BEST HR PRACTICES FOR SUGAR INDUSTY AND THEIR IMPACT ON PERFORMANCE

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The impact of human resource management (HRM) policies and practices on firm performance is an important topic in the fields of human resource management, industrial relations, and industrial and organizational psychology (Boudreau, 1991; Jones & Wright, 1992; Kleiner, 1990). An increasing body of work contains the argument that the use of High Performance Work Practices, including comprehensive employee recruitment and selection procedures, incentive compensation and performance management systems, and extensive employee involvement and training, can improve the knowledge, skills, and abilities of a firm's current and potential employees, increase their motivation, reduce shirking, and enhance retention of quality employees while encouraging nonperformers to leave the firm (Jones & Wright, 1992). Literature, although largely conceptual, concludes that human resource management practices can help to create a source of sustained competitive advantage, especially when they are aligned with a firm's competitive strategy (Begin, 1991; Butler, Ferris, & Napier, 1991; Cappelli & Singh, 1992; Jackson& Schuler, 1995; Porter, 1985; Schuler, 1992; Wright & McMahan, 1992).

Wright and McMahan (1992), drawing on Barney's (1991) resource-based theory of the firm, contended that human resources can provide a source of sustained competitive advantage when four basic requirements are met. First, they must add value to the firm's production processes: levels of individual performance must matter. Second, the skills the firm seeks must be rare. Since human performance is normally distributed, Wright and McMahan noted, all human resources meet both of these criteria. The third criterion is that the combined human capital investments a firm's employees represent cannot be easily imitated. Although human resources are not subject to the same degree of imitability as equipment or facilities, investments in firm-specific human capital can further decrease the probability of such imitation by qualitatively differentiating a firm's employees from those of its competitors. Finally, a firm's human resources must not be subject to replacement by technological advances or other substitutes if they are to provide a source of sustainable competitive advantage.

Cutcher - Gershenfeld (1991) found that firms adopting “transformational” labor relations—those emphasizing cooperation and dispute resolution—had lower costs, less scrap, higher productivity, and a greater return to direct labor hours than did firms using “traditional” adversarial labor relations practices.

HIGH PERFORMANCE BEST PRACTICES FOR ALL INDUSTRIES INCLUDING SUGAR INDUSTRY

Pfeffer et al on the basis of their research and observations, identified following major 7 Best Practices for any organization to make their environment Productive and Competitive:

This model can be used in the sugar industry as well as this model has universalistic approach and does not change with the conditions and location of the organizations.

1. EMPLOYMENT SECURITY

Most research on the effects of high performance management systems has incorporated employment security as an important dimension. Indeed, "one of the most widely accepted propositions .. . is that innovations in work practices or other forms of worker-management cooperation or productivity improvement are not likely to be sustained over time when workers fear that by increasing productivity they will work themselves out of their jobs."

The idea of providing employment security in today's competitive world seems somehow anachronistic or impossible and very much at odds with what most firms seem to be doing. But employment security is fundamental to the implementation of most other high performance management practices.

For example, when General Motors wanted to implement new work arrangements in its innovative Saturn plant in the 1990s, it guaranteed its people job security except in the most extreme circumstances. When New United Motors Manufacturing. Inc. (NUMMI) was formed to operate the Fremont automobile assembly plant. It offered its people job security. How else could it ask for flexibility and cooperation in becoming more efficient and productive?

Many additional benefits follow from employment assurances besides workers' free contribution of knowledge and their efforts to enhance productivity.

One advantage to firms is the decreased likelihood that they will lay off employees during downturns. How is this a benefit to the firm? In the absence of some way of building commitment to retaining the work force-either through pledges about employment security or through employment obligations contractually negotiated with a union-firms may lay off employees too quickly and too readily at the first sign of financial difficulty.

This constitutes a cost for firms that have done a good job selecting, training and developing their work force, because layoffs put important strategic assets on the street for the competition to employ. Herb Kelleher, the CEO of Southwest Airlines, summarized this argument best when he wrote:

Our most important tools for building employee partnership are job security and a stimulating work environment ... Certainly there were times when we could have made substantially more profits in the short-term if we had furloughed people, but we didn't. We were looking at our employees' and our company's longer-term interests ... [A]s 1t turns out, providing job security imposes additional discipline, because if your goal 1s to avoid layoffs then you hire very sparingly. So our commitment to job security has actually helped us keep our labor force smaller and more productive than our competitors'.?

