High-Performance Work Practices and Sustainable Economic Growth

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The Obama Administration plan for supporting long-term, sustainable economic growth calls for significant investments in key industries such as infrastructure, renewable energies, health care, and perhaps others yet to be identified. A large and growing body of evidence demonstrates that achieving a return on these investments requires a matching workforce-development and workplace-innovation strategy. This memo reviews that evidence and suggests the need to link workforce/workplace strategies directly to macroeconomic and industry-specific investment policies.

Impact of High-Performance Work Practices

Different labels have been used describe this research, including high-performance work systems, high-commitment work systems, high-involvement work systems and high-performance human resource management.[1] Their common thread is that achieving and sustaining high levels of performance requires a positive workplace environment and practices that develop and leverage employees' knowledge and ability to create value. While the specific practices need to be tailored to fit different industries and occupations, they generally include selection, training, mentoring, incentives, knowledge-sharing, partnership-based labor-management relations and other shared decision making mechanisms.[2] These practices are most effective when they are implemented together and in concert with new capital or technological investments.[3]

Researchers have documented the impact of high-performance work practices on efficiency outcomes such as worker productivity and equipment reliability;[4] on quality outcomes such as manufacturing quality,[5] customer service, and patient mortality;[6] on financial performance and profitability;[7] and on a broad array of other performance outcomes.[8] Although some studies have found mixed results regarding performance differences associated with these work practices,[9] many other studies have found that these work practices explain significant performance differences among auto assembly and parts plants, steel mills and finishing lines,[10] call centers,[11] airlines,[12] banks,[13] health care clinics and hospitals,[14] and high technology firms.[15] The magnitude of the effects is substantial, with performance premiums ranging between 15 percent and 30 percent.

How High-Performance Work Practices Work

High-performance work practices have been shown to work in three different ways: (1) fostering development of *human capital*, creating a performance advantage for organizations through processes such as increased employee skill development and improved customization by employees in service industries;[16] (2) enhancing the *motivation and commitment* of employees, creating an organizational and labor-management climate that motivates and supports employee

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engagement in problem solving and performance improvement;[17] and (3) building organizational *social capital*, which facilitates knowledge sharing and the coordination of work, and thus improves performance.[18] Research in settings ranging from public schools to airlines has demonstrated the added benefits to be realized when work practices encourage the simultaneous development of human capital and social capital among employees.[19]

The Role of Unions in Implementing High-Performance Work Practices

Neither highly adversarial battles over union organizing nor ongoing adversarial labor-management relations are conducive to implementing and sustaining high-performance work practices or achieving positive results. However, labor-management partnerships based on mutual respect for worker, union, and employer rights and responsibilities have been shown to achieve high performance by facilitating employee participation and related high-performance work practices and by creating social networks within and across organizations.[20] In particular, the presence of a union is positively associated with a greater number and greater effectiveness of high- performance work practices.[21] Furthermore, a combination of formal and informal mechanisms for employee voice has been found to improve the productivity effects associated with implementing high-performance work practices compared to implementing the same practices with just informal voice mechanisms or no employee voice.[22]

Workforce Benefits

Workers benefit from adoption of high-performance work systems in three well-documented ways: (1) their human and social capital and therefore their market value are increased by the technical and problem-solving training built into these systems; (2) more than 70 percent of workers prefer these work systems over either traditional union or non-union systems; and (3) when combined with union representation, these work systems tend to be associated with higher wages, some of which are achieved through mutual gain-sharing or similar compensation practices.[23]

Conclusions and Policy Recommendations

The research evidence that employers, employees, shareholders, and customers can simultaneously benefit from work practices that enhance worker motivation, human capital, and social capital is robust across a wide range of industries. At the same time, such practices cannot be implemented in a "cookbook" manner but instead must be tailored to particular industries and work settings. The evidence is clear-cut: achieving and sustaining world-class levels of performance requires an integrated approach to capital investment, investment in and introduction of new technologies, and implementation of high performance workplace practices tailored to the specific industry and technology. Policymakers can support the development and widespread adoption of such practices by linking them directly to economic or technological investments that are made to support a sustainable path for economic growth. To ensure that high- performance work practices diffuse more broadly across the economy and produce benefits for both employers and employees, we propose that these efforts be sponsored jointly by the Department of Commerce and the Department of Labor.

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