

# What Makes a High Performance Organization

Five Validated Factors of  
Competitive Advantage  
that Apply Worldwide

ANDRÉ DE WAAL



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# Chapter 1

## Introduction: *Starting the journey toward HPO*

### A leader's journey toward high performance

*“We felt we had stayed in our comfort zone for too long. Our organization had been doing quite well in recent years and would continue to do so – or, at least, that’s what we thought. However, various changes in the environment started to hurt us more and more, making it painfully clear that we were losing our value to clients. We, as management, realized that it was not us but the employees who were the decisive factor for the results of the organization. Our people at the counters took a decision every six minutes, that is 80 decisions per day per person. And with 400 counter clerks that meant 32,000 decisions any given day! Such a number could never be regulated by protocols or instructions from ‘above’ so clerks had to take these decisions autonomously. And if they would simply follow a checklist provided to them by us, they would not be thinking about client needs while making decisions and we would never create added value for our clients. We became aware of the need to build an organization that would facilitate employees making good decisions and turn the work floor into the most important layer of the organization. We needed to become a high performance organization. But the sixty-four thousand dollar question was: how?”*

*First we had to get out of our comfort zone, which required us to abandon the old traditional idea of wanting to achieve higher turnover and profit growth. We had to broaden our horizon and get used to thinking about new ways to deliver ever increasing quality and made-to-measure services to our clients, which would eventually translate into growth and profitability. This meant we had to work ‘smarter’, be more entrepreneurial, listen better to our clients, and develop a true service-minded attitude. As management, we had to move from giving top-down instructions and always wanting to be in control – creating uninspired employees and killing creativity – to being managers who could facilitate, coach and inspire people and by that increase our value to employees. Speaking about myself, I had some tough questions to answer: What did I need to do? How was I going to approach the upside-down pyramid? What would it mean for me personally? I felt that I had to confront my fears: Did I really want this? Was I capable of doing this? Where would we end up? At the same time I knew it would be a lonely journey, certainly at the beginning, as the organization wasn’t really welcoming change. In addition, I realized that the course would be uncertain and that others could and probably would react negatively. As a leader you just have to accept these uncertainties and dare to tackle them. Only after I had faced up to this reality could I start my journey to make the organization a high performance organization.”<sup>1</sup>*

The above was compiled from interviews with Jonard Speijer, former chief executive officer of Dactylo. With 120 branches nationwide, Dactylo was one of the largest temporary employment agencies in the Netherlands. Dactylo specialized in deploying flex workers in administrative, industrial and technical positions in different types of industries. Dactylo is now part of the Randstad Group, the second largest temping agency in the world. Before Jonard Speijer decided to take on the journey toward a high performance organization (HPO), he and his fellow management team members had been endeavoring for quite some time to improve the temping agency’s performance. And they had not been alone in this. At the HPO Center we frequently meet senior executives who feel the same pressure to make

their organizations high performing, in the current business environment, which can be characterized by the following:<sup>2</sup>

- *The economic balance of power in the world is shifting.* While Western economies are still recovering from the recent financial and economic crises, upcoming economies are growing rapidly and gaining significance in the world economy. The Western business world changed in 2007-2008 when the credit crisis hit, eventually causing the most severe recession since the 1930s and creating continuous low growth rates. At the same time emerging economies like China, India and Brazil but also many countries in Africa are steadily growing causing them to become the economic motor of the world.
- *Economic globalization will continue.* As competition nowadays can be expected from every corner of the world, companies are forced to operate in many different countries and cultures. To deal with this, mergers are created resulting in large global corporations that are often more powerful than countries. Concurrently, regional economic blocs such as ASEAN and NAFTA form strong economic bases around the world.
- *The gap between the affluent and the deprived is widening.* National wealth continues to be distributed inequitably in both developing and developed countries. This causes tension between communities and increases the risk of conflicts.
- *Changes in the environment and demographics create uncertainty.* Global warming and environmental pollution are two of the major problems the world is facing today. They create economic and political tensions between countries over scarce resources such as water, yet a solution to these problems still doesn't seem to be near. Concurrently, the world population is increasing to an expected population of 9 billion people. The population in developed countries is rapidly ageing while birth rates are going down, causing a struggle for job openings to be filled adequately. In developing countries, on the other hand, the population is young and many jobs will need to be created for them in the near future. It is still unclear whether the economic growth in developing nations will create enough jobs for young people in their own countries and whether economic migration will decrease as a result of that.
- *The impact of technology on business and society continues.* The rate at which new technology is invented and put to use is still accelerating, creating new opportunities and at the same time, new unforeseen threats. Ultra modern

materials and manufacturing techniques, such as nano-technology have the potential to disrupt complete industries.

- *The demand for more transparency and information increases.* Analysts, banks, shareholders and society are monitoring more actively what an organization is doing and not doing. At the same time, the possibilities to generate data and the social media are causing increasing difficulties for governments worldwide to control the flows of information, and the same is valid for the top management of a company.

As managers are expected to realize the goals of the organization by achieving outstanding performance in their organizational unit, they are constantly under pressure to deal effectively with the current business environment. At the same time, they are always short on time because of the numerous demands on them and therefore they need a strong focus on what really matters to improve the performance of the organization. As a consequence, managers have become strongly interested in knowing the characteristics of high performance as these will help them in their quest for excellence.

### **1.1 Introducing the High Performance Organization Framework**

To help managers find ways to improve their organizations, the HPO Center started a five-year research project into the factors of sustainable high performance. The result of this research, the High Performance Organization (HPO) Framework, is one of the subjects discussed in this book as are many real-life examples illustrating the workings of the HPO Framework at organizations worldwide. As opposed to many previous publications on organizational performance, this book describes not just a theory on high performance but also a vast number of case studies in which this theory was put into practice. Successively it goes into the search for the factors of sustainable high performance, the construction of the HPO Framework, and the positive effects of applying the HPO Framework at all types of organizations worldwide. Also, in contrast to previous studies into HPOs, longitudinal research was performed in which companies were followed and studied while they worked with the HPO Framework. This allowed establishing the benefits of applying the HPO Framework in terms of better financial and non-financial results, and consequently the HPO Framework currently is the only improvement methodology that has been scientifically validated to help organizations achieve better performance. Therefore managers can take the lessons learned by the case study organizations using the HPO

Framework and the best ideas of the HPO Leaders that are interviewed throughout the book, to heart in the knowledge that these can and will help them to turn their organizations into HPOs.

### ***What is the HPO Framework?***

The HPO Framework is a conceptual, scientifically validated structure which practitioners can use for deciding what to do to improve organizational performance and make it sustainable. It isn't a set of instructions or a recipe which can be followed blindly. Rather it is a framework that has to be translated by managers to their specific organizational situation in their current time, by designing a specific variant of the framework fit for their organization. This is bad news for bad managers, as the HPO Framework doesn't provide a blueprint. It is however good news for good managers, as they can put in their own experience, expertise and creativity while transforming their organizations into HPOs.

## **1.2 Defining the high performance organization**

The HPO Center defines an HPO as follows:

*A High Performance Organization is an organization that achieves financial and non-financial results that are exceedingly better than those of its peer group over a period of time of five years or more, by focusing in a disciplined way on that what really matters to the organization.*

This definition consists of several interesting parts worth discussing:

- High performance is relative. In other words, performance can only be denoted as 'high' when it is compared to a peer group. This peer group comprises competitors, in the case of profit companies, or comparable organizations, in the case of non-profit organizations or governmental agencies.

- Organizations which have done well for a period of only one, two or three years are not considered to be HPOs. High performance is characterized by sustainable good results over a prolonged period of time. So an HPO not just performs well because it was lucky but because it has been doing the right things right.<sup>3</sup> The limit of five years was chosen because the assumption was that most organizations have a strategic plan, with an average time horizon of three years, aimed at increasing performance and beating the peer group. After five years it can be evaluated in retrospect whether the organization has indeed achieved its aim of doing better than the peer group. Another reason for choosing five years was that the average life span of an organization is approximately 12 and a half years and is still going down. Thus, if an organization performs much better than its competitors for almost half of the expected life span of a 'normal' organization, it can rightfully be said to be an HPO.<sup>4</sup>
- Recent research shows that it is very difficult for organizations to achieve consistent growth, even at modest rates. The case studies in this book reveal that HPOs know what makes them prolonged successful. They have the discipline not to be distracted by the newest management fad but to stick to their knitting. This means that they continue to do what made them successful (processes, systems, behavior) and that their improvement efforts will always be aimed at making these continuously better. The main reason for HPOs to start something different is if they see an opportunity to strengthen their core capabilities and competences. HPOs also know that deviating from this path may mean getting into trouble and declining performance, so management is keen on keeping the discipline.<sup>5</sup>

### 1.3 Benefit of HPO and the HPO Framework

What is the benefit of being an HPO? Table 1.1 shows the financial returns of an HPO compared to its peer group. The figures are based on results of HPOs provided in the literature. The returns are given as ranges rather than single numbers because they differ per industry, as each industry has its own financial profile. For instance, a profitability margin of 4 percent in a supermarket would be very good, while in the banking industry (at least, in the old days) it would be substandard. Only those financial returns have been included in the range which have been reported in more than one HPO study. The estimation of the range is conservative, therefore overly large outcomes have not been included in the listing. On the basis of the

comparison, an organization can theoretically expect the following improvements versus its competitor when it becomes an HPO: revenue growth will be 4 to 16 percent higher; profitability 14 to 44 percent better; ROA, ROE, ROI and ROS 1 to 26 percent higher; and TSR 4 to 42 percent higher.