2. SELECTIVE HIRING

Companies serious about obtaining profits through people will expend the effort needed to ensure that they recruit the right people in the first place. This requires several things. First, the organization needs to have a large applicant pool from which to select. In 1993, for example, Southwest Airlines received about 98,000 job applications, interviewed 16,000 people, and hired 2,700. In 1994, applications increased to more than 125,000 for 4,000 hires. Some organizations see processing this many job inquiries as an unnecessary expense.

Southwest sees it as a necessary first step.

Second, the organization needs to be clear about what are the most critical skills and attributes needed in its applicant pool. At Southwest, applicants for flight attendant positions are evaluated on the basis of initiative, judgment, adaptability, and their ability to learn. These attributes are assessed in part from interview questions that evoke specific instances of these attributes. For instance, to assess adaptability, interviewers ask. "Give an example of working with a difficult co-worker. How did you handle it?"8 To measure initiative, one question asks, "Describe a time when a co-worker failed to pull their weight and what you did about it...

Third, the skills and abilities sought need to be carefully considered and consistent with the particular job requirements and the organization's approach to its market. Enterprise Rent-A-Car is today the largest car rental company in the United States, and it has expanded at a rate of between 25 and 30 percent a year for the past 11 years. It has grown by pursuing a high customer service strategy and emphasizing sales of rental car services to repair garage customers. In a low-wage, often unionized, and seemingly low-employee-skill industry, virtually all of Enterprise's people are college graduates. But these people are hired primarily for their sales skills and personality and for their willingness to provide good service, not for their academic performance. Brian O'Reilly interpolates Enterprise's reasoning:

The social directors make good sales people, able to chat up service managers and calm down someone who has just been in a car wreck ... The Enterprise employees hired from the caboose end of the class have something else going for them ... a chilling realization of how unforgiving the job market can be.

Fourth, organizations should screen primarily on important attributes that are difficult to change through training and should emphasize qualities that actually differentiate among those in the applicant pool. Southwest rejected a top pilot from another airline who did stunt work for movie studios because he was rude to a receptionist. Southwest believes that technical skills are easier to acquire than a teamwork and service attitude.

Ironically, many firms select for specific, job-relevant skills that, while important are easily acquired. Meanwhile, they fail to find people with the right attitudes, values, and cultural fit-attributes that are harder to train or change and that are quite predictive of turnover and performance.

One MBA job applicant reported that interviewers at PeopleSoft, a producer of human resource management software, asked very little about personal or academic background, except about learning experiences from school and work.

Rather, the interviews focused mostly on whether she saw herself as team-oriented or as an individual achiever, what she liked to do outside school and work, and her philosophy on life. The specific question was "Do you have a personal mission statement? If you don't, what would it be if you were to write it today?" Moreover, the people interviewing the applicant presented a consistent picture of the values that were shared among employees at PeopleSoft. Such a selection process is more likely to produce cultural fit.

A great deal of research evidence shows that the degree of cultural fit and value congruence between job applicants and their organizations significantly predicts both subsequent turnover and job performance.

3. SELF-MANAGED TEAMS AND DECENTRALIZATION AS BASIC ELEMENTS OF ORGANIZATIONAL DESIGN

Numerous articles and case examples, as well as rigorous, systematic studies, attest to the effectiveness of teams as a principle of organization design.

For example, Honeywell's defense avionics plant credits improved on-time delivery-reaching 99 percent in the first quarter of 1996 as compared with below 40 percent in the late 1980s-to the implementation of teams. Team-based organizations also are largely successful in having all of the people in the firm feel accountable and responsible for the operation and success of the enterprise, not just a few people in senior management positions. This increased sense of responsibility stimulates more initiative and effort on the part of everyone involved. In addition, and perhaps most importantly, by substituting peer for hierarchical control. Teams permit removal of layers of hierarchy and absorption of administrative tasks previously performed by specialists, avoiding the enormous costs of having people whose sole job it is to watch people who watch other people do the work.

The tremendously successful natural foods grocery store chain, Whole Foods Markets, organized on the basis of teams, attributes much of its success to that arrangement. Between 1991 and 1996, the company enjoyed sales growth of 864 percent and net income growth of 438 percent as it expanded, in part through acquisitions as well as through internal growth, from 10 to 68 stores. In its 1995 annual report, the company's team-oriented philosophy is clearly stated.

