,000 customers a week, the target is 250,000 word of mouth recommendations for Timpson.

BUILD YOUR OWN STAFF FOR SUCCESS

John Timpson's approach to business performance means that "everyone runs the business". But the question is: where do you find the right staff? Recruitment can be a problem. For a start, there are very few shoe repairers in the country and most of them are probably already working for Timpson. Given its customer focus, Timpson is quite clear on this: "We don't recruit skills. We develop them. We recruit personalities." Timpson therefore looks for the "right attitude to work" – e.g. outgoing, happy and having 'can-do' attitudes.

Recruitment includes a two-day residential course to ensure the right kinds of attitudes and behaviour are identified so that the quality service approach can be delivered. This approach has proved to be very reliable, as over a third of the new recruits normally come through recommendation of the existing workforce.

The real skills training begins with Timpson's own apprenticeship scheme, which lasts for 22 weeks and everyone must complete. The Timpson Apprenticeship Scheme focuses on critical success elements and these include the three levels of technical skills (including health and safety) for the four disciplines - e.g. shoe repairs, key-cutting and so on, plus customer service and Timpson's culture training. Much of the training is on the job and is supported by Timpson's bespoke training manuals.

Timpson is keen to encourage staff to develop and move up to the next level of training. Every time an employee achieves a higher level or a diploma in management, a bonus point is awarded. This emphasis on staff development is reflected by the changing performance focus in Timpson's. John Timpson explained: "My father used to tell me that if only we could sell one extra pair of shoes in each shop per day, we would have made a fortune. Now I tell my son, James and everyone that success would be assured if we had a good manager in every shop."

EXCELLENT PERFORMANCE THROUGH WORK ORGANISATION

Performance is driven by a network of area managers who are the key motivators for the shop staff and their business. These managers do not 'manage' in the traditional sense. Having picked the staff with the 'right' attitudes, the area manager is expected to support the shop staff in every way so that sales targets can be achieved. This means that the area manager has to have an in-depth knowledge of their shop staff, they need to reward and praise them, discuss problems, be a good listener, organise social events, support apprentice training, lead by example and so on. But most important of all, they must gain the respect of their staff.

The relationship between the area manager and the shop staff is one of the key performance drivers. Friday is the call day and the area manager is expected to call the shops and review the week's sales performance. Within Timpson how successful a shop is in reaching its target is interpreted as a reflection of the quality of the area manager's support for the shop.

A recent innovation at Timpson is the quarterly "Happy Index". This is an instrument that measures the 'mood' of shop staff by business area. As well as providing information on the morale of staff, the Index also provides a rough measure of the relationship between the area manager and the shop staff. Timpson regards this information as very useful in improving the manager-staff performance. John Timpson emphasised, "The biggest problem you can have in our business is when the area manager loses touch with the people. Yes, the area manager is in an absolutely critical position to look after the people."

PERFORMANCE DRIVER – PAY AND BONUS THROUGH COMPETITION

If you examine the content of the Timpson weekly newsletter the major emphasis is on ranking the sales performance of the previous week. Each business 'discipline', e.g. weekly sales, weekly profit of key-cutting, watch repairs etc., has a ranking of the top performers and there is also a yearly award event that formally recognises the top performers.

These practices have instilled a sense of informal competition within the organisation. It is always difficult to obtain sales figures for competitors, so in the absence of such information, internal sales figures serve a similar purpose.

To reinforce this performance driver, bonuses are paid out regularly whenever targets are exceeded. The targets are not set uniformly but interestingly, the target is proportional to the total wages in a particular shop. In some areas, the bonus is worth almost 80-90% of the basic wage.

The weekly sales figures are a key element of many of the performance systems at Timpson. "This is the great thing about the

retail business. You have got the sales figures every week. The performance is in front of you. No one can escape from that. So we know what's happening out there." As a result, Timpson has done away with the performance-related type of annual appraisal. The weekly sales figures make the performance appraisals redundant, though other forms of development-related meetings continue to take place between the area managers and the shop staff.