Type of financial return	Return of HPO versus 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

**Table 1.1: The returns of an HPO versus its peer group**

It is somewhat difficult to compare the non-financial performances of HPOs against its peer groups because non-financial indicators tend to differ per industry. However, several HPO studies give clear indications that HPOs generally have higher customer satisfaction, higher customer loyalty, and higher employee satisfaction, higher quality, less complaints, more innovative products and services, and a better reputation than non-HPOs.

In Chapter 9 the benefits of applying the HPO Framework will be discussed, based on the numerous case studies. At this time it can already be said that the practical experience at case organizations in many different countries shows that applying the HPO Framework indeed helps an organization to achieve better financial and non-financial results. Not only does the framework help organizations pinpoint its current status and strong and weak points, but it also provides clear indications and suggestions for organizations which need to be addressed in order to become an HPO. The HPO Framework has been so extensively tested in sector comparative studies and in longitudinal research, that it can be safely stated that it pays to apply the framework to become an HPO!

## Toyota: an HPO in crisis

***'On August 28<sup>th</sup>, 2009, Toyota, the world's largest and most profitable car manufacturer, stopped being an HPO'***

On that day the first accident happened with a Toyota, which triggered a recall of more than 10 million vehicles in 2009 and 2010 and a loss of more than US\$4 billion for fiscal year 2009. In San Diego, USA, the gas pedal of a Lexus got stuck under the floor mat causing the car to run out of control and off the road, killing its occupants. However, the accident did not set off a whole series of improvements at Toyota, as it once would have done in a manner which gained the company a reputation for its world-class processes.<sup>6</sup> But Toyota was no longer the robust company of the earlier days, the company which had risen from the brink of bankruptcy in the fifties and had achieved a stretch of 50 consecutive years of profitability – a record unheard of in manufacturing industries – to become the biggest car manufacturer in the world. A company known for its excellence in manufacturing processes and its continuous improvement culture, collectively known as the Toyota Way.<sup>7</sup> Toyota was in 2010 rapidly losing its reputation as HPO and everyone wondered: what happened?

The answer was given by Akio Toyoda, president of Toyota Motor Corporation:<sup>8</sup> “Toyota has, for the past few years, been expanding its business rapidly. Quite frankly, I fear the pace at which we have grown may have been too quick. I would like to point out here that Toyota’s priority had traditionally been the following: first, safety; second, quality; and third, volume. These priorities have become confused and we were not able to stop, think, and make improvements as much as we were able to before, and our basic stance to listen to customers’ voices to make better products has weakened somewhat. We pursued growth over the speed at which we were able to develop our people and our organization, and we

should sincerely be mindful of that.” Subsequent analysis by both Toyota and outside researchers revealed weaknesses in the once so strong company. Because of the rapid growth and the tendency that had developed among Toyota’s management to put quantity above quality in order to achieve the top spot in car manufacturing, the company had lost its intense focus on understanding customers concerns, taking these seriously and addressing them as quickly and best as possible. In addition, the company had become bureaucratic with outdated lines of communication, decision and accountability, and a tendency towards smugness so it took too long to respond to issues. And to make matters worse, several business practices which had served the company well for so many years were no longer applied, such as only building what was sold so no inventory would build up, and only expanding when there was enough trained personnel to do so in a quality controlled manner. In conclusion, the company no longer practiced what it had preached and what had made it so successful: the relentless focus on quality. Management no longer had the discipline to withstand the economic pressures of selling more at the expense of quality.

Will Toyota become an HPO again? It lost its position to General Motors as the world’s largest car manufacturer, it has not returned to its former profitability yet, and severe damage was done to its reputation and brand. However, it seems that the company has seized the crisis to go back to its old ways and culture and that it is doing now more of what it had been doing right in all those decades before the recall crisis began. This is a promising sign and hopefully the company will become ‘the poster boy’ of HPOs once again.

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## 1.4 Setup of this book

*What Makes a High Performance Organization: Five Validated Factors That Apply Worldwide* is meant for anyone interested in improving organizations, using a scientifically validated framework instead of depending on the latest management fad. The book consists of nine chapters. After introducing in Chapter 1 the HPO and the HPO Framework and their accompanying benefits, Chapter 2 concentrates on the research done by the HPO Center to develop the HPO Framework for practitioners to improve organizational performance. Five factors of high performance – the HPO factors – are introduced as well as several factors that during the research turned out to be of lesser importance than always thought for becoming an HPO. In this chapter the question is also raised, and answered, whether the five HPO factors will remain the same through time and thus whether they will still be relevant for managers in the future. Chapter 2 concludes with the practical application of the framework by introducing the HPO Diagnosis. The working of the diagnosis is illustrated by the experiences at two case companies. Chapters 3 through 7 go in more detail into the five HPO factors. They describe the underlying characteristics of high performance, and ideas to get started – originating from the HPO research and other recent organizational studies – with improving the characteristics. Chapter 8 gives the steps which need to be taken to make the transition to an HPO. Finally, in Chapter 9 the added value of the HPO Framework is discussed, based on the experiences of organizations and researchers while working with the framework.

### Introducing the HPO leaders

In the past years the HPO Center undertook many case studies to study the workings of an HPO, the experiences of organizations with the HPO Diagnosis, and how organizations go about the transition to HPO. Many of these case studies can be found scattered in between the chapters. In preparation for this book the HPO Center also conducted interviews with 11 HPO Leaders, managers who were either working at an HPO or who were turning their organizations into HPOs. They were willing to share their experiences and ideas with us. Each chapter contains quotes from the interviewees to illustrate the subject matter treated in the chapter. We interviewed the following managers:

- *Air France – KLM Royal Dutch Airlines, France/the Netherlands: Arend de Jong, senior vice president Internal Audit & Internal Control – KLM Royal Dutch Airlines is the airline of the Netherlands and is part of the Air France-KLM group. KLM*

operates worldwide scheduled passenger and cargo services to more than 90 destinations. Its hub and spoke system is based at Amsterdam Airport Schiphol and its core business is the transfer of passengers from origins to destinations both inside and outside of the Netherlands. KLM is the oldest airline in the world still operating under its original name and has approximately 30,000 employees. In May 2004 the merger of KLM with Air France created Air France-KLM. Arend de Jong started as assistant controller and later became corporate controller of KLM. Currently he is senior vice president internal audit and internal control of the Air France – KLM group.

- *HP, United Kingdom: Huw Owen, former CEO of HP Defense & Security* – HP (formerly Hewlett-Packard) is one of world's largest technology services providers, delivering flexible technology, applied innovation, collaborative expertise and service excellence to organizations. As part of HP, HP Defense & Security has provided technology to UK forces which allows NATO-compatible information sharing at the frontline, ensuring that soldiers, sailors and airmen can do their jobs. HP Defense & Security partners with the UK Ministry of Defense through the ATLAS Consortium to help transform business administration processes within the British Armed Forces. HP Defense & Security is leading this consortium charged with delivering the new Defense Information Infrastructure. Hugh Owen led the ATLAS Consortium and at the time of the interview was the chief executive officer of HP Defense & Security. At both organizations he was working with the HPO Framework.
- *Microsoft, USA: Rik van der Kooi, Corporate VP, Advertiser and Publisher Solutions* – The story of Microsoft is well-known. Established in 1975 by Bill Gates and Paul Allen in Albuquerque New Mexico, the company has grown to the largest and one of the most profitable and well-known IT providers in the world, now under the leadership of Steve Ballmer. The company has succeeded in consistently being at the forefront of developments in the industry while being a first choice employer for graduates and being very profitable. Rik van der Kooi is based at Microsoft's headquarters in Redmond, Washington, where he joined in 2005 as chief financial officer of the Online Services Division. Currently he is Corporate Vice President of Advertiser and Publisher Solutions, in charge of Microsoft's digital advertising business.
- *Microsoft, the Netherlands: Theo Rinsema, general manager Microsoft the Netherlands* – Microsoft Netherlands is the pioneer of the New Way of Working concept,

which aims at achieving time and location independent working. This means that it does not matter when or where Microsoft employees work, they have almost complete freedom in this as long as they achieve the agreed upon targets. Because of the flexibility this provides it is easier for employees to combine work and private life, which works as a big morale booster. This New Way of Working requires a new way of managing as people do not keep regular office hours and are not that often in the building anyway, so the factor trust has become increasingly important in the relation between manager and employee. Physically the New Way of Working takes shape in the building of Microsoft Netherlands which does no longer have offices or cubicles but consists of open spaces, concentration rooms and a sophisticated coffee bar. Theo Rinsema is the person who introduced the New Way of Working concept at Microsoft.

