

The Secret of High Performance Organizations

André A. de Waal

ABSTRACT

In the past few decades organizations all over the world have been searching for the elements that constitute continuous organizational success. Fuelled by bestsellers such as *In Search Of Excellence* and *Good to Great*, managers have been trying out many different improvement concepts, often with mixed results. The aim of this study was to identify the factors that determine the continuous success of a high performance organization (HPO). A meta analysis of 280 research studies into high performance initially identified 35 characteristics of a HPO. These were subsequently used in a case study at a large financial service provider, to identify its HPO status and the improvements needed to become a real excellent organization. The results of the study show that it is possible to identify factors that determine continuous organizational success, and that managers can be offered a framework that adds focus to improvement

Keywords: high performance organizations, HPO, management quality

Introduction

Ever increasing demands of stakeholders force organizations to adapt faster to growing international competition and to compete simultaneously on the basis of price, quality, flexibility, delivery times, and after-sales support (Kasarda and Rondinelli, 1998). They are pressured into defining the elements that make up high performance, as there is a growing consensus that effective approaches to management offer organizations competitive advantage (Lawler, 2003). In the wake of the landmark book *In Search of Excellence* (Peters and Waterman, 1982) and the more recent bestsellers *Built to Last* (Collins and Porras, 1994) and *Good to Great* (Collins, 2001), managers have developed a strong interest in learning the characteristics of high performance to help them in their quest for excellence. Identifying these characteristics is of paramount importance because clients of organizations are becoming more demanding and at the same time more dissatisfied with the performance of the organizations. In this day and age of increased importance of tailoring to consumers' needs, organizations cannot afford bad interactions with their clients. In addition, organizations not only need to become better but even more difficult ... stay better for a long period of time. As every sportsperson can tell you: "It ain't that difficult to get to the top, staying there is the hard part." So the search is on for the factors that do not cause a one-time good result but stress sustainable high performance. For this, I took a long and in-depth look at the so-called high performance organizations (HPOs).

Until now there has been no generally accepted name or definition of HPOs, and in the literature the HPO is often referred to as the accountable organization, the adaptive enterprise, the agile corporation, the flexible organization, the high performance work organization, the high-performance work system, the high reliability organization, the intelligent enterprise, the real-time enterprise, the resilient organization, the responsive organization, the robust organization, and the sustainable organization. In many publications a HPO is described in terms of achievements or attributes of the organization, such as having strong financial results, satisfied customers and employees, high levels of

individual initiative, high productivity and innovation, aligned performance measurement and reward systems, and strong leadership (Epstein, 2004). One way of achieving uniformity of definition is to identify common themes in the literature and incorporate those into a single, all-encompassing definition. In Some of the common themes found after studying the literature were: sustained growth; better financial and non-financial performance compared to its peer group; long-term orientation; better results over a period of at least five years. Taking the common themes as a starting point, the following definition of HPO was formulated: *A high performance organization is an organization that achieves financial and non-financial results that are better than those of its peer group over a period of time of at least five to ten years* (Waal, 2006, 2007).

It pays to be a high performance organization

To find out ‘the secret’ of high performance organizations, I undertook a five year study into the characteristics which are part of all excellent organizations worldwide *and* can be influenced by managers so they are able to take targeted actions to start achieving superior results. The research involved examination of over 280 publications on studies performed in the last 30 years in the area of high performance. The common themes that were found were tested in a worldwide survey executed at over 2500 profit, non-profit and governmental organizations.¹ I first identified how much better HPOs perform than non-HPOs. Table 1 gives the differences in financial performance for both types of organizations when comparing the data given in the 230+ studies. It clearly shows that HPOs achieve better to much better financial results than non-HPOs, year in year out. In the area of non-financial performance HPOs show similar results: they achieved much higher customer satisfaction, customer loyalty, employee loyalty, and quality of products and services than their less able counterparts. In short, it pays to be a HPO!

Types of performance	Financial results of HPOs compared to those of non-HPOs (in %)
Revenue growth	+ 10
Profitability	+ 29
Return On Assets (ROA)	+7
Return On Equity (ROE)	+ 17
Return On Investment (ROI)	+ 20
Return On Sales (ROS)	+ 11
Total Shareholder Return	+ 23

Table 1: Financial results of HPOs compared with those of non-HPOs

The statistical work I performed on the survey data (see appendix for more details) identified 35 characteristics in five factors which determine whether an organization becomes and stays a HPO or not (Table 2). An analysis of each of these factors is given in the following sections.