INNOVATION FROM EVERYTHING YOU DO

The nature of Timpson's business means that innovation often occurs in the day-to-day work environment. For John Timpson, innovation can be found everywhere if one cares to look. For example, he was curious about the exceptionally high level of sales for house signs in one area. John made a visit to the shop and noticed that the shop had simply positioned a freestanding display sign on the pavement outside the shop and as a result sales doubled in this shop.

In another instance, a shop had recorded an exceptionally high turnover in watch repairs soon after the service was launched. The shop's turnover was thirty times better than the lowest performer. John visited the shop and discovered that the increased sales were the result of the way staff talked to the customers.

For most of these examples, John then returned to the office and wrote a training course to communicate the idea through the business and this also reinforced how much he valued staff ideas. In fact, John Timpson writes a wide range of training manuals which are also used to communicate Timpson's attitude to business and its culture. These manuals serve many purposes. Firstly, they have bespoke training content specific to Timpson's own operation and market conditions. Secondly, they contain specific soft skills – e.g. customer focus and the Timpson culture on performance. Thirdly, unlike other organisations, Timpson relies on these training materials to communicate good practices to every shops up and down the country. These practices are clearly performance-oriented as well as being an innovation in their own right.

New ideas also come from a very different angle. For example, since 2004 Timpson has run a charity week and for every £10 in sales Timpson donates £1 to charity. As well as being an act of charity, the gesture is Timpson's direct approach to its customers in order to create a particular customer relationship. Since the scheme has been introduced the feedback from customers has been most positive.

At the technology level, new practices and innovation are often used as a means to tackle cost control. For example, the introduction of computer-assisted engraving has improved the quality and consistency of engraving products. More importantly, the technology increased sales because customers liked the products and Timpson estimated that sales went up by 50% in some areas. In order to introduce new technology, again, Timpson relies on its in-house training courses and self-learning materials so that skill training has the minimum impact on daily operations.

USING CHANGE TO ENHANCE PERFORMANCE AND LONG-TERM VIABILITY

At Timpson, new product lines have ensured continuing profitability and performance. A number of important products/services have been introduced in the last 10 years in addition to shoe repairs. As well as ensuring the survival of the business, Timpson uses these changes as opportunities to enhance its main performance driver – i.e. earnings and bonuses. "Because the bonus scheme is so important as a performance driver, we've got to keep giving our people more chance to earn more money. This is one of the drivers to develop the business," John Timpson explained. "The shoe repairs operation may not last another few years. The recent introduction of locksmiths and jewellery operations are good examples of what we have to do for our people." The new operations allow staff to develop new skills and maximise their level of income.

In an interesting kind of way, the owner of the company is constantly seeking ways to safeguard the company's long-term competitiveness and viability, but the starting point is the welfare of its employees.



CASE STUDY W L GORE

Service/Product: **Gore-Tex manufacturer**

Turnover: **£26m**

Size of the workforce: **426 employees**

Earning £35,000 p.a.: **Not disclosed**

Famous for: **Inventing world-renowned high-performance fabrics for leisure, industrial, electronic and medical purposes**

The business strategy: **Delivering continuous innovation by turning management principles on their head**

High performance learning points:

- Unique form of work organisation designed to support employee collaboration and creativity;
- Leaders replace managers to deliver high levels of innovation;
- Use of informal communication to achieve high levels of trust;
- Use of 'sponsors' to facilitate continuous development and training and achieve a close link between personal development and organisational needs;
- Remuneration system based on 'peer' evaluation;
- Uses strong organisational culture to underpin everything that the company does.