- *SABMiller, Europe: Alan Clark, managing director* – SABMiller plc is one of the world's largest brewers, with brewing interests and distribution agreements across six continents. The group's wide portfolio of brands includes premium international beers such as Pilsner Urquell, Peroni Nastro Azzurro, Miller Genuine Draft and Grolsch, as well as leading local brands such as Aguila, Castle, Miller Lite, Snow and Tyskie. SABMiller is also one of the world's largest bottlers of Coca-Cola products. SABMiller Europe's brewing operations cover 10 countries, and in the majority of these countries the company is the number one or two brewer by market share. The company also exports significant volumes to a further eight European markets of which the largest are the United Kingdom and Germany.
- *Schuberg Philis, the Netherlands: Pim Berger, founder/managing director & Ilja Heitlager, information officer* – Schuberg Philis is an IT outsourcing company which offers the highest service quality for mission critical applications of organizations, fully committing to a 100 percent uptime. This means that the customer is guaranteed that its IT systems which are critical for its operations will function 24/7 365 days per year, without exception. After fully analyzing the risks with customers, Schuberg Philis takes full responsibility for the systems. In case of issues, Schuberg Philis will suffer financial penalties which are taken without discussion. Schuberg Philis has the best reputation in the industry, has the most active promoters among its customers, is seen by the most customers as a strategic partner, and thus achieves the best financial results in the industry.

- *Svenska Handelsbanken, Sweden: Mikael Sørensen, general manager the Netherlands* – Svenska Handelsbanken is a Swedish bank with branches in Sweden, the United Kingdom, Western and Eastern Europe, Russia, Asia and USA, and approximately 10,000 employees. The bank has for more than 40 years consistently outperformed other European banks on performance indicators such as return on equity, total shareholder return, earnings per share, cost-income ratio and customer satisfaction. The bank is successfully obtaining its goal year after year, which is to have a higher profitability than the average for its competitors. In the process, Svenska Handelsbanken has been the first bank of choice for graduates for years and has the lowest turnover in the industry; it has the highest customer satisfaction, the least complaints, the lowest credit losses in the industry, and the best financial results in the industry.
  
- *Tata Steel, the Netherlands: Jan Maas, Director Change Supply Chain Transformation* – In 1999 Koninklijke Hoogovens N.V., based in the Netherlands, merged with British Steel Plc to form Corus, which was subsequently taken over in 2007 by Tata Steel. Tata Steel Group manufactures, processes and distributes steel products and services to customers worldwide. The company is now Europe's second largest steel producer with annual revenues of around £12 billion and a crude steel production of over 20 million tons. Jan Maas was, at the time of the interview, director services at Tata Steel in IJmuiden, the Netherlands, in charge of IT, logistics, security, maintenance, buildings, and third party vendors.
  
- *Umpqua Bank, USA: Lani Hayward, executive vice-president Creative Strategies* – Umpqua Bank is one of North America's most successful banks. Established in 1953 in Oregon as the National Bank of Oregon, it transformed from a small, solid but rather inconspicuous bank with five branches in Oregon into a company with US\$7 billion of assets, 120 branches in several states, high profitability and large market share, extremely loyal employees who are hardly ever ill and almost never leave, and a product portfolio formula which has won several prizes. The bank also did not suffer too much during the credit crisis because it had been focusing not only on its shareholders but on its stakeholders as well, thus taking decisions which were in the long-term interest of all parties involved. Lani Hayward is executive vice-president in charge of developing and executing creative strategies.

- *Unilever, Europe Middle East Asia: Lennard Boogaard, vice president Human Resources, Unilever Turkey, Israel, Iran & Central Asia* – One of the best-known companies in the world is Unilever, the British-Dutch organization that owns many of the world's consumer product brands in foods, beverages, ice cream, cleaning agents and personal care products (for example: Ben & Jerry's, Dove, Colman's, Slim-Fast, Lipton and Vaseline). Unilever has operating companies in more than 100 countries, owns more than 400 brands, achieves a turnover of US\$40 billion, and has some 200,000 employees. The company focuses its marketing efforts mainly on its billion-dollar brands, a limited number of brands that achieve annual sales in excess of US\$1 billion. Well-known brands include Blue Band, Dove, Flora/Becel, Knorr, Axe/Lynx and Hellmann's. From its origin Unilever always put much emphasis on creating a social working environment. Lennard Boogaard is in charge of the human resources of Unilever's operations in Turkey, Israel, Iran and Central Asia.
  
- *Ziggo, the Netherlands: Martine Ferment, former vice president Ziggo Customer Relations* – Ziggo is a Dutch media and communications services provider, serving approximately 3.1 million households, 1.5 million broadband Internet customers, 1.8 million digital television customers and 1.2 million telephone subscribers. In addition, business-to-business clients use services as data-communication, telephony, internet and television. The enterprise owns a next-generation-network through which it can supply bandwidth for all future services expected at present. Martine Ferment was interim vice president of Ziggo Customer Relations, the unit that deals with servicing customers. She has used the HPO Framework to transform Ziggo Customer Relations into an HPO.

## **KEY POINTS CHAPTER 1**

- In the modern highly complex business world, managers feel a great pressure to make their organizations high performing. This is why there is a strong interest among managers in knowing the characteristics of high performance organizations. These characteristics can serve as a guideline for improving the organization and achieving sustained high performance.
- A High Performance Organization (HPO) is defined as: *an organization that achieves financial and non-financial results that are exceedingly better than those of its peer group over a period of time of five years or more, by focusing in a disciplined way on that what really matters to the organization.*
- In 2003 the HPO Center started a research project to examine the determinant factors of sustainable high performance. In five years time, people from 1,470 organizations in 50 different countries spread across five continents participated in this project. It resulted in the HPO Framework, a conceptual, scientifically validated structure which practitioners can use for deciding what to do to improve organizational performance and make it sustainable.
- Since 2007, the HPO Framework has been applied in many different industries in different countries. The case studies described in this book show that organizations which use the framework actually start to perform better than they did before.

## Umpqua Bank (USA): a passion for excellence

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### KEY MESSAGE

Although many competing banks have visited Umpqua Bank to see how they could copy what the bank was doing, none of them has yet succeeded in reproducing its success. Copying a successful organization does not automatically create an HPO. An organization can learn from an HPO, but at the same time it has to develop its own HPO vision and tailor it to the organization's specific requirements and circumstances.

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In the Pacific North-West of the United States there is a mid-sized bank which is extremely successful and which has hardly been affected by the financial crisis. Umpqua Bank was established in 1953 in Oregon by six people who worked at that time in the logging industry. For decennia the bank, at the time called National Bank of Oregon, was a little-known, small bank with moderate profitability. This changed when in the 1990s Ray Davis was appointed as chief executive officer. Under his inspired leadership, Umpqua Bank transformed into a company with almost US\$12 billion of assets, 186 branches in several states, high profitability and large market share, extremely loyal employees, and a product portfolio formula which has won several awards.

How did Davis accomplish this turnaround? Fortunately he has not kept his approach a secret as Davis has described it in his stimulating book titled *Leading to Growth*.<sup>9</sup> A striking fact in the story of Umpqua Bank is that the bank's strategy is unique in the sector: the bank considers itself a retail business rather than a financial services provider. That is why its branches are fitted out as if they are stores and its employees are send on 'training missions' to large successful American retail trading companies

and hotel chains like Ritz-Carlton to learn how to behave in a customer friendly way with clients. Everything within Umpqua Bank (processes, products, reward systems, training courses) is aimed at executing this unique strategy as best one can. Initially Davis was laughed at by his peers because of his deviant approach but later on the same people were queuing to visit Umpqua Bank's stores. Another success factor at Umpqua Bank is the quality of the management and more specific the fact that managers function as role models for employees. Umpqua Bank's managers feel a true passion for their clients, employees and society (that is, the areas in which the stores are situated) and have a firm discipline to always look out for the interests of these stakeholders. They give their employees a lot of responsibility and at the same time address the results they achieve, and swiftly deal with non-performers. The core skills the company is looking for in an excellent manager can be described as follows: (1) develop a broad view on the business; (2) have the discipline to stick to the plan; (3) have a clear vision on the future of the company; (4) lead the way in change; and (5) implement the strategy successfully. Further, it is allowed to make mistakes as long as people learn from these.