¹ Detailed information on the 280 studies and the statistical work can be obtained from the author.

<u>Continuous improvement</u>
<ol style="list-style-type: none"> 1. The organisation has adopted a strategy that sets it clearly apart from other organisations. 2. In the organisation processes are continuously improved. 3. In the organisation processes are continuously simplified. 4. In the organisation processes are continuously aligned. 5. In the organisation everything that matters to performance is explicitly reported. 6. In the organisation both financial and non-financial information is reported to organisational members. 7. The organisation continuously innovates its core competencies. 8. The organisation continuously innovates its products, processes and services.
<u>Openness and action orientation</u>
<ol style="list-style-type: none"> 9. Management frequently engages in a dialogue with employees. 10. Organisational members spend much time on communication, knowledge exchange and learning. 11. Organisational members are always involved in important processes. 12. Management allows making mistakes. 13. Management welcomes change. 14. The organisation is performance driven.
<u>Management quality</u>
<ol style="list-style-type: none"> 15. Management is trusted by organisational members. 16. Management has integrity. 17. Management is a role model for organisational members. 18. Management applies fast decision making. 19. Management applies fast action taking. 20. Management coaches organisational members to achieve better results. 21. Management focuses on achieving results. 22. Management is very effective. 23. Management applies strong leadership. 24. Management is confident. 25. Management is decisive with regard to non-performers.
<u>Workforce Quality</u>
<ol style="list-style-type: none"> 26. Management always holds organisational members responsible for their results. 27. Management inspires organisational members to accomplish extraordinary results. 28. Organisational members are trained to be resilient and flexible. 29. The organisation has a diverse and complementary workforce.
<u>Long term orientation</u>
<ol style="list-style-type: none"> 30. The organisation maintains good and long-term relationships with all stakeholders. 31. The organisation is aimed at servicing the customers as best as possible. 32. The organisation grows through partnerships with suppliers and/or customers. 33. Management has been with the company for a long time. 34. The organisation is a secure workplace for organisational members. 35. New management is promoted from within the organisation.

Table 2: The five HPO factors with their 35 characteristics

HPO factor 1: High Management Quality

The first and foremost factor is the quality of management of the organization. In a HPO management combines many characteristics. It maintains trust relationships with people on all organizational levels by valuing employees' loyalty, treating smart people smart, showing people respect, creating and maintaining individual relationships with employees, encouraging belief and trust in others, and treating people fairly. Managers of a HPO live with integrity and are a role model by being honest and sincere, showing commitment, enthusiasm and respect, having a strong set of ethics and standards, being credible and consistent, maintaining a sense of vulnerability and by not being self-complacent. They apply decisive, action-focused decision-making by avoiding over-analysis but instead coming up with decisions and effective actions, while at the same time fostering action-taking by others. HPO management coaches and facilitates employees to achieve better results by being supportive, helping them, protecting them from outside interference, and by being available. Management holds people responsible for results and is decisive about non-performers by always focusing on the achievement of results, maintaining clear accountability for performance, and making tough decisions. Managers of a HPO develop an effective, confident and strong management style by communicating the values and by making sure the strategy is known and embraced by all organizational members.

HPO factor 2: Openness coupled with Action Orientation

The second factor concerns characteristics that not only create an open culture in the organization but also focus on using the openness to take dedicated action to achieve results. Management values the opinion of employees by frequently engaging in a dialogue with them and by involving them in all important business and organizational processes. HPO management allows experiments and mistakes by permitting employees to take risks, being willing to take risks themselves, and seeing mistakes as an opportunity to learn. In this respect, management welcomes and stimulates change by continuously striving for renewal, developing dynamic managerial capabilities to enhance flexibility, and being personally involved in change activities. People in an HPO spend much time on communication, knowledge exchange and learning in order to obtain new ideas to do their work better and make the complete organization performance-driven.

HPO factor 3: Long Term Commitment

The third factor indicates that long-term commitment is far more important than short-term gain. And this long-term commitment is extended to all stakeholders of the organization, that is shareholders but also employees, suppliers, clients and the society at large. A HPO continuously strives to enhance customer value creation by learning what customers want, understanding their values, building excellent relationships with them, having direct contact with them, engaging them, being responsive to them, and focusing on continuously enhancing customer value. A HPO maintains good and long-term relationships with all stakeholders by networking broadly, being generous to society, and creating mutual, beneficial opportunities and win-win relationships. A HPO also grows through partnerships with suppliers and customers, thereby turning the organization into an international network corporation. Management of a HPO is committed to the organization for the long haul by balancing common purpose with self-interest, and teaching organizational members to put the needs of the enterprise as a whole first. They grow new management from the own ranks by encouraging people to become leaders, filling positions with internal talent, and promoting from within. A HPO creates a safe and secure workplace by giving people a

sense of safety (physical and mental) and job security and by not immediately laying off people (until it cannot be avoided, as a last resort).