Delivering continuous innovation by turning management principles on their head

INDUSTRIAL CONTEXT AND BUSINESS STRATEGY

This is the story of the UK branch of a US multi-national company that for the last three decades has achieved continuous innovation in its products. Starting with its unique textile, Gore-Tex, for which it is best known, the company has created new fluoropolymer products by sustained

creative research and development and through getting close to their customers and exploring new ways of satisfying their needs. They have developed new products for next-generation electronics, for medical implants as well as high-performance fabrics, "we provide the marketplace with differentiated products that add value to the customer's business and make a profit", Ann Gillies, the

Human Resource Manager at Gore commented. So confident are they of their ability to sustain innovation that they have a policy of moving out of product areas once their patents expire and other companies start to compete on the basis of price, to devote their creative energies to developing new products. In this organisation, change is the only constant. Their success is measured not just by the ability of the company to make a profit but also by the number of patents they register.

TURNING MANAGEMENT PRINCIPLES ON THEIR HEAD

All this and more has been achieved through the inversion of traditional management principles. This has been done so thoroughly that at Gore there are no managers, no job descriptions, no bosses to tell you what to do, just associates and leaders. Whereas in a conventional company an employee does what he or she is told to do, at Gore their associates do what is needed to make the whole organisation successful. In this organisation no one can release you to work on a project because there is no fixed job to be released from. At Gore you are not paid to do a job. You are rewarded for the contribution. Your colleagues see you making the success of the business. At Gore, you are not allocated to a position of authority over others. You achieve leadership by convincing others of the quality of your ideas and your contribution to the goals of the business. This is how it is possible that 50% of employees, when asked in an independent survey, described themselves as leaders.

How has this been achieved? How is it possible that half of all employees see themselves as leaders? In part it is through applying the lessons learnt by the founder Bill Gore, from his experience at DuPont. He identified four guiding principles for work organisation in the company:

- Fairness to each other;
- Freedom to encourage people to grow in knowledge and responsibility;
- The ability to make commitments and keep them; and
- Consultations with others in the company before undertaking actions that would affect the reputation of the company.

These principles are followed in all the local plants and operations.

BUILDING TRUST AND WORKING THROUGH TEAMS

In the UK, these principles provide the basis for building extremely high levels of trust within the company between all the associates and leaders that comprise it. These are manifest in the way in which work is organised, in the way in which learning is supported, the ways in which work is rewarded and in the unique way in which knowledge is shared, decisions made and communication is fostered. All this requires that substantial skills are built up among staff at all levels. Together these create a powerful sense of identification with the company and attachment to its values. From this flows a high level of performance in the form of constant innovation.

One of the keys to this form of work organisation is the fact that the operating units are kept small, ideally between 150 and 170 associates. All are members of multi-disciplinary teams, for example, an HR team, teams of engineers, manufacturing teams, but these are constantly changing in terms of their composition. Some are global in their membership, such as the IT team and the leadership team in fabrics, the latter being made up of a German, American and UK person. Most teams are local in that if a person comes up with the idea for a new product, say in connection with motorcycle clothing, then he or she takes on the leadership of that team, followed by others who have an interest or specialist knowledge in the area. The result is that teams are constantly changing, creating an organisation that takes on an amoeba-like quality.

Members of the team determine their objectives, their mode of operating and their composition. If a person wishes to join a new team, because they are interested in the idea and feel they would like to contribute to it, then they discuss their commitments to their core team with other members and sort how their commitments can be met while freeing time for their involvement in the new team.

These teams are linked through networks which ensure that all associates are aware of what is going on in the company. This requires considerable communication, hence the need to keep the size of the units small. In this context Gillies explains: "It's really important that you know who's doing what because it changes all the time. That's the core of the things that we advise new people early on to do, is to build a network and know who does what so that you know who to ask and to have your questions answered". To this end all new recruits are required to undergo a training course on listening and communication skills.

Teams are led by leaders, but there are many, many different kinds of leaders. "Some are leaders of projects, some are teams of leaders, some leaders of countries ... but the difference in our organisation is 'you are only a leader if you have followers'. And people will only follow you because they respect your knowledge and your skill and you have a bit of a vision, so you need to have followers." Gillies emphasises. It is the leader that focuses on achieving the objectives of the group and co-ordinates the activities of team members. Leaders do not command, they facilitate the achievement of objectives. However, all the members of the team will have an intimate knowledge of the products they are working with. Such teams can have a short life or a long life depending on the progress of the project or the core activities of the team.