It is therefore no wonder that Umpqua Bank likes to experiment with ways to make itself more appealing to its clients. In the last chapter, Davis states the essence of his book very succinctly: "In this book I have focused on leading for growth – not because getting bigger is the goal, but because getting better is. Growth means many different things. On a personal level, it means developing maturity, self-insight, even wisdom. In an organization, it means developing a deeper understanding of your organization and the markets you serve, increasing your bench strength, improving your products and services, and much more. Every organization has to be committed to the relentless pursuit of progress if it wants to stay vibrant and relevant. Making progress is a never-ending journey, one with no finish line."<sup>10</sup>

Does the above sound too good to be true? To investigate this we travelled to Portland, to visit the Umpqua Bank store in Pearl Street, downtown Portland. This is our report on the visit. “When you enter a store of Umpqua Bank initially you don’t notice anything remarkable. Yes, the store is spacious and decorated in a non-standard, local theme. There is free freshly brewed coffee and comfortable seats to relax and even computer terminals with free internet access. Ray Davis already wrote in his book that people of many competing banks visited Umpqua Bank stores and then quickly concluded that they could perform the same tricks as Umpqua Bank. The comfortable seats have by now been copied in every bank in the United States, there is free coffee and also free internet for customers. But still, these banks do not resemble Umpqua Bank in the slightest. That is because it takes you a while before you start to notice what ‘it’ is that makes Umpqua Bank different. For instance, when you enter the building there are no counters with people who look at you with a gaze of ‘What are you doing here?’ Nobody notices you taking a second cup of free coffee. We see a business man entering hastily to plug in his mobile phone to recharge it as he is expecting an important call and his battery is almost dead. He then grabs a cup of coffee and sits down to answer his call and ... not one of the Umpqua Bank associates (as store employees are called) bothers him. At a computer terminal two elderly gentlemen are printing stuff and occasionally speak to each other. A moment later two business women enter. It turns out they just met on the street and decided to enter the store to sit down in a quiet corner to chat to each other and do some business. We suddenly perceive it: all these people feel at home in the Umpqua Bank store, something we would never have dreamed to happen at a bank. These people use the Umpqua Bank store as a part of their daily life and routine, the store is part of their community. It provides them with a place to meet people, drink coffee, and, oh yeah, do some banking business.

## INTRODUCTION

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From the sitting room only one Umpqua Bank associate is visible. He stands next to a sort of counter, looks at everybody with a friendly gaze, nods at the people he knows, which is most of them. He talks to some of them, not so much about banking business but about their daily life. This makes him part of the people's lives, he knows when you go on holiday or when somebody is sick in your family. He tells us how much he enjoys his job. He worked in the restaurant business for 15 years and the skill he has learned there, to make contact with people without being pushy, he uses at the Umpqua Bank store every day. He mainly listens and knows how to put you and your affairs central in the conversation. Through following training courses he has learned the banking business and it is no problem if sometimes he doesn't know all the details, he can ask any of his three colleagues in the store. He introduces us to his colleagues, who are positioned behind open counters at the back of the store. These associates all have different backgrounds: one originates from the hotel industry, the second used to work in supermarkets, and the third turns out to have experience in banking. When we leave the store we know that we have really connected with Umpqua Bank, we now know what makes this company so special."

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# Chapter 2

## **Foundations of the HPO: *research that spans the world***

This chapter describes the research that resulted in the development of the HPO Framework, a conceptual structure which managers can use to improve organizational performance. The framework provides a definition of the concept of the HPO – which was discussed in Chapter 1 – and five factors of high performance – the HPO factors – with their 35 underlying HPO characteristics. The research indicated that some activities in organizations which most people consider important for achieving high performance, were not really distinguishing for becoming an HPO. After a brief list of those activities, one of these, the implementation of bonuses and reward systems, is discussed in more detail. The sections that follow discuss why the HPO factors are important both now and in the future, and how the HPO research and the HPO Framework differ from previous research on high performance. The chapter concludes with a description of the HPO Diagnosis, a practical tool to apply the HPO Framework, used to evaluate how far along the path to high performance an organization is.

### **2.1 Global HPO research**

The HPO Framework was developed after a two-phased research project to examine the determinant factors of sustainable high performance. It consisted of a descriptive literature review (Phase 1) and an empirical study in the form of a worldwide implemented questionnaire (Phase 2).<sup>11</sup> Phase 1 started with collecting the studies on high performance and excellence that were to be included in the literature review. The criteria used were:

- (1) The study was aimed specifically at identifying HPO factors or best practices.

- (2) The study consisted of either a survey with a sufficient large number of respondents, allowing generalization of the results, or in-depth case studies of several companies, which meant the results were valid for more than one organization.
- (3) The study employed triangulation by using more than one research method.
- (4) The study included written documentation containing an account and justification of the research method, research approach and selection of the research population, a well-described analysis, and retraceable results and conclusions allowing assessment of the quality of the research method.

The literature review covered 290 studies which satisfied one or more of the four criteria. These studies formed the basis for identifying the potential HPO characteristics, which were required for developing the questionnaire in Phase 2. The studies were put in several study categories depending on the rigor with which the study had been conducted (e.g. from purely scientific to 'based on my experience'). The identification process of the HPO characteristics consisted of a succession of steps. First, elements were extracted from each of the publications that the authors themselves regarded as essential for high performance. These elements were then entered in a matrix. Because different authors used different terminologies in their publications, similar elements were placed in groups under a factor and each group – later to be named 'characteristic' – was given an appropriate description. Subsequently, a matrix was constructed for each factor listing a number of characteristics. A total of 189 characteristics were identified. After that, the 'weighted importance', i.e. the number of times a characteristic occurred in the individual study categories, was calculated for each of the characteristics. Finally, the characteristics with a weighted importance of at least 9 percent were designated characteristics that potentially make up an HPO. A cut-off percentage of 9 percent was chosen as there was a natural gap around this percentage: several characteristics scored considerably below 9 percent while the next closest scoring characteristics scored considerably higher than 9 percent. The cut-off resulted in a list of 53 potential HPO characteristics. The research in Phase 1 was partly replicated by Cranfield University, which confirmed the conclusion.<sup>12</sup>

In Phase 2 of the HPO research the 53 potential HPO characteristics were included in a questionnaire which was presented to managers and employees during lectures and workshops all over the world. The respondents of the questionnaire – originating from profit, non-profit and governmental organizations from



**Figure 2.1: Graphic representation of the HPO Framework**

50 countries –were asked to grade how well their organization performed on the various HPO characteristics on a scale of 1 (very poor) to 10 (excellent) and also how their organizational results were, compared to those of peer groups. The questionnaire yielded 2,515 responses. With a statistical analysis, 35 characteristics with both a significant and a strong correlation with organizational performance were extracted and identified as the HPO characteristics. The statistical analysis also revealed that these 35 characteristics could be categorized into five factors, the HPO factors. These are described in the section 2.2.

The HPO research showed that there is a direct and positive relationship between the five HPO factors and competitive performance: the higher the scores on the HPO factors (HPO scores), the better the results of the organization, and the lower the HPO scores the lower the competitive performance. The research also

showed that all HPO factors need to have equal scores. If for instance four HPO factors score an 8 (out of 10) and one factor a 5, the organization will not be able to function as an HPO because it is out of balance. An easy way to visualize this is to imagine a child's propeller (Figure 2.1). When exposed to the wind, it spins around at a constant speed. However, if one of the strings breaks, the propeller will no longer turn around smoothly and will eventually break down. It illustrates that an organization should distribute its attention evenly across the five HPO factors to make sure none of these will be 'broken' and hold back the organization. Working on just one HPO factor, or only a few characteristics, without paying attention to the other HPO factors or characteristics in due course, will not help the organization in the long run.

## 2.2 Five factors of high performance

This section briefly describes the five factors of high performance – the HPO factors. A more in-depth explanation of each factor is provided in Chapters 3 to 7. Table 2.1, at the end of this section, lists the 35 HPO characteristics that underlie the HPO factors, in order of importance within a factor.

### HPO factor 1: Management Quality

In an HPO, managers at all organizational levels maintain trust relationships with employees by valuing their loyalty, treating smart people with respect, creating and maintaining individual relationships with employees, encouraging belief and trust in others, and treating people fairly. Managers in an HPO work with integrity and are a role model to others, because they are honest and sincere, show commitment, enthusiasm and respect, have a strong set of ethics and standards, are credible and consistent, maintain a sense of vulnerability and are not self-complacent. They are decisive, action-focused decision-makers, avoid over-analysis and propose decisions and effective actions, while fostering action-taking by others. HPO managers coach and facilitate employees to achieve better results by being supportive, helping them, protecting them from outside interference, and by being available to them. 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 in an HPO develop an effective, confident and strong management style by communicating the values and by making sure the strategy is known to and embraced by all organizational members.

## HPO factor 2: Openness & Action Orientation

In addition to having an open culture, an HPO uses the organization's openness to achieve results. In an HPO, management values the opinion of employees by frequently having dialogues with them and involving them in all important business and organizational processes. HPO management allows experiments and mistakes by permitting employees to take risks, being prepared 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 a lot of time on dialogue, knowledge exchange and learning in order to obtain new ideas to improve their work and make the complete organization performance-driven.

