

High Performance Organizations Today:

A three-part series of articles reviewing the current state of the art

Part I: What are they?



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Leaders today are seeking guidance on how to survive and thrive in an ever-evolving global marketplace.

CONTEXT

Fads come and go. Good ideas ebb and flow. We return – again and again – to principle-based concepts that can solve dilemmas in any situation and era as time moves on. The latter is the case with the dynamics of High Performance Organizations (HPOs).

HPOs were talked about, written about, and attempted in many organizations in the 1980s and '90s. Their popularity waned for a time, but the concept is making a comeback.

Much has happened in the world of organizations since the '80s and '90s. Many new developments have helped all of us move to higher ground in the HPO journey. The Quality approach of W. Edwards Deming explained why Japanese competitors were beating their American counterparts in the marketplace. Deming's legacy has continued through Michigan professor Jeff Liker, who has shown us *The Toyota Way* and its practical approaches to lean production.

Peter Senge's *The Fifth Discipline* reinforced the need for working on the whole system. The High Tech Age has reshaped dramatically the marketplace's requirements for survival. Process re-engineering has influenced how many organizations approach restructuring. Jay Galbraith continued to suggest ways of designing organizations for emerging global, innovation, and high tech opportunities.

Then there has been the whole flood of literature on the subject of leadership, led importantly by Stephen R. Covey with *The Seven Habits of Highly Effective People*, and Jeff Dyer, Hal Gregersen, and Clayton Christensen with *The Innovator's DNA*.

Thus, today's laundry list for things to do to create an HPO is almost endless: craft a competitive strategy; write a distinctive purpose statement;

engage employees; develop work teams; champion Six Sigma; re-engineer your processes; develop principle-centered, innovative leaders; engage customers; build more trust with stakeholders; downsize; and implement lean production.

But research has shown that more than 70 percent of these isolated initiatives have failed to make significant, long-lasting improvements in a company's business results.

These disappointing results have less to do with the initiatives themselves than with the single-shot approach taken by leaders and organizational designers. Significantly shifting a business organization's results requires a whole systems approach. After all that has been said and done about a systems approach to organizing, much more has been said than done.

HPOs TODAY

The purpose of this paper is to give a fresh look at HPOs based on the many developments through the years. We propose a whole systems framework for viewing and managing an organization in today's rapidly changing global marketplace – a framework that describes HPOs today.

The most significant development in recent years is the research of more than 2,500 companies conducted by Dr. André de Waal of the University of Maastricht in The Netherlands. André has research for more than a decade what makes a HPO. He has learned that HPOs are characterized by the following factors:

1. **High quality management:** decisive, action oriented, strong trust relationships, coaching, holding others responsible
2. **High quality employees:** recruiting those who want to assume responsibility and excel, from diverse backgrounds; who are complementary, flexible, and resilient.
3. **Long-term orientation:** continuity over



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short-term profit, collaboration with others, good long-term relationships with all stakeholders, focus on customers.

4. **Continuous improvement and innovation:** a distinctive strategy; processes that are continuously improved, simplified, and coordinated; core competencies and products continuously improved; reporting important and correct information.
5. **Open and action-oriented management:** communicating often with employees, open to change, performance oriented, engaging in dialogue with others.

These factors are not just André de Waal's preferred attributes. An analysis of the Big Data from organizations in all parts of the world, both large and small, both public and private, the companies who met the five profile factors also had these financial advantages compared to other companies in the study who did not meet the profile:

Type of financial return	Return of HPO vs. peer group (in %)
Revenue growth	+4 to 16
Profitability	+14 to 44
Return on assets (ROA)	+1 to 12
Return on equity (ROE)	+9 to 25
Return on investment (ROI)	+15 to 26
Return on sales (ROS)	+2 to 18
Total shareholder return (TSR)	+4 to 42

Just as significant as André's learning about what makes a high performance organization was what he learned does *not* necessarily correlate with high performance. Here are some of the common techniques, methods, and activities that do not guarantee high performance:

- Defining a clear vision, mission, and strategy
- Enhancing trust in leadership
- Putting more focus on customers
- Changing organizational structure
- Introducing servant leadership
- Laying off poor-performing employees
- Creating more two-way communication
- Lowering work pressures
- Creating better career opportunities
- Improving listening skills in management

Put another way, organizations in André's research might have done one or more of these things but still did not qualify as HPOs. If these well-intentioned activities did not lead to establishing the five HPO

factors, the company's results were no different from the other non HPOs.