HPO factor 4: Focus on Continuous Improvement and Renewal

The fourth factor is very much in line with a trend which has been keeping organizations busy for the past two decades: continuous improvement and innovation. This starts with a HPO adopting a strategy that will set the company apart by developing many new options and alternatives to compensate for dying strategies. After that, the organization will do everything in its power to fulfill this unique strategy. It continuously simplifies, improves and aligns all its processes to improve its ability to respond to events efficiently and effectively and to eliminate unnecessary procedures, work, and information overload. The company also measures and reports everything that matters so it rigorously measures progress, consequently monitors goal fulfillment and confronts the brutal facts. It reports these facts not only to management but to everyone in the organization so that all organizational members have the financial and non-financial information needed to drive improvement at their disposal. People in a HPO feel a moral obligation to continuously strive for the best results. The organization continuously innovates products, processes and services thus constantly creating new sources of competitive advantage by rapidly develop new products and services to respond to market changes. It also masters its core competencies and is an innovator in them by deciding and sticking to what the company does best, keeping core competencies inside the firm and outsourcing non-core competencies.

HPO factor 5: High Workforce Quality

Complementary to the first factor high management quality, the fifth factor addresses workforce quality. A HPO makes sure it assembles a diverse and complementary management team and workforce and recruits a workforce with maximum flexibility, to help detect the complexities in operations and to incite creativity in solving them. A HPO continuously works on the development of its workforce by training them to be both resilient and flexible, letting them learn from others by going into partnerships with suppliers and customers, inspiring them to work on their skills so they can accomplish extraordinary results, and holding them responsible for their performance so they will be creative in looking for new productive ways to achieve the desired results.

The good news

The HPO study shows that there is a direct relation between the HPO factors and competitive performance. Organizations which pay more attention to HPO factors and score high on these consistently achieve better results than their peers, in every industry, sector and country in the world! Conversely it is also true that organizations which score low on HPO factors rank performance-wise at the bottom of their industry. The difference between HPOs and non-HPOs is particularly significant in the case of HPO factor Long Term Commitment: HPOs pay considerably more attention to the designated aspects of long-term commitment than non-HPO organizations, and are therefore able to improve their performance significantly.

Closer analysis of the study results show that the five identified HPO factors are interrelated. This means that when an organization starts working on improving one of the HPO factors, the other factors will also be improved. Together however, the five HPO

factors do not constitute a generic recipe as there may be significant differences for individual organizations. For instance organizations in the profit sector need to focus on all five HPO factors to become and stay an HPO, where as non-profit organizations need to concentrate initially on three HPO factors (Openness and Action Orientation, Long Term Commitment, and Continuous Improvement) and governmental agencies need to focus specifically on Management Quality. There are also differences between industries. For instance organizations in the Financial Services industry need to first pay attention to improving Management Quality, then Long Term Commitment, then Continuous Improvement and finally Workforce Quality; while Healthcare should first focus on Continuous Improvement and then on Management Quality. It is important that management knows which factors are most important for their industry before starting the journey to become a HPO.

But ... what is not important?

It is interesting to see what techniques and methods do not help an organization in becoming a HPO. There are many things that managers traditionally considered important which turn out to be non-distinctive for becoming a HPO. For instance, none of the organizational designs and structures examined showed a relation with high performance and therefore are not a prerequisite to make an organization a HPO. It makes thus no real difference whether management chooses a functional design, a process design or a matrix design. Consequently, starting a reorganization to boost performance seems not ideal. Similarly more empowerment of staff may not necessarily contribute to high performance. The research results show that a high level of autonomy has a negative relation with competitive performance. Too much freedom of employees can lead to internal disorder and confusion if it is not backed up with sufficient means of coordination and can seriously damage an organization.