## HPO factor 3: Long-Term Orientation

In an HPO, long-term gain is far more important than short-term profit. This long-term orientation is extended to all stakeholders of the organization, that is, shareholders as well as employees, suppliers, clients and society at large. An HPO continuously strives to enhance customer value creation by learning what customers want, understanding their values, building excellent relationships and having direct contact with them, involving them in the organization's affairs, being responsive to them, and focusing on continuously enhancing customer value. An HPO maintains good long-term relationships with all stakeholders by networking broadly, taking an interest in and giving back to society, and creating mutual, beneficial opportunities and win-win relationships. An HPO also grows through partnerships with suppliers and customers, thereby turning the organization into an international network corporation. Management of an 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 first. They grow new management from their own ranks by encouraging staff to become leaders, filling positions with internal talents, and promoting from within. An HPO creates a safe and secure workplace by giving people a sense of safety (physical and mental) and job security and by using dismissal as a last resort.

### HPO factor 4: Continuous Improvement & Renewal

The process of continuous improvement starts with an HPO adopting a unique strategy that will set the company apart by developing many new alternatives to compensate for dying strategies. After that, an HPO 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 organization also measures and reports everything that matters, so it measures progress, monitors goal fulfillment and confronts the brutal facts. It reports these facts not only to management but to everyone in the organization, allowing all organizational members to access financial and non-financial information needed to drive improvement. People in an HPO feel a moral obligation to continuously strive for the best results. The organization continuously innovates products, processes and services, constantly creating new sources of competitive advantage by rapidly developing new products and services to respond to market changes. It also masters its core competencies and is an innovator in these core competencies by deciding on and sticking to what the company does best, keeping core competencies inside the firm and outsourcing non-core competencies.

### HPO factor 5: Employee Quality

An HPO makes sure it assembles a diverse and complementary workforce and recruits people with maximum flexibility to help detect problems in business processes and to incite creativity in solving them. An HPO continuously works on the development of its workforce by training staff to be both resilient and flexible, letting them learn from others by going into partnerships with suppliers and customers, inspiring them to improve their skills so they can accomplish extraordinary results, and holding them responsible for their performances and with that encouraging them to be creative in looking for new productive ways to achieve the desired results.

*HPO factor 1: Management Quality*

1. Management is trusted by organizational members.
2. Management has integrity.
3. Management is a role model for organizational members.
4. Management applies fast decision making.
5. Management applies fast action taking.
6. Management coaches organizational members to achieve better results.
7. Management focuses on achieving results.
8. Management is very effective.
9. Management applies strong leadership.
10. Management is confident.
11. Management always holds organizational members responsible for their results.
12. Management is decisive with regard to non-performers.

*HPO factor 2: Openness & Action Orientation*

13. Management frequently engages in a dialogue with employees.
14. Organizational members spend much time on dialogue, knowledge exchange and learning.
15. Organizational members are always involved in important processes.
16. Management allows making mistakes.
17. Management welcomes change.
18. The organization is performance driven.

*HPO factor 3: Long-Term Orientation*

19. The organization maintains good and long-term relationships with all stakeholders.
20. The organization is aimed at servicing the customers as best as possible.
21. Management has been with the company for a long time.
22. New management is promoted from within the organization.
23. The organization is a secure workplace for organizational members.

<i>HPO factor 4: Continuous Improvement &amp; Renewal</i>	
24.	The organization has adopted a strategy that sets it clearly apart from other organizations.
25.	In the organization processes are continuously improved.
26.	In the organization processes are continuously simplified.
27.	In the organization processes are continuously aligned.
28.	In the organization everything that matters to performance is explicitly reported.
29.	In the organization relevant financial and non-financial information is reported to all organizational members.
30.	The organization continuously innovates its core competencies.
31.	The organization continuously innovates its products, processes and services.
<i>HPO factor 5: Employee Quality</i>	
32.	Management inspires organizational members to accomplish extraordinary results.
33.	The resilience and flexibility of organizational members is continuously strengthened.
34.	The organization has a diverse and complementary workforce.
35.	The organization grows through partnerships with suppliers and/or customers.

**Table 2.1: The five HPO factors and their underlying 35 HPO characteristics**

“If your company is an HPO it will all be easier, more efficient, and more effective sailing. You will always have issues, however these will be issues that you will be capable of dealing with. If you are not an HPO, if you are not well aligned, if you don't have a common foundation, if everybody doesn't know where they are going and don't feel valued, people will not go the extra mile. As an HPO, you have got the ability to do an awful lot more than a non-HPO. Because people will step up and they will do more when required. So it means that you have got more agility, are more responsive, have got more fuel in your tank. If you have got an

underperforming business where people are frustrated and bitter, they will do the bare minimum that they can get away with to get their pay check and go home. Which means that you are less agile and less effective. As a high performing business you have got a far greater chance of ploughing through the challenges with a minimal amount of disruption.”

*Huw Owen, HP D&S*

## 2.3 Non-distinguishing factors

Below is a list of some of the techniques, methods and activities that organizations often apply to become high performing:

- defining a clear vision, mission and strategy
- enhancing trust in leadership
- putting more focus on customers
- creating better career development opportunities
- improving processes with an improved information technology structure
- selecting and putting in a different organizational structure ('reorganize')
- implementing competence management
- lowering work pressures
- introducing servant leadership
- appreciating employees more for their efforts
- developing better listening skills in managers
- creating more two-way communication with employees
- laying off poor-performing employees.

All these techniques, methods and activities seem reasonable things to do. For most of them there is however little scientific proof that they actually improve performance in the short term or the long term. It is therefore difficult to say which

of them are important for achieving better performance. To find out more about this, the results of the HPO research described in the beginning of this chapter were further examined. The 189 potential characteristics of high performance found in the literature during Phase 1 were compared with the 35 HPO characteristics identified in Phase 2. The 154 characteristics which did not make it into the set of 35 were considered as factors which were not distinguishing for becoming an HPO. In the following paragraphs some of these factors are briefly discussed.

### Organizational Design / Structure

None of the characteristics concerning organizational designs and structures were HPO characteristics. All of them showed no correlation with high performance and can therefore be considered non-distinguishing for achieving the HPO status. It seems to make no difference (neither positive nor negative) whether management chooses a functional design, a process design or a matrix design for its organizational structure. Consequently, launching a reorganization to boost performance is not advisable. In fact, research keeps finding that most reorganizations fail to yield long-term performance improvement.<sup>13</sup>

### Employee Autonomy

It has been fashionable to empower employees but it does not necessarily contribute to high performance. The research results showed that a high level of autonomy had a negative correlation with competitive performance. Too much freedom for employees can lead to internal disorder and confusion if it is not backed up with sufficient means of coordination, and can thus seriously damage an organization. People want to have clarity about the goals, what is and what isn't allowed and what is expected of them. If they have that, they are happy to be empowered.

### Strategy

With regard to strategy, it turned out that it is not so much the chosen strategy that is important – as all characteristics concerning cost leadership, product differentiation and customer intimacy strategies showed no correlation with high performance – but the uniqueness of the strategy compared to competitors in the same industry. Adopting merely a 'me-too' strategy is thus not enough to become an HPO.

### Technology/ICT

No correlation was found between technology/ICT and high performance. This may come as a surprise as many organizations spend a lot of time and resources on implementing new information and communication (ICT) systems with the intention to improve organizational performance. This will however not necessarily make them HPOs. Although several of the HPO factors – especially Continuous Improvement & Renewal – cannot be improved without ICT systems, the implementation of new systems and technology in itself does not make the organization perform better for over a longer period of time; such implementations have to support at least one of the HPO factors.<sup>14</sup>

### Benchmarking

The study results showed that benchmarking was less effective than expected for improving an organization. When an organization embarks on a benchmarking project it usually aims to identify best practices, emulate these and attain – at best – the same level as 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.<sup>15</sup>

### Communication

We often hear top managers saying “We have to communicate more ... then they will understand.” However, employees are usually not interested in understanding, they want to be heard. Thus it is not about communication – which can be defined as one-way traffic from manager to employee – but about dialogue. The HPO research showed that communication from managers to employees is not distinguishing for becoming an HPO, but dialogue between managers and employees is. In a dialogue there is two-way communication with listening and hearing on both sides, exchanging ideas and working towards mutual understanding and common understanding. In other words, less soap box speeches and town hall meetings and more round tables.

### Bonuses and reward systems

There is a continuous interest in the topic of bonuses and reward systems. The HPO research results show however that such systems are not distinguishing factors for

creating and sustaining HPOs but merely hygiene factors. The organization needs to have an appropriate reward system (whether or not including bonuses) which is considered by employees to be fair and equitable. If such a reward system is not in place, the organization will run into trouble and opposition from employees, and becoming an HPO will then be virtually impossible. If such a system is in place – and it does not seem to really matter what type of reward system as long as it is appropriate for the organization in question – employees will consider it normal and will be content, so the organization can start thinking of turning itself into an HPO.

