# STRATEGIES FOR
# HIGH PERFORMANCE
# ORGANIZATIONS

EMPLOYEE INVOLVEMENT, TQM, AND REENGINEERING
PROGRAMS IN FORTUNE 1000 CORPORATIONS

EDWARD E. LAWLER III WITH SUSAN ALBERS MOHRMAN
AND GERALD E. LEDFORD JR.

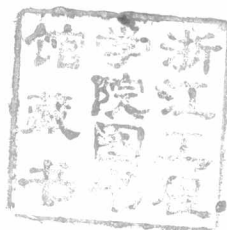## THE CEO REPORT

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# Strategies for High Performance Organizations— The CEO Report

## Employee Involvement, TQM, and Reengineering Programs in Fortune 1000 Corporations

**Edward E. Lawler III**
**with Susan Albers Mohrman**
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# Preface

Organizational effectiveness and strategic change are increasingly popular topics in the management literature. Proponents argue that they are the key to gaining a competitive advantage in today's highly competitive business environment. Employee involvement, total quality management, and process reengineering are the most frequently mentioned approaches to improving organizational effectiveness. They also involve complex organizational change processes.

Our interest in employee involvement dates back decades and includes a considerable amount of research and consulting. Despite great interest in the topic and a great deal of research, little systematic information exists on why companies are adopting employee involvement programs, what types of practices they are using, whether there is an increase or decrease in the use of employee involvement, how effective companies think employee involvement is, and how effective it actually is. Much the same is true for total quality management. In many organizations, total quality management is closely related to employee involvement; thus, studying one without the other is ill advised. Reengineering is newer still; as a result, much less research has been done on it. There is little question, however, that it has been widely adopted and that it is controversial in many firms.

*Strategies for High Performance Organizations* represents the fourth study of a continuing research program aimed at documenting how management practices in Fortune 1000 corporations are changing. The first study involved a 1987 survey that focused on which types of employee involvement practices were being adopted by Fortune 1000 corporations and on the firms' views of the effectiveness of these practices (Lawler, Ledford, and Mohrman, 1989). The second study involved a 1990 follow-up survey of the Fortune 1000 that focused on both employee involvement and total quality management (Lawler, Mohrman, and Ledford, 1992). A comparison of the 1987 and 1990 data showed changes in the adoption rates for employee involvement practices among the large U.S. firms. It also provided a benchmark of the degree to which total quality management practices were actually utilized by U.S. corporations.

The third study collected data in 1993; it provided much more extensive information on who adopts total quality management and employee involvement, as well as on what the results are. In the earlier studies, we considered only the impact of employee involvement and total quality management on nonfinancial performance measures, while the third looked at their effect on such financial results as return on equity.

The information presented here goes beyond the results reported in the first three studies because in this study, in addition to looking at employee involvement and total quality management, we evaluate process reengineering. We also focus for the first time on business and change strategies.

Both managers who are considering changing their management approach and researchers looking for data on how management practices are changing in the United States should find this report useful. Managers who wish to compare their organizational change efforts with others' can use the data to measure their own organizations against those of the Fortune 1000. Managers who are considering changing their organizations should find that the results provide important information about what changes are likely to be effective.

This report begins with a two-section introduction that reviews the past work on organization effectiveness and describes the study. Part One addresses the adoption rate of the major employee involvement practices—namely, those that focus on sharing information, building knowledge, rewarding performance, and sharing power. In each case, we compare the use of these practices in 1987, 1990, 1993, and 1996 and find a selective increase.

Part Two focuses on the adoption of employee involvement, total quality management, and reengineering programs and practices. It begins with an analysis of the patterns by which companies adopt employee involvement practices. Then it looks at the rate of adoption of total quality management and process reengineering practices. For total quality management, we compare the adoption rates from 1990, 1993, and 1996. In the case of process reengineering, we look at the adoption rate in 1996. The final section in Part Two analyzes the degree to which companies adopt employee involvement, total quality management, and reengineering in conjunction with each other.