DEVELOPING THE PEOPLE

The continuous development of people is crucial to the achievement of team objectives and to sustained creative innovation. This is ensured through the activities of sponsors. These are chosen by the associate, and their function is to help develop the person within the organisation. This is done through helping them to network within the organisation, to acquire appropriate skills and enhance their performance. The sponsors help the associate pull together a development plan and obtain feedback from colleagues to identify areas for further development.

When it comes to personal motivation, the fundamental belief is that people want to do well, that they "don't skive", that if you

create the right conditions they look forward to coming to work and that they are driven by being part of a team where they feel good about themselves. In this context, W.L. Gore minimises the number of rules. It relies on the individual associate to identify and act on what is best for the achievement of company objectives. For example, when it comes to bereavement leave, guidelines are weak on the basis that some people may need five weeks off for the death of a near relative whereas others who had a more distant relationship with a relative would only need a day or so. The belief is that in these, and similar circumstances, the individual concerned is best placed to make the decision. As the associates are highly committed to meeting organisational objectives and have the knowledge to do so, there is literally no need for written rules. The rules form part of the conscience of the associate.

In circumstances such as this, where individuals are relied on to exercise their own judgment, often after consultation with colleagues, it is crucially important not only that staff are highly skilled and well informed but also that the links between individual achievements and business performance are transparent. At Gore, this is achieved through a system of payment that is 100% performance related. Thus, when it comes to determining individual earnings, these are a result of a process of evaluation conducted by colleagues. They are asked to rank each other in terms of their respective contribution to company performance and that then determines their earnings. In addition, any money the company makes above its agreed objectives is shared amongst all associates globally. Each associate also has a stock option which represents a proportion of their earnings. In this way the commitment of the associate towards the success of the company is rewarded directly and unambiguously. In order to ensure that the resultant pay is competitive, each year the pay of a number of associates, from a range of roles and functions, is compared with peers in other companies.

SHARING VALUES

In a company such as this where tremendous trust is shared between all, it is

also important that those entering the company should share the same values. Recruitment is therefore about securing people who are able to accept responsibility, have strong communication skills, are able to influence others and, crucially, who will share knowledge and have a team approach. This means that it is the success of their team that is seen as crucial rather than their personal success. Formal recruitment processes are kept to a minimum, but considerable care is taken to ensure that, once employed, the new associate has the support required to become fully acquainted with the new culture. All recruits enter an induction programme and all are required to follow a course in communication and listening skills, as these form the bedrock of the company culture. For the company, the process is seen to have failed in those circumstances where “a person needs to be told what to do.”

MAKING INNOVATION THE NORM

The focus on innovation within the company is all-encompassing. New information technology is exploited to the full and used in all areas. In sales, it is used to ensure that anyone in the company can see what is in the pipeline. In manufacturing, it is used to make the processes more efficient, while in materials handling it has been used to automate the process. In addition, the company have implemented Kaizan and similar management techniques. However, what is distinctive here is that there are no management programmes involved, instead, continuous improvement is at the core of what all the teams are engaged in, namely identifying bottlenecks and constraints, identifying what needs to be done differently. The drive comes from the teams themselves, not from externally imposed practices and pressure. All targets are set by the teams themselves, by the people affected by them. However, care is always taken to ensure they are balanced, for example, to ensure that if you focus only on on-time delivery that you do not run into problems with quality.

MAINTAINING THE CULTURE

The implementation of these practices has not been without problems. When they built a new plant some time ago and staffed it with new external recruits, they ran into

problems, “The effect of building this plant and having all these outsiders joining our company started to have a detrimental affect on the bottom line ... effectively, the introduction of a group of new staff from outside the Gore culture was diluting its impact.” To re-establish the Gore culture, they brought over established Gore staff from the US and Germany, and together with key local Gore staff they undertook cultural training, to show how the Gore culture worked.