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### **The bonus as hygiene factor: the role of reward systems in the HPO**

Ever since the financial scandals that rocked the business world and the worldwide financial crisis that followed, the debate on the effects of bonuses on the performance of especially managers and the role of reward systems in organizations has divided academics and practitioners alike. On one side are the proponents of bonuses, who state that use of bonuses and emphasis on monetary rewards increases productivity and organizational performance. On the other side are the opponents of bonuses and monetary rewards, who state that bonuses create higher pay inequality with as result greater manager and employee turnover, and the long-term effects of bonuses do not seem unequivocal positive. In the polemic between proponents and opponents a key question regarding bonuses is often overlooked: How important is handing out bonuses for an organization to become and stay successful for a longer period of time? A way to obtain an answer to this question is by studying the results of research into the characteristics of HPOs.<sup>16</sup>

In Phase 1 of the HPO research, 12 potential HPO characteristics with respect to bonuses and reward systems were identified:

- (1) *A fair reward and incentive structure:* employees have to see that reward systems pay out a fair compensation and that the reward system should value the employees.
- (2) *Reward systems that reinforce core values and strategy:* the best organizations devise and implement reward systems that reinforce their core values and strategies.
- (3) *Pay and incentives linked to long-term performance:* linking employee pay and incentives to long-term performance of the organization has a positive link with productivity.
- (4) *Rewards based on relative performance:* success should be rewarded based on relative performance versus competitors.
- (5) *Group compensation:* reward systems should emphasize group performance over individual performance.
- (6) *Creative and flexible rewards:* reward systems should reflect the flexibility in the market.
- (7) *Pay-for-performance:* people should be rewarded on the basis of performance-based pay, that is, only for the results they achieve.
- (8) *Emphasis on intrinsic rewards:* monetary rewards should be restrained in favor of more meaningful intrinsic rewards like fun, personal development, teamwork, challenge, accomplishment.
- (9) *Employee stock as incentive:* employees should be rewarded with stock in the company, increasing their commitment and financial interest in the company.
- (10) *A minimum threshold for incentive pay and no cap on pay-outs of incentives:* reward systems with a minimum threshold for incentive pay reduce costs whereas reward systems without a cap on pay-outs increase motivation to achieve extraordinary results.

- (11) *Skill-based pay*: reward systems should support employees in strengthening their skills by rewarding employees when they develop their knowledge and skills.
- (12) *Rewards for results, not efforts or seniority*: employees should be rewarded for their performance and not automatically for getting a year older or for just doing their best.

For the 12 characteristics the weighted importance was calculated and it became apparent that only one characteristic surpassed the threshold of a weighted importance of 9 percent: *a fair reward and incentive structure*. During the empirical study (Phase 2) this remaining characteristic did not show a significant correlation with competitive performance, which means that this characteristic in the end also was *not* related to organizational performance. This leads to the conclusion that having bonuses and reward systems is not a distinguishing factor for creating and sustaining HPOs. Thus, well-performing organizations are as likely to use bonuses or certain types of reward systems as they are not. Using bonuses will therefore not help nor hurt organizations in achieving sustained high performance.

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“At Svenska Handelsbanken we do not have bonuses. We have a profit-sharing system, which is completely different from a bonus system. If the bank reaches the corporate goal – which is to have a higher profitability than our competitors – then part of the profit is set aside for the employees. It is a fixed amount for every employee, no matter if you are CEO or a first year assistant. It is put into a fund where it stays until the employee retires, which gives you a long-term perspective instead of the short-term focus bonuses create. You are interested in how the bank performs in five and ten years because you will not get the money before you retire, in

twenty or thirty years. The money is invested on the market with the biggest investment being in Handelsbanken shares. This keeps the interest of employees in the bank's performance. And even if you leave Handelsbanken before you are 60, the money will remain in the fund for you until you are of that age.”

*Mikael Sørensen, Svenska Handelsbanken*

To prevent any misunderstanding: the HPO research does not show that the above-mentioned techniques, methods and activities are not important, some of them actually are. For instance, every organization needs a strategy, no doubt about it. Otherwise there is no course for people to follow. However, merely having a strategy does not make an organization an HPO because competitors also have strategies. The HPO research shows that having a *unique* strategy is distinguishing for becoming an HPO (see also section 6.1).

## 2.4 HPO factors: evergreens?

An important question is: will the HPO factors presented in this book stand the test of time?<sup>17</sup> Or in other words: will the HPO factors remain basically the same in the years to come and will the HPO Framework be useful in the foreseeable future? Especially the latter is important as managers want to be sure they are doing the right things to ensure the continuation of their organizations. Because HPO research studies by definition look at past experiences of organizations, the results of these studies should not be adopted indiscriminately. Circumstances change and other factors may have come into play. To find out whether the HPO factors and underlying HPO characteristics remain basically the same in the course of time, the HPO Center looked back on the period surrounding the rise of the ‘new economy’ in the mid-1990s. The 290 studies on high performance, that were examined in Phase 1 of the HPO research, were divided into two groups: studies performed in or before 1995; and studies performed after 1995. The year 1995 was chosen as dividing line because according to general consensus the ‘new economy’ started around that year. Globalization expanded significantly in the late-1990s, not in the least because of the rapid developments in ICT. At the same time, people became better educated and more articulate. Consequently, the business environment changed: the speed of

business increased, competition intensified landscape and employees became more demanding, all of which placed higher demands on management. As an illustration: from 1972 to 1995 the average growth rate of output per hour (a measure of labor productivity) in the USA was around one-percent per year. However, in the early years of the 'new economy' (1995-1999) the average growth rate rose to 2.65 percent.<sup>18</sup>

The HPO characteristics found in the pre-1995 studies were compared with those found in the post-1995 studies. It turned out that almost 90 percent of the characteristics found in the first group were also present in the second group.<sup>19</sup> Thus the HPO characteristics had remained basically the same in a period in which the overall business environment had changed considerably. This is a strong indication that the 35 characteristics of the HPO Framework are most likely 'evergreens of management' and can be regarded as characteristics that are always important for creating and maintaining an excellent organization, and to which managers always have to pay attention when devising the actions they need to undertake to lead their organizations to excellence and superior results. This outcome in itself is not surprising as many researchers state that, even though business environments of organizations change a lot, the competitiveness of the business environment and the work that managers perform do not.<sup>20</sup> The results of the comparison thus give a strong indication that the HPO Framework will be relevant for the future and can be used by organizations with the confidence that it will support them in their transition to HPO.

## 2.5 What makes the HPO Framework unique?

Since the 1960s practitioners and academics alike have become interested in what makes organizations perform better. This 'quest for excellence' received a major boost by the work of researchers such as Tom Peters and Jim Collins, who wrote best-sellers on high performance.<sup>21</sup> Since their pioneering work many publications on excellence and high performance have appeared. The literature review that was part of the HPO research described in this book encompassed already 290 publications over the period 1960s to 2007 and since that time an estimate of another hundred books and articles have appeared on this topic. So what makes the HPO Framework unique compared to previously developed high performance models?

The main difference concerns the selection of research subjects. Many researchers selected their research population based on financial analyses of organizations that perform excellently in a certain sector and then compared these with competitors that did not perform so well. They then determined the characteristics of high performance on the basis of these comparisons. Making

such a selection always brings with it an element of chance: was the correct information available and was the selection based on the right criteria? What if the organizations that were not selected had interesting and maybe even distinguishing characteristics, were these ignored? How can we be sure we have included all the relevant research subjects? In recent years this type of approach to high performance research of comparing the 'good' and the 'bad' is in academic circles considered inadequate.<sup>22</sup> In addition, most of the previous studies concentrated on the Western – predominantly North American – profit market while non-Western countries, including emerging markets and developing countries, and non-profit and governmental organizations were usually not taken into account. This limits a worldwide generalization of the results of these studies as well as the applicability in other than Western organizations.