Another interesting outcome of the research is that organizational strategy plays a relatively unimportant role in becoming a HPO. It does not make much difference whether the company's strategy focuses on cost leadership, product differentiation, customer intimacy or a combination of these; the distinctive factor is the uniqueness of the strategy compared to competitors in the same industry. Adopting merely a 'me-too' strategy is not enough to become a HPO. The analysis of the HPO survey showed that when the characteristics of strategy and management quality are compared, the latter proves far more important to the success of an organization. A team of good people can achieve anything it wants, while an organization with a clear and well-defined strategy but without the right people to execute it is bound to go nowhere.

A third, perhaps surprising research outcome is the relative unimportance of technology and in particular information and communication (ICT) in becoming a HPO. Many organizations spend a lot of time and resources on implementing new ICT systems but this will not make them HPOs. Although many of the characteristics (especially of continuous improvement) cannot or barely be improved without ICT systems, the implementing of new systems and technology itself does not necessarily help the organization perform any better, the implementation has to support at least one of the HPO factors. Finally, the study showed that benchmarking is less effective than expected. When an organization embarks on a benchmarking project it usually aims to identify best practices, emulate these and attain the same level as on a par with the industry's best. HPOs, however, have a completely different view on best practices. They regard competitors' best performance merely as the baseline for performance, a starting point from which HPOs distance themselves as much as possible.

HPO knowledge in practice

The significance of this study into HPOs is that once management knows the HPO factors it can determine the HPO status of the organization. This can be done by distributing a questionnaire among managers and other staff which examines the HPO characteristics of the organization by means of a rating system. One of the first companies to do this was a division of a large financial service provider. Over 500 employees filled in the questionnaire, awarding marks to their organization for 35 organizational characteristics. The scores were calculated and averaged, to give the HPO status of the company as depicted in Figure 2.

When the scores of the company were compared with those of the top 3 of best performing financial service providers in the HPO database, it became clear that the organization still had to improve considerably on all factors to achieve the top 3 performance level. When looking into the scores of the HPO characteristics, a number of improvement themes could be identified. First, the resoluteness of decision-making and action-taking by management and the effectivity of management needed improvement. At the same time, there had to be less distance between management and employees so they could really work on building relationships on trust, making it possible to start coaching and guiding people towards better performance. Management also had to involve employees more in important business processes, especially the decision-making process. Employees on the other hand had to spend more time on training, increase their flexibility and resilience, and interact more with each other and with external parties (suppliers, customers) to share knowledge and experiences and improve the information flow in and out of the company. This required better process management and performance management in order to continuously improve and align business processes and make information on the status of these processes freely available. As a logical consequence, the organization had to pay more attention to renewing itself, in particular focusing on developing a unique strategy, products and services.

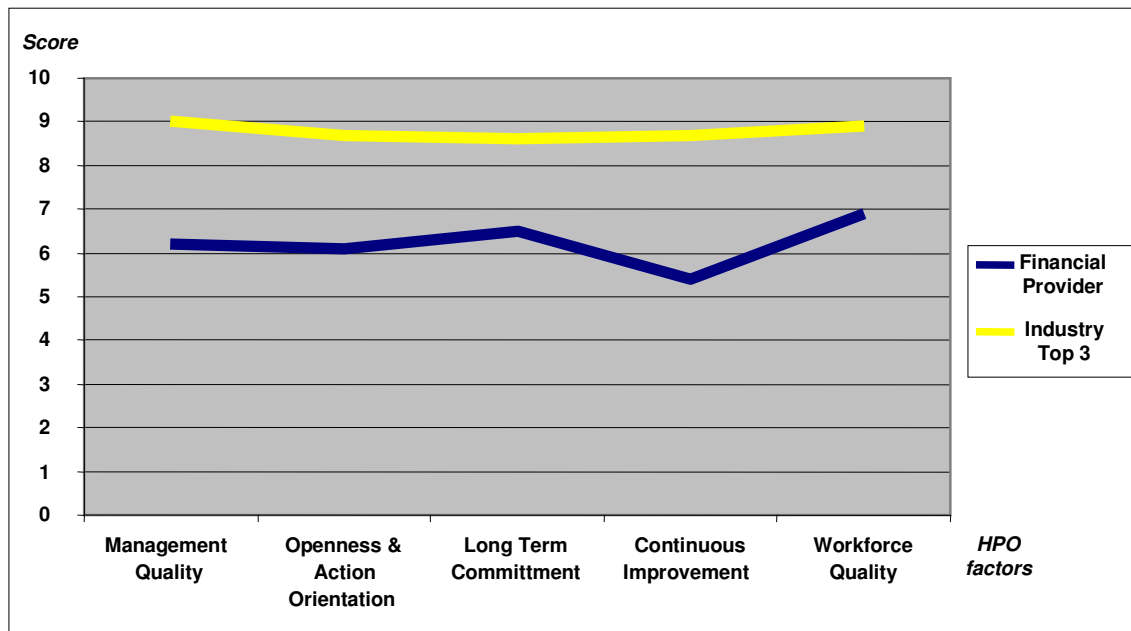


Figure 2: HPO status of a large financial service provider, compared to the averaged score of the Top 3 financial service providers