They learnt from this and since then every effort has been put into sustaining the culture. Gillies explains, “We really believe that our culture energises associates. Energised associates make effective teams, effective teams make business results, business results need effective teams ...” and so on. The maintenance of the culture is therefore seen as intrinsic to sustained business success and central to their everyday activities rather than a separate change management project.

To secure their success in creating an organisation dedicated to continuous product innovation, Gore has implemented a set of high performance practices that have turned traditional management practices on their head. By nurturing trust, their practices have ensured that all associates are fully committed to the values and objectives of the company. Central to this is the sharing of knowledge in pursuit of group objectives.

Equally central is the abandonment of management directives and their replacement by constant communication within and between teams on the use of best practice to achieve these objectives. Together these generate a perpetual search for improvements and new ideas.

As reported in *The Sunday Times 100 Best Companies to Work For 2004* survey, in this type of environment almost 90% of staff believe that they make a valuable contribution to business success while 86% believe that they can make a difference at the company. This high performance workplace provides the basis for continuous innovation and success.

Conclusion

The case studies and the survey have generated a number of learning points. Firstly, they demonstrate a strong link between organisational success and the use of HPWPs.

These case studies show that these practices can be implemented in a number of different ways so long as the following principles are followed:

- That senior management leads the process and develops a strong supporting culture;
- That the appropriate people management policies are consistently and effectively applied;
- That the high performance organisational practices are clearly linked to organisational objectives and business goals.

Paying attention to these factors is very important in making the link between performance and the day-to-day operation of the organisation. In this respect, every organisation has the opportunity to becoming a HPWO.

Secondly, the case studies have demonstrated that you do not have to be only a successful organisation to “afford” high performance practices. They show that many HPWPs do not have significant cost implications, and that in the majority of cases it was the adoption of HPWPs that created a HPWO, not the prior financial successes of the company. Nevertheless, it still remains true that in many cases, having created the HPWO, HPWPs do become the tools through which an organisation’s competitive edge is maintained and improved.

Thirdly, our case studies also show that when a specific combination of practices is working well, the company may not need to adopt additional practices; to do so may just entail a waste of effort. A good example is Timpson, which does not have formal appraisals.

Fourthly, there is no ‘one best way’ or ‘one best set of practices’; this is not a tick-box approach. The crucial component is the business strategy, because this underpins the choice of practices, the way they are implemented and their effectiveness in improving performance. It is the business strategy that gives the high performance working practices their dynamism and provides the framework against which performance can be evaluated and improved.

The findings also suggest that the choice of which bundle of practices to use in order to achieve a given organisational outcome or objective is influenced by the type of sector in which the organisation or company is operating. Some bundles of practices are more effective in particular industrial sectors than others.

Similarly the case studies provide a number of interesting lessons on skills and how skills operate in the context of a HPWO. In HPWOs skills development is very focused on achieving specific business outcomes and levels of performance. In none of the case studies were the organisations developing skills for the sake of skills. The case studies show that all employers expect more than technical skills from their employees.

In most of the case studies, training and continuous development was regarded as a given, and so it is not a matter of HPWOs training more. As we have strived to point out in a HPWO, it is more important to focus on training that is linked to performance requirements rather than on the quantity of training. Furthermore, tacit skills and institutional knowledge are relatively more important than technical skills in many of the

HPWOs studied. So in a HPWO, skills policy is about creating a work environment in which employees can learn all the time as part of their normal work and where they can take advantage of the system to improve performance and innovation.

Finally, a high performing workplace is not about instant success but about long-term viability. All the case studies show that HPWPs need time to establish, nurture and improve. However, once established, HPWPs are capable of producing a range of business benefits, ranging from reduced staff turnover, to higher levels of innovation, better quality goods and services and enhanced competitiveness.

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⁷ The ILO has made this book freely available to the public. For a free copy, please email Johnny Sung at johnny.sung@leicester.ac.uk

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