In the HPO research described in this book no selection was made prior to research. In Phase 1, the studies that were going to be included in the descriptive literature review were not selected beforehand on the basis of 'good' and 'bad'. A broad set of studies from many different scientific disciplines and also the professional literature were studied. It was the most comprehensive literature study ever conducted,<sup>23</sup> which incorporated many different elements about organizational structure, human, emotional, strategic, material, resources, HRM, and the like. In Phase 2, the empirical part of the HPO research, the organizations that participated in the study were not selected in advance. Data were collected through questionnaires and interviews with organizations in many profit, non-profit and government sectors, in Western and non-Western countries, and finally both high, average and low performing organizations were included in the study. The fact that no selection was made in advance made it possible to generalize the outcomes, making them valid for different organizations and in different contexts.<sup>24</sup>

Another way in which the HPO Framework differs from previously developed models of high performance concerns the transparency and completeness of reporting. The reviewed studies often did not provide an exact account of how the data were collected and processed (e.g. which statistical methods were used). Also there was in many of the studies no proof of peer review or expert validation (by other researchers or scientific institutions). In the HPO research, on the other hand, openness was observed during the entire process. It was meticulously documented how the study was conducted and how the data were analyzed and processed. In addition, the research results (both intermediate and final) were regularly presented at scientific conferences and published in academic and practitioner journals. This way, the research was criticized and validated, as is common practice in science, yet not always practiced by all.<sup>25</sup>

A third reason why the HPO Framework and previous models are different has to do with the claims of validity that are being made. Many researchers claim that their findings, which are usually transferred into a model, are always valid in every context. Unfortunately, as many organizations have discovered to their detriment, such a claim cannot be fulfilled as it is impossible to have a magic formula for excellence which will work anytime anywhere anyplace. Many of those models have not been tested over a longer period of time to see whether they actually help organizations create sustainable higher performances. The HPO Center, on the other hand, has included its findings in a framework, not a model. The difference between a framework and a model is that a model is normative, in the sense that it states a set of steps which an organization should follow to achieve better performance, whereas a framework indicates what is important, not how an organization should act. To many people, working with a model has a certain appeal because it looks very practical and rather easy. One only has to follow the steps meticulously – almost without thinking – to improve performance. The question is however: will performance really improve over the long run? Because models bring along a degree of uncertainty as they do not take into account the specific context and characteristics of the organization, such as company history, the features of the industry it operates in, the skills and creativity of its workforce, the culture of the country it is based in. Working with a framework, such as the HPO Framework, has a higher probability for creating high performance because the framework does take the circumstances of the organization into consideration. After the ‘what’ provided by the framework (as in ‘we now know what is important’), the tailoring of the organization, the ‘how’ (as in ‘how we should improve this depends on the organization’), is done by the organization itself. This tailoring as well as the involvement of organizational members increases the probability of high performance considerably. Working with a framework is therefore generally much more effective than working with a model. In addition, the workings of the HPO Framework have been tested in longitudinal research to evaluate whether organizations that used the framework actually experienced an increase in performance over time. It turned out that this was indeed the case (see Chapter 9). The fact that the HPO Framework has been tested repeatedly in real-life situations makes it unique and a proven framework with a high probability of transforming an organization into an HPO.

It is sometimes stated that the HPO factors are nothing new under the sun. The implication being that organizations often have already implemented various quality and improvement models such as the EFQM model, Great Place to Work, Six Sigma or the balanced scorecard in recent years, and with that already addressed several of the HPO characteristics. So what new has the HPO Framework to offer and why spend

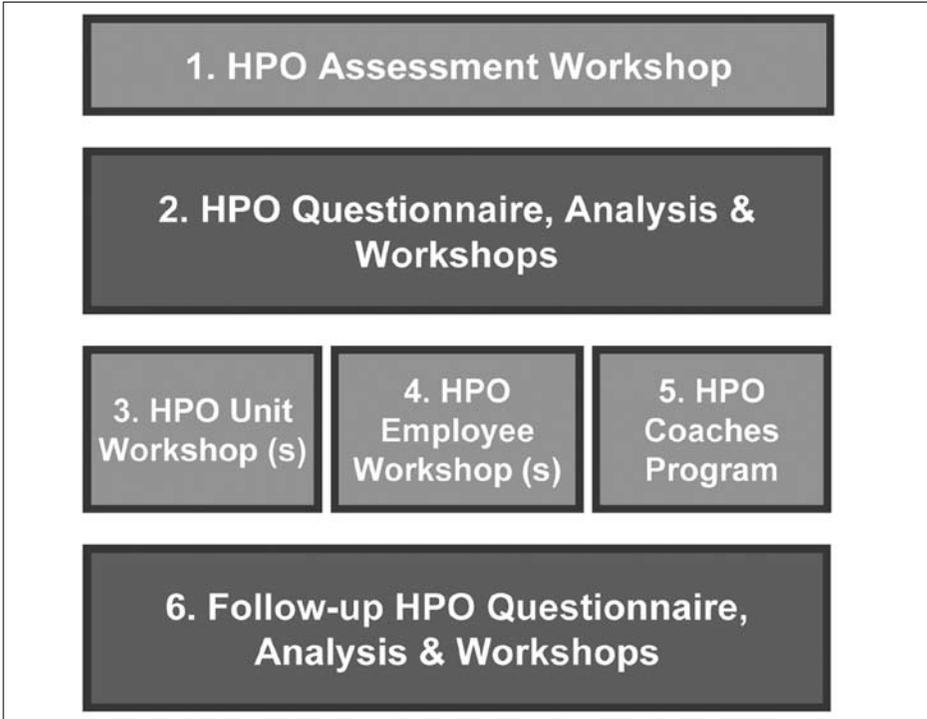
time, energy and money on it? The fact is however that a lot of these quality and improvement models, as stated before, are not based on scientific findings and have an unproven chance of sustainable success. One could state that the HPO research described in this book identified with the initial 189 characteristics 189 opportunities to improve performance. The HPO research indicates which opportunities are less likely and which are more likely to lead to success. The five HPO factors and the underlying 35 characteristics are thus the opportunities with the highest probability of success.<sup>26</sup>

“The HPO Framework to me is a validated analysis of what makes an organization excellent. A validated framework means that we don't have to research this ourselves. We can use it with great confidence to start our own transition to HPO, to try to move the department as close as possible to the characteristics of the framework, with the idea that if you are able to do this, you will become an HPO. We also find the HPO Framework better validated and certainly more elaborated than other models and frameworks that we know, so we could use it directly and easily.”

*Martine Ferment, Ziggo*

## 2.6 Practical application: the HPO Diagnosis

As it has always been the intention of the HPO Center to make the results of the HPO research tangible and practical for organizations, to allow them to use the HPO Framework for improving themselves, the HPO Center developed an HPO Diagnosis, shown in Figure 2.2.



**Figure 2.2: The steps of the HPO Diagnosis**

The HPO Diagnosis consists of six consecutive steps, with steps 3, 4 and 5 being optional. Step 1 of the HPO Diagnosis consists of a workshop with senior executives in which a short HPO assessment is made of the organization, based on the views of the executives. As part of the assessment participants fill in the HPO Questionnaire, consisting of questions based on the 35 HPO characteristics with possible answers on an absolute scale of 1 (very poor) to 10 (excellent).<sup>27</sup> After this, the HPO scores are calculated and analyzed by the HPO Center. The scores for the five HPO factors (HPO scores) are visualized in a graph. This graph indicates whether the organization is an HPO or not; to be an HPO the average HPO score of each HPO factor has to be at least 8.5. The graph also shows which characteristics need to be improved to increase the performance of the organization. The HPO Framework, the results of the analysis and the HPO graph are discussed with senior executives.

Step 2 of the HPO Diagnosis is a full HPO analysis in which as many people at all levels of the organization fill in the HPO Questionnaire, to obtain a complete picture of the organization. The HPO scores are calculated for the whole organization, its

business units and its organizational levels (senior managers, managers, employees). Subsequently, interviews are held by the HPO Center with a selection of staff from across the organization to 'get the stories behind the figures.' The data and interviews are analyzed, to identify the points which have to be improved and strengthened in order for the organization to become an HPO. The analysis results are shared then with senior executives and management in an awareness workshop to increase the understanding of those that will be working with the HPO Framework, as are the current HPO status of the organization and the 'HPO attention points'. This is followed by a call to action workshop in which senior executives, managers and the HPO Center discuss possible actions to address the HPO attention points and an action plan is drawn up. The action plan consists of two parts: (1) What improvement actions are needed to increase the quality of senior executives and managers and make them high performing individuals? (2) What improvement actions are needed to address the HPO attention points of the organization? Furthermore, the roll-out of the HPO Diagnosis in the organization is developed.

During step 3, the HPO Diagnosis is taken a level deeper into the organization. A detailed analysis of the HPO scores is made per organizational unit (department, business unit, country) and additional interviews are held, to identify the HPO attention points for each organizational unit. The analysis results are shared with management and unit heads in an awareness workshop and a call to action workshop. The action plan which is developed during the latter consists of three parts: (1) What improvement actions are needed to increase the quality of the managers and unit heads and make them high performing individuals? (2) What improvement actions are needed to address the HPO attention points of the organizational unit? (3) What improvement actions are needed to address the HPO attention points which lay outside the sphere of influence of the unit and have to be addressed on senior management level? Furthermore, the roll-out of the HPO Diagnosis to the employees in the unit is developed.