Part Three focuses on how organizations are changing in three areas. The first is the type of employment relationship or contract

that they develop with their employees. The second comprises the new organizational approaches that they are using to improve their performance. The third consists of their change management strategies. These areas, covered here for the first time in our studies, provide an interesting view of how organizations are changing. Our research clearly indicates that there is a "new deal" for employees. It also points out that organizations are doing a variety of things to improve their effectiveness. Finally, the results show that organizational change efforts are often led by senior managers and guided by a clear sense of direction and mission.

Part Four focuses on the effectiveness of employee involvement, total quality management, and reengineering practices and programs. The results are consistently positive for all three of these programs as a whole, as well as for many of the specific practices that they involve. Particularly interesting are the results that show a link between the adoption of employee involvement, total quality management practices, process reengineering, and the financial performance of corporations over time. Finally, the data suggest that the most effective organizational change programs combine employee involvement, total quality management, and reengineering in ways that create a complete organizational change effort.

Part Five focuses on the factors that lead to adoption of employee involvement, total quality management, and reengineering. There are a number of important relationships between the adoption of employee involvement, total quality management, and reengineering change efforts and the characteristics of the organizations and their environments. These relationships suggest that corporations choose all three of these programs because they fit the firm's strategic agenda. The data also suggest that these programs are frequently combined with major structural changes in the way organizations operate.

appreciative of the time spent by members of the Fortune 1000 companies in responding to this survey.

Any research study of this magnitude requires a high level of staff support. We are fortunate at the Center for Effective Organizations to have a talented staff to assist our research activity. We would particularly like to acknowledge the excellent help we received in data collection and data analysis from Alice Yee Mark, Beth Neilson, and Nora Osganian. Lydia Arakaki did an outstanding job of preparing the manuscript. The financial analyses reported in Section Twenty-One are based on work done by K. R. Subramanyam and George Benson.

*Los Angeles, California*     Edward E. Lawler III
*June 1998*                   Susan Albers Mohrman
                             Gerald E. Ledford Jr.

## The Authors

**Edward E. Lawler III** is professor of management and organization in the Marshall School of Business at the University of Southern California (USC). He joined USC in 1978; in 1979, he founded and became director of the university's Center for Effective Organizations. He has been honored as a top contributor to the fields of organizational development, organizational behavior, and compensation and is the author of over two hundred articles and twenty-eight books. His most recent books include *Strategic Pay* (Jossey-Bass, 1990), *Employee Involvement and Total Quality Management* (Jossey-Bass, 1992), *The Ultimate Advantage* (Jossey-Bass, 1992), *Organizing for the Future* (Jossey-Bass, 1993), *Creating High Performance Organizations* (Jossey-Bass, 1995), *From the Ground Up: Six Principles for Creating the New Logic Corporation* (Jossey-Bass, 1996), and *Tomorrow's Organization* (Jossey-Bass, 1998).

**Susan Albers Mohrman** is senior research scientist at the Center for Effective Organizations in the Marshall School of Business at the University of Southern California. She received her Ph.D. degree in organizational behavior from Northwestern University. Her research focuses on management and human resource innovations including employee involvement and total quality management, organizational change, organizational design processes, and team design and the lateral organization. She has researched and consulted with a variety of organizations that are redesigning structures and systems to create high performance. Her books include *Self-Designing Organizations: Learning How to Create High Performance* (1989, with T. G. Cummings), *Designing Team-Based Organizations: New Forms for Knowledge Work* (1995, with S. G. Cohen and A. M. Mohrman Jr.), and *Tomorrow's Organization: Crafting Winning Capabilities in a Dynamic World* (1998, with J. R. Galbraith and E. E. Lawler III; all are Jossey-Bass publications).

**Gerald E. Ledford Jr.** is research professor at the Center for Effective Organizations in the Marshall School of Business at the University of Southern California. He received his Ph.D. degree in psychology from the University of Michigan. He has conducted research, published, and consulted on a wide variety of approaches to improving organizational effectiveness and employee well-being, including employee involvement, innovative reward systems, organization design, job

design, and union-management cooperation. He has published sixty articles and book chapters and is coauthor of five books, including *Large-Scale Organizational Change* (Jossey-Bass, 1989), *Employee Involvement and Total Quality Management* (Jossey-Bass, 1992), and *Creating High Performance Organizations* (Jossey-Bass, 1995). He is an active member of the American Psychological Association, the Academy of Management, and the American Compensation Association.

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