Our growing information systems capability is fully aligned with our goal of creating a more intelligent organization-one which is less bureaucratic, elitist, hierarchical and authoritarian and more communicative, participatory, and empowered. The ultimate goal is to have all team members contributing their full intelligence, creativity, and skills to continuously improving the company... Everyone who works at Whole Foods Market is a team member. This reflects our philosophy that we are all partners in the shared mission of giving our customers the very best in products and services. We invest in and believe in the collective wisdom of our team members. The stores are organized into self-managing work teams that are responsible and accountable for their own performance.

Teams also permit employees to pool their ideas to come up with better and more creative solutions to problems. Teams at Saturn and at the Chrysler Corporation's Jefferson North plant, for example, "provide a framework in which workers more readily help one another and more freely share their production knowledge-the innumerable 'tricks of the trade' that are vital in any manufacturing process. "

Team-based organizations are not simply a made-only-in-America phenomenon. Consider, for example, Vancom ZuidLimburg, a joint venture in the Netherlands that operates a public bus company. This company has enjoyed very rapid growth in ridership and has been able to win transport concessions by offering more services at the same price as its competitors. The key to this success lies in its use of self-managed teams and the consequent savings in management overhead.

Vancom is able to [win transport contracts] mainly because of its very low overhead costs . . . [O]ne manager supervises around forty bus drivers ... This management-driver ratio of 1 in 40 substantially differs from the norm in this sector. At best competitors achieve a ratio of 1 in 8. Most of this difference can be attributed to the self-managed teams. Vancorn ... has two teams of around twenty drivers. Each team has its own bus lines and budgeting responsibilities ... Vancom also expects each individual driver to assume more responsibilities when on the road. This includes customer service (e.g., helping elderly persons board the bus), identifying problems (e.g., reporting damage to a bus stop), and active contributions (e.g., making suggestions for improvement of the services).

4. COMPARATIVELY HIGH COMPENSATION CONTINGENT ON ORGANIZATIONAL PERFORMANCE

It is often argued that high compensation is a consequence of organizational success, rather than its progenitor, and that high compensation (compared with the average) is possible only in certain industries that either face less competition or have particularly highly educated employees. But neither of these statements is correct. Obviously, successful firms can afford to pay more, and frequently do so, but high pay can also produce economic success. When John Whitney assumed the leadership of Pathmark, a large grocery store chain in the eastern United States in 1972, the company had about 90 days to live, according to its banks, and was in desperate financial shape. Whitney looked at the situation and discovered that 120 store managers in the chain were paid terribly. Many of them made less than the butchers, who were unionized. He decided that the store managers were vital to the chain's success and its ability to accomplish a turnaround. Consequently, he gave the store managers a substantial raise--about 40 to 50 percent. Whitney attributes the subsequent success of the chain to the store managers' focusing on improving performance instead of worrying and complaining about their pay. The idea that only certain jobs or industries can or should pay high wages is belied by the example of many firms. Home Depot has been successful and profitable, and its stock price has shown exceptional returns. Even though the chain emphasizes everyday low pricing as an important part of its business strategy and operates in a highly competitive environment, it pays its staff comparatively well for the retail industry, hires more experienced people with building industry experience, and expects its sales associates to provide a higher level of individual customer service.

Contingent compensation also figures importantly in most high performance work systems. Such compensation can take a number of different forms, including gain sharing, profit sharing, stock ownership, pay for skill, or various forms of individual or team incentives. Wal-Mart, AES Corporation, Southwest Airlines, Whole Foods Markets, Microsoft, and many other successful organizations encourage share ownership. When employees are owners, they act and think like owners. However, little evidence suggests that employee ownership, by itself, affects organizational performance. Rather, employee ownership works best as part of a broader philosophy or culture that incorporates other practices. Merely putting in ownership schemes without providing training, information sharing, and delegation of responsibility will have little effect on performance. Even if people are more motivated by their share ownership, they don't necessarily have the skills, information, or power to do anything with that motivation.

5. <u>EXTENSIVE TRAINING</u>

Training is often seen as a frill in many U.S. organizations, something to be reduced to make profit goals in times of economic stringency. Studies of firms in the United States and the United Kingdom consistently provide evidence of inadequate levels of training and training focused on the wrong things: specialist skills rather than generalist competence and organizational culture. This is the case in a world in which we are constantly told that knowledge and intellectual capital are critical for success. Knowledge and skill are critical and too few organizations act on this insight. Training is an essential component of high performance work systems because these systems rely on frontline employee skill and initiative to identify and resolve problems, to initiate changes in work methods, and to take responsibility for quality. All of this requires a skilled and motivated work force that has the knowledge and capability to perform the requisite tasks.