Company management discussed the HPO scores and the improvement themes at length, also with employees, and especially talked about whether the organization wanted to be a HPO in the first place, and if so, whether it should start the transition in a single division or company-wide. Management decided to start the HPO transition as a pilot in one division by addressing the biggest 'dip' in the HPO graph (see Figure 2) through several improvement projects in the area of process management. This was done to obtain experience with the improvement process and to raise awareness throughout the organization of the current HPO status and improvements needed. This prepared managers' and employees' minds for the impending, and necessary transition. After all, the new strategy of the company was to become "the best financial provider and preferred supplier for customers within the next five years", something which could not be achieved without working on becoming a HPO.

Conclusion

This study into HPOs shows what makes an excellent organization. Because the research is so wide-ranging and thorough - it encompasses not only structural but also the behavioral aspects of management and external and environmental circumstances and has been conducted worldwide - it provides a unique insight into what makes a truly great organization tick. In addition, the research results not only allow an organization to determine its HPO status, they also are the foundation for an action agenda listing the improvement efforts for the next periods. In this respect, managers can immediately start 'upgrading' their organization. It should be kept in mind however that, because organizations and environments are continually evolving, improvement ideas and practices need to be adapted to the times. What matters is the right managerial practice, exploiting the right business drivers to adapt to and shape the conditions facing a business over time (Strebel, 2003). If this is not done, organizations run the risk of meeting the same fate as many organizations characterized as excellent in the past. Their performance foundered in the years after they had been denominated as examples of excellence. (Manzoni, 2004). HPO managers are flexible and creative enough to not let such a downfall happen so that they can make and keep their organization world-class.

Appendix

The basis for the research described in this article is an extensive literature search of both scientific and professional publications. The criteria for including studies in the comparison were: (1) the study focused specifically at identifying HPO characteristics in certain aspects of business (such as processes, human resources, or technology) which are explicitly linked to achieving high performance; (2) the study consisted of either a survey with a sufficient number of respondents so that its results can be assumed to be (fairly) representative, or of in-depth case studies of several companies so the results are at least valid for more than a single organization; and (3) the written documentation contains an account and justification of the research method, research approach and selection of the research population, a clear analysis, and clear retraceable conclusions and results, so the quality of the research can be assessed. No distinction was made in the industries of the organizations studied or the countries where these companies were established. These distinctions could be the topic of further study. Based on the described criteria, the literature search yielded 280 studies which satisfied the criteria completely or partly. Three types of studies were distinguished: (A) a study which satisfies all three criteria, these studies formed the basis for the identification of HPO characteristics; (B) a study which satisfies criteria 1 and 2 but only partly criterion 3,

because although the research approach seems (fairly) thorough there is no clear description and justification of the method used, these studies formed an additional input to the identification of HPO characteristics; and (C) a study which basically satisfies criteria 1 and 2 but not criterion 3, so there is no basis for generalizing the study findings, these studies were used as further support for HPO characteristics identified in category A and B studies.

The method used to identify the HPO characteristics is as follows. For each of the literature sources, the elements the authors give as being important for becoming a HPO are identified. These elements were transferred to a matrix in which they were classified in one of the factors of the framework. Because every author used a different terminology in his study, the elements were grouped into categories within each factor. Subsequently, a matrix per factor was constructed in which each category constitutes a characteristic. For each of the characteristics the 'weighted importance' was calculated, i.e. the number of times it occurred in the various study types. Finally, the characteristics which had a weighted importance of at least 100 points were chosen as the HPO characteristics that potentially make up an HPO, because these characteristics can relatively be found the most in the HPO-studies. The research method and its results were discussed and validated by a fellow professor of Cranfield University, United Kingdom.