To recap: single shot or isolated interventions seldom are able to drive and sustain high performance in complex organizations.

THE LOOK AND FEEL OF HPOs

Let's consider two shining examples of what HPOs look like to the customer.

The Ritz-Carlton Hotel Company is a consistent leader in the hotel industry and the only two-time winner of the Baldrige National Quality Award in the service industry. If you were to enter one of its 87 hotels in 29 countries, you would be greeted immediately by a friendly face and escorted to the front desk. An employee would guide you to your room and demonstrate the room's comfortable features and answer any questions you might have. The room and its furnishings would be luxuriously comfortable and impeccably clean. If you had stayed at any Ritz-Carlton in the past and had indicated a preference for certain things such as fresh fruit, feather pillows, black ink in the room's pens, or reading material, these would all be waiting for you in your room.



Ritz-Carlton restaurateurs prepare for guests

You would be impressed further by the prompt, friendly service with every interaction you had with the ladies and gentlemen in the hotel. And if you had a special need (special dietary requirement in the restaurant, misplaced handbag, or even a torn zipper on your clothing) you would be amazed at how creatively and quickly the Ritz-Carlton family members would solve your problem. You would experience them offering to take care of even your unexpressed wishes. Every meal, every recommendation, every service provided would be excellent.

Upon departure, your hosts would go to great lengths to anticipate or inquire about other arrangements you might need, from reading material for the ride to the airport, to special transport

home of baggage or packages you didn't want to take to your next stop, to reservations at another hotel (not necessarily a Ritz-Carlton). Small wonder that Ritz-Carlton leads the way with a customer engagement score of above 90 percent according to Gallup polls. You would mark down this brief hotel stay as a memorable experience indeed!

A totally different atmosphere would await you if you toured a **Toyota Production Facility** in Japan. No fancy furniture or gourmet meals here. Just an amazing production operation with skilled associates who could perform their task on the assembly line without skipping a beat. There would be no huge stacks of materials or boxes of parts obscuring your view of the many production lines, yet almost magically the necessary parts would be at the associate's side just when he or she needed them.

The production floor would be extremely neat and clean – no oil spills or piles of dust in the corners. No leaking valves or cables. A safe and pleasant workplace.



Toyota's lean production line

The latest process innovations to the production line from the steady stream of employees' improvement ideas would be functioning flawlessly.

All of these elements combine to produce an automobile in an industry-best 30.37 hours. Toyota plants average 100% equipment utilization despite fluctuations in the market. The Toyota Corolla remains the best-selling car in the world, with 1.02 million vehicles sold. The Toyota Camry, America's best-selling car, is number eight on the worldwide sales chart with 726,000 units sold.

Then, as you drove your new Toyota home and lived with it year after year, you would observe your neighbors taking their cars to the repair shop much more frequently than you did. They would have to fill up at the gas station more often. Their cars would be ready for retirement at the same time your Toyota would be entering its second childhood.

You would conclude that simply buying a Toyota had enriched your life much more than you could have

imagined!

COMMON HPO PRINCIPLES

Though a superficial look at a Ritz-Carlton hotel or a Toyota production facility might suggest they are very different organizations, the deeper look would reveal they both operate on very similar principles. These principles are not just motivational concepts or automated systems. They are common organizational principles, each adapted to the nature of the work and to the market requirements for a successful hotel or automobile company. The same principles are the foundation for HPOs in any category today.

These HPO principles will be reviewed in Part II.