Training can be a source of competitive advantage in numerous industries for firms with the wisdom to use it. The Men's Wearhouse, an off-price specialty retailer of men's tailored business attire and accessories, went public in 1991. Its 1995 annual report noted that it had achieved compounded annual growth rates in revenues and net earnings of 32 and 41 percent, respectively, and that the value of its stock had increased by approximately 400 percent. The company attributes its success to how it treats its people and particularly to the emphasis it has placed on training, an approach that separates it from many of its competitors. The company built a 35,000 square foot training center in Fremont, California, its headquarters. In 1994, some 600 "clothing consultants" went through Suits University, and that year the company added Suits High and Selling Accessories. During the winter, experienced store personnel come back to headquarters in groups of about 30 for a three- or four-day retraining program. While training is an investment in the organization's staff, in the current business m1heu it virtually begs for some sort of return-on-investment calculations. But such analyses are difficult, 1f not impossible, to carry out. Successful firms that emphasize training do so almost as a matter of faith and because of their belief in the connection between people and profits. Even Motorola does a poor job of measuring its return on training. Although the company has been mentioned as reporting a $3 return for every $1 invested in training, an official from Motorola's training group said that she did not know where these numbers came from and that the company is notoriously poor at evaluating its $170 million investment in training. The firm mandates forty hours of training per employee per year, and believes that the effects of training are both difficult to measure and expensive to evaluate. Training is part and parcel of an overall management process and is evaluated in that light.

6. REDUCTION OF STATUS DIFFERENCES

The fundamental premise of high performance management systems is that organizations perform at a higher level when they are able to tap the ideas, skill, and effort of all of their people In order to help make all organizational members feel important and committed, most high commitment management systems attempt to reduce he status distinctions that separate individuals and groups and cause some to feel less valued. This is accomplished in two principle ways-symbolically, through the use of language and labels, physical space, and dress, and substantively, in the reduction of the organization's degree of wage inequality, particularly across levels.

At NUMM, everyone wears the same colored smock; executive dining rooms and reserved parking don't exist. At Kingston Technology, a private firm manufacturing add-on memory modules for personal computers, the two cofounders sit in open cubicles and do not have private secretaries. Status differences are also reduced, and a sense of common fate developed, by limiting the difference in compensation between senior management and other employees. Herb Kelleher, who earns about $500,000 per year as the CEO of Southwest, including base and bonus, has been on the cover of Fortune magazine with the headline, "Is he America's best CEO?" In 1995, when Southwest negotiated a five-year wage freeze with its pilots in exchange for stock options and occasional profitability bonuses, Kelleher agreed to freeze his base salary at $395,000 for four years. Sam Walton, the founder and chairman of Wal-Mart, was one of the most underpaid CEOs in the U.S. Kelleher and Walton weren't poor; each owned stock in his company. But stock ownership was also encouraged for their employees. Having an executive's fortune rise and fall together with those of the other employees differs dramatically from providing large bonuses and substantial salaries for executives even as the stock price languishes and people are being laid off.

7. SHARING INFORMATION

Information sharing is an essential component of high performance work systems. The sharing of information on such things as financial performance, strategy, and operational measures conveys to the organization's people that they are trusted. John Mackey, the chief executive of Whole Foods Markets, states, "If you're trying to create a high-trust organization ... an organization where people are all-for-one and one-for-all, you can't have secrets."17 Whole Foods shares detailed financial and performance information with every employee, including individual salary information. Every Whole Foods store has a book that lists the previous year's salary and bonus of all 6,500 employees.

Even motivated and trained people cannot contribute to enhancing organizational performance if they don't have information on important dimensions of performance and training on how to use and interpret that information. The now famous case of Springfield Re-Manufacturing Corporation (SRC) illustrates this point. On February l. 1983, SRC was created when the plant's management and employees purchased an old International Harvester plant in a financial transaction that consisted of about $100,000 in equity and $8.9 million in debt, an 89-l debt to equity ratio that has to make this one of the most leveraged of all buycuts. Jack Stack, the former plant manager and now chief executive, knew that if the plant was to succeed, all employees had to do their best, and had to share all their wisdom and ideas for enhancing the plant's performance. Stack came up with a system called "open-book management," that has become so popular that SRC now makes money by running seminars on it. When General Motors canceled an order in 1986 that represented about 40 percent of Springfield's business for the coming year, the firm averted a layoff by providing its people with information on what had happened and letting them figure out how to grow the company and achieve the productivity improvements that would obviate layoffs. SRC has since enjoyed tremendous financial success. In 1983, its first year of operation, sales were about $13 million. By 1992, sales had increased to $70 million and the number of employees had grown from 119 to 700. The original equity investment of $100,000 was worth more than $23 million by 1993. No one who knows the company, and certainly not Jack Stack or the other managers, believes this economic performance could have been achieved without a set of practices that enlisted the cooperation and ingenuity of all of the firm's people. The system and philosophy of open-book management took a failing International Harvester plant and transformed it into a highly successful, growing business.

