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Understanding high-performance work systems: the joint contribution of economics and human resource management☆

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1. Introduction

High-performance work systems (HPWS) are organizations that utilize a fundamentally different approach to managing than the traditional hierarchical approach associated with mass production/scientific management. At the heart of this emerging approach is a radically different employer-employee relationship. Leading organizational behavior specialists believe that HPWS has the greatest potential to provide sustained competitive advantage to companies adopting it. Thus, human resource managers and scholars as well as economists ought to be very interested in it. While much has been written about HPWS in the human resource management (HRM) literature, economists' attention to it has been practically nil despite the fact that organizational economics is a significant area within economics.

The primary purpose of this paper is to improve our understanding of the superior economic performance of HPWS. The secondary purpose is to compare the respective contributions of the HRM and economics disciplines to this understanding. The HRM/organizational behavior literature contains important explanations regarding the economic performance of HPWS. In contrast, there is hardly any economic literature explicitly focused on HPWS. However, as indicated below, economic theory, particularly x-efficiency theory, can be adapted to this purpose. The explanations that make the most sense of the economic performance of HPWS are interdisciplinary ones that integrate economics with organizational behavior.

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The plan of the paper is as follows. Section two describes the characteristic features of HPWS and cites evidence regarding its economic performance. Section three examines HPWS from the standpoints of mainstream organizational economics and mainstream HRM. Section four brings to bear behavioral economic and organizational behavior perspectives with respect to understanding the performance of HPWS and attempts to integrate these. In addition, this section focuses on the essential reasons for HPWS' superiority and why, despite this, HPWS' diffusion has been slow. The final section provides conclusions.

2. High-performance work systems

2.1. Characteristic features

High-Performance Work Systems (HPWS), sometimes known as high involvement or high commitment organizations, are organizations that use a distinctive managerial approach that enables high performance through people. Although different HRM authors have emphasized slightly different features and management practices in describing HPWS, the essential characteristics are the seven key dimensions identified by Jeffrey Pfeffer in *The Human Equation* (1998, chapter 3). These are:

- Employment security
- Selective hiring of new personnel
- Self-managed teams and decentralization of decision making as the basic principles of organizational design
- Comparatively high compensation contingent on organizational performance
- Extensive training
- Reduced status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels
- Extensive sharing of financial and performance information throughout the organization

The main idea of HPWS is to create an organization based on employee involvement, commitment and empowerment, not employee control. The particular set of managerial practices will vary from company to company. "The small business unit that controls its own fate and involves everyone in the business is the best image for the involvement-oriented approach" (Lawler, 1992, p. 29). In these high involvement organizations, employees "feel responsible for and involved in its success" (p. 3); they "know more, do more, contribute more" (p. 5). They have the power, information, knowledge, and rewards to perform at the highest level (Lawler, Mohrman & Ledford 1995). Among the successful companies making use of this approach are Norwest, Men's Wearhouse, ServiceMaster, Southwest Airlines, USAA, Procter and Gamble, Wal-Mart, and Virgin Atlantic Airways (Pfeffer, 1998, pp. 293–296).

HPWS is not the same as Total Quality Management (TQM) but these two approaches can be used along with each other.

Although the TQM approach stresses employee involvement, the type of involvement it stresses is limited to allowing employees to make suggestions and control certain elements

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