The potential HPO factors found during the literature search were included in a survey which was administered worldwide and which yielded more than 3200 responses. In this survey the respondents indicated how good their organizations were on the various HPO characteristics (on a scale of 1 to 10) and also what their organizational results were compared to their peer group. This competitive performance was calculated with two formulas: (1) Relative Performance (RP) versus competitors: $RP = 1 - ([RPT - RPS] / [RPT])$, in which RPT = total number of competitors and RPS = number of competitors with worse performance; (2) Historic Performance (HP) past five years versus competitors (choices: worse, the same, or better). This subjective measure of organizational performance has been shown to be a good indication of real performance (Dawes, 1999; Devinney et al., 2005; Dollinger and Golden, 1992; Glaister and Buckley, 1998; Heap and Bolton, 2004; Wall, 2004). With a statistical analysis (both correlation and factor analysis) the factors which had the strongest correlation with organizational performance were extracted and identified as HPO factors. In the first step of the statistical analysis a principal component analysis with oblimin rotation was performed. This confirmed the grouping of HPO characteristics in HPO factors. The factors were then put in a non-parametric Mann-Whitney test to identify which ones had a statistically significant correlation with competitive performance. The correlation was as expected: the high-performing group scored higher on the five HPO factors than the less well-performing group. This means that organizations that pay more attention to these HPO factors achieve better results than their peers, in every industry, sector and country in the world. Conversely, organizations which score low on HPO factors rank performance-wise at the bottom of their industry.

References:

- Collins, J.C. (2001), *Good to great. Why some companies make the leap ... and others don't*, London: Random House
- Collins, J.C. and Porras, J.I. (1994), *Built to last. Successful habits of visionary companies*, New York: Harper Business

- Dawes, J. (1999), The relationship between subjective and objective company performance measures in market orientation research: further empirical evidence, *Marketing Bulletin*, 10: 65-76
- Devinney, T.M., Richard, P.J., Yip, G.S. and Johnson, G. (2005), *Measuring organizational performance in management research: a synthesis of measurement challenges and approaches*, Research paper, www.aimresearch.org
- Dollinger, M.J. and Golden, P.A. (1992), Interorganizational and collective strategies in small firms: environmental effects and performance, *Journal of Management*, vol. 18, no. 4: 695-715
- Epstein, M.J. (2004), The drivers and measures of success in high performance organizations. In: Epstein, M.J. and J.F. Manzoni (eds). *Performance measurement and management control: superior organizational performance*. Studies in managerial and financial accounting, volume 14. Elsevier, Amsterdam
- Glaister, K.W. and Buckley, P.J. (1998), Measures of performance in UK international alliances, *Organization Studies*, vol. 19, issue 1: 89-118
- Heap, J. and Bolton, M. (2004), Using perceptions of performance to drive business improvement. In Neely, A., M. Kennerly, and A. Waters (Ed.), *Performance measurement and management: public and private*, Centre for Business Performance, Cranfield University, pp. 1085-1090
- Kasarda, J.D. and Rondinelli, D.A. (1998), Innovative infrastructure for agile manufacturers, *Sloan Management Review*, vol. 39, no. 2, Winter: 73-82
- Lawler III, E.E. (2003), *Treat people right! How organizations and individuals can propel each other into a virtuous spiral of success*, San Francisco: Jossey-Bass
- Manzoni, J.F. (2004), From high performance organizations to an organizational excellence framework. In M.J. Epstein, and J.F. Manzoni (ed.), *Performance measurement and management control: superior organizational performance*. Studies in managerial and financial accounting, volume 14, Amsterdam: Elsevier
- Peters, T. and Waterman, R. (1982), *In Search Of Excellence*, New York: Warner Books
- Strebel, P. (2003), *Trajectory management. Leading a business over time*, Chichester: John Wiley & Sons
- Waal, A.A. de (2006), The Characteristics of High Performance Organizations. In A. Neely, M. Kennerley and A. Walters (Ed.), *Performance Measurement and Management: Public and Private*, Cranfield: Cranfield School of Management, pp. 203-210
- Waal, A.A. de (2007), *The Characteristics of a High Performance Organization*. Business Strategy Series, August
- Wall, T.D., Mitchie, J., Patterson, M., Wood, S.J., Sheeran, M., Clegg, C.W. and West, M. (2004), On the validity of subjective measures of company performance, *Personnel Psychology*, vol. 57: 95-118

Dr. André A. de Waal MBA is associate professor of Strategic Management at the Maastricht School of Management (the Netherlands), a lecturer in Management Accounting at the Free University of Amsterdam, and director of the Center for Organizational Performance. Correspondence: andredewaal@planet.nl.