NUMMI – CASE STUDY

NUMMI was formed in 1984, from the ashes of a plant that GM had closed in 1982. General Motors reopened the plant, employing many of the same workers who had staffed, according to the United Auto Workers union, the former worst performing plant in the US. Employees of the defunct factory regularly drank on the job, had very high rates of absenteeism, and performed deliberate acts of ‘anti-QA’ sabotage, such as putting empty bottles inside car doors to annoy customers.

GM and Toyota had formed NUMMI as a joint venture to satisfy imperatives for both companies; GM needed to learn how to manufacture small cars cost effectively, with high quality standards, and Toyota to learn about producing cars in the US in the face of changing import laws.

Some of the American workers were sent to Japan to learn the Toyota Production System, and the results were remarkable. In a massive turnaround, NUMMI almost immediately began producing vehicles to quality standards that rivalled the Toyota factories in Japan that they had learnt from. The emphasis on quality inherent in the TPS, meant that employees became empowered to do things such as stopping the production line when they saw a problem, rather than allowing defects to build up and have to be fixed at a later stage.

“I believed that the system was bad, not the people” – Bruce Lee, union representative

Initially, the reemployed workers hated the idea of change, until they started going to Japan to view Toyota’s system at work. They were amazed at how empowered workers were in the Toyota Production System, and that people were expected to continuously improve, as a team.

“They had such a powerful and emotional experience, of learning a new way of working, a way that people could actually work together collaboratively, as a team” – John Shook, Toyota trainer.

The changed way of working and management, handed the NUMMI workers the opportunity to build in quality and to be engaged in problem solving and making improvements.

Shook noted:

What changed the culture at NUMMI wasn’t an abstract notion of “employee involvement” or “a learning organization” or even “culture” at all. What changed the culture was giving employees the means by which they could successfully do their jobs.

‘No Problem’ is Problem!

The ability to highlight problems and fix the cause without placing blame on individuals, is a key learning. If fingers are pointed, people will have a tendency to pass the problem “down the (production) line” to make sure that there aren’t personal repercussions; asking “why” and not “who”. The American culture was, when asked how things were going, to respond “No Problem!”. However, the Toyota view was that saying “No problem”, was a problem itself. There are always “problems”, that if solved can spark improvement.

As Shook said when concluding his article:

The famous tools of the Toyota Production System are all designed around making it easy to see problems, easy to solve problems, and easy to learn from mistakes. Making it easy to learn from mistakes means changing our attitude toward them. That is the lean cultural shift.

What happens at NUMMI, stays at NUMMI

When GM tried to take the successes experienced at NUMMI to its other factories in the USA, it was generally a failure; at least for the first 10-15 years! Initially, GM sent 16 managers to California to start NUMMI, the ‘Commandos’, with the idea that they could go back to other parts of the company. However, there was no ‘master plan’ beyond that to extend this to other parts of such a large and complex organization.

People at other plants didn’t have the same motivation to take on different ideas as the NUMMI workers had. “It’s a lot easier to get people to change if they have lost their jobs and then you offer them back”

To make real change, GM managers had to leave the US, and overhaul operations in Germany and Brazil, in the mid-90s. It took a decade and a half, a generational transformation, until there was a critical mass of people sufficient to change the whole of GM. To the point that by the early 2000’s, GM had what they called the “Global Manufacturing System”.

Collaboration or a Clash of Cultures?

The incumbent culture at GM rewarded ‘seniority’; the time that someone had worked at the plant determining career progression. The team culture of the TPS clashed with this. Workers had to learn every job on the team and take turns doing them. Knowledge and sharing learning was important, but clashed with the entrenched culture, such that it “pit worker against worker”. For example, people started pointing fingers about what other people were doing wrong.

Managers also had their own vested interests (e.g. reward systems based on the number of vehicles produced, regardless of defects), and mini-empires to protect. Smaller perks and privileges such parking spaces, and cafeteria arrangements, also came into play.

“There were too many people convinced that they didn’t have to change”

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