In step 4 of the HPO Diagnosis the employees get a full debrief of the HPO scores and attention points of their unit, conducted by the unit's managers and team leaders, coached by the HPO Center. This is again done in an awareness workshop and a call to action workshop. During the latter workshop an action plan is developed consisting of three parts: 1) What improvement actions are needed to increase the quality of the employees to make them high performing individuals? (2) What improvement actions are needed to address the HPO attention points of the organizational unit and what are employees going to contribute? (3) What improvement actions are needed to address the HPO attention points which lay

outside the sphere of influence of the unit and have to be addressed on senior management level?

In step 5 a network of HPO Coaches is set up, consisting of people from different units and organizational levels. The task of the HPO Coaches is to promote the HPO culture and support management in its endeavors to make the organization an HPO. The HPO Center trains these HPO Coaches in getting an excellent understanding of the HPO Framework, its application, the organization-specific diagnosis results, and possible ways to improve the HPO attention points. The presence of HPO Coaches promotes HPO leadership in the organization and also makes sure the HPO knowledge stays alive in the organization after the HPO Center has left.

To evaluate which progress the organization has made, a second HPO Diagnosis is conducted in step 6 after 18 to 24 months. The activities of this step are the same as in steps 2, 3 and 4, with the difference that they are performed by the HPO Coaches, who are supported and coached by the HPO Center. The aim of the second diagnosis is not only to see in which units progress was made and in which not, but also to identify additional HPO attention points so further improvements can be achieved.

“The moments when we saw that things started to become better in the organization came gradually. The first moment was the awareness workshops. During these workshops we talked, managers and employees together, about what was wrong in the organization and what should improve. We used the results of the HPO Diagnosis for that. Recognizing the improvements that needed to be made built a joint foundation. The second moment was the call to action workshops in which we asked people to think about what they could do to improve the situation and how we could set to work with the improvement suggestions put forward during the HPO Diagnosis. In this step we created the feeling that as individuals and as a group we would start to work toward HPO. And the third moment was conducting the so-called Go HPO sessions in which we said: We have made the plans and now we are really going to do it, we are going to work on the improvement suggestions and become HPO!”

*Martine Ferment, Ziggo*

## KEY POINTS CHAPTER 2

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- The HPO Framework includes five factors of high performance: Management Quality, Openness & Action Orientation, Long-Term Commitment, Continuous Improvement & Renewal, and Employee Quality. Each HPO factor has several underlying HPO characteristics.
- By strengthening the HPO factors, an organization can significantly improve its performance and maintain a superior edge for a long period of time.
- The HPO factors can rightfully be called 'evergreens of management' as they will remain important through time for creating and maintaining an excellent organization. Managers will always have to pay attention to these factors when they devise actions to lead their organizations to excellence and superior results.
- The HPO Framework is not a rigid set of instructions or a blueprint. It is a general framework which managers need to tailor to their own specific organizational situation.
- An organization can identify which HPO factors need to be improved to become an HPO by conducting an HPO Diagnosis.

## **International bank (the Netherlands): management makes the difference**

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### **KEY MESSAGE**

Despite the fact that the units of an organization use the same procedures, processes and systems and offer the same products and services, and even may operate in the same market circumstances, they can still achieve different results. A closer look reveals that management and employees of different organizational units focus on different things. The units that are paying specific attention to the HPO characteristics perform the best.

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The HPO Center was invited to perform an HPO Diagnosis at a Dutch division of one of the largest multinational banks.<sup>28</sup> One of the bank's divisions sold a broad array of financial products to more than 1 million clients, with 2,500 employees distributed over 200 branches and headquarters. The division was divided into 13 regions, each headed by a management team who managed the sales teams which serviced clients. The sales process of the division consisted of several steps. First, the sales teams visited a (potential) client. After that, proposals were offered to a (potential) client. In the third step, proposals were accepted or declined by the (potential) client. And finally, if a proposal was accepted, a calculation was made of the financial value of the proposal, measured in achieved capital, and it was recorded in the division's ICT system. For example, two loans of €1 million at an interest rate of 2 percent would give an achieved capital of €2 million (and a deal margin of €40,000). The financial result of a region was calculated based on the total achieved capital and the total deal margins.

The HPO status of the division was assessed by distributing the HPO Questionnaire to managers and employees. For each of the

13 bank regions the average HPO score was calculated by the HPO Center, and a ranking was made from the highest scoring region to the lowest scoring region. Then, the financial results over the past three years were collected for all 13 regions, and a ranking was made from the regions with the best financial results over those three years to the regions with the lowest financial results. Finally, the HPO Center matched both rankings. The result is given in Table 2.2.

	HPO ranking	Region	Region	Financial results ranking
highest	1	1	1	1
	2	12	3	2
	3	3	12	3
	4	9	10	4
	5	8	9	5
	6	13	13	6
	7	4	8	7
	8	5	4	8
	9	10	2	9
	10	2	5	10
	11	11	6	11
	12	7	7	12
lowest	13	6	11	13

**Table 2.2: HPO ranking versus the financial results ranking for the 13 bank regions**

The matching yielded a clear group of ‘HPO leaders’ which showed both the highest HPO scores and the highest results: regions 1, 3 and 12. The comparison also gave a clear group of ‘HPO laggards’ which showed both the lowest HPO scores and the lowest results: regions 6, 7 and 11. For many of the remaining regions the match between the HPO scores and the financial results was quite close. The context was the same for all regions as they all used the

same management systems, products, processes and IT systems. All regions were therefore operating in the same manner and differences in HPO scores could only be explained by differences in management and employee quality in the regions and differences in the way they behaved and emphasized specific actions and issues. To evaluate whether this was really the case the HPO Center conducted a series of interviews at one of the leading regions (region 1) and one of the lagging regions (region 7). These regions were chosen as the HPO Center expected to find the strongest differences at the top and bottom of the ranking. The interviews revealed that the regions had different degrees of attention for the HPO characteristics. Below are a number of interview questions and answers from the managers of regions 1 and 7, to illustrate the differences in attitude and behavior.

### *How do you engage your employees in dialogue and important processes?*

Region 1: “That is always difficult as you only have so many hours in a day. But I visit every branch at least every two months and then I stay a whole day. Not just talking to the branch manager, I arrive an hour early and then I walk around on the shop floor so I can easily speak with the employees. In those conversations you as boss have to take the first step by opening up about your affairs and what is going on in the region. This will build the trust needed for a good dialogue. You also have to be transparent about what you are doing with the suggestions and complaints you get from employees, you have to *show* you take these seriously.”

Region 7: “Management used to sit here in their ivory tower, people hardly ever saw them let alone that management ever asked employees for ideas or suggestions. And even when the previous director spoke to them, they

would normally give socially acceptable answers. When I came here I had a hard time getting straight, honest answers from employees. If people didn't agree with me they wouldn't talk to me but complain to each other, and I would hear about it indirectly."

### *How do you go about improving the region?*

Region 1: "I have set up what I call an active moaning system. I put a lot of pressure on people to increase productivity and efficiency and I know that if something in the processes prevents them from achieving better results, they will start to moan about it to me. Then I know in which part of the process to focus the improvement effort and I can do something about it, quickly. An added advantage is that people see that I take their complaints seriously, so they are more motivated to help fix the problems. Sometimes you cannot implement certain improvements when managers higher up the hierarchy decide there are other priorities. Then you have to be honest and say 'Hey guys, this cannot be solved, so let's move on.' This way, you keep your credibility. Another thing we do when we are undertaking an improvement project is to have daily heartbeat sessions. In these sessions, we get management and employees together early in the morning and discuss the state of affairs: What is going right? What wrong? Have we seen any benefits of the improvements yet? What are the problems? Who is going to fix them? What happened to yesterday's problems? This way you keep on top of the improvement process."

Region 7: “To be honest, we kind of have a zigzag policy in this respect. One day we are doing this and the next day we are doing that. This is because we have an attitude of ‘let’s go!’, if we have a good idea we go for it, right away. We don’t really question the constant course changes as we are real go-getters. And if an improvement idea comes from headquarters we tend to wait out the storm and then go back to our own ideas.”

### *How do you make sure your region services its customers optimally?*

Region 1: “We have close relations with our customers. We make it our business to know as much as possible about customers and we talk regularly to them to keep up-to-date with their situation and possible needs, wants and demands. In addition, every year we choose a theme on which the region will focus. These themes always have to do with customers. This year, for example, we have the theme ‘surprise the customer’ where we look at ways to do something extra for the customers so they will be pleasantly surprised. And we all participate in this theme, not only the employees but also management who in fact start off the theme by surprising employees. At the last meeting, I had brought along a rose for every employee to let them experience what it is to be pleasantly surprised.”

Region 7: “To be quite frank, we could be a bit more customer-oriented. I will give you an example that happened last Monday. Some people had made a mess outside at the cash machine during the weekend and no one had bothered to clean it up so customers couldn’t use the machine. Somebody in the office said they had called

the cleaning company who would come over later this afternoon but I said this was way too late. It concerns our customers and we have to treat them with all regards, and having a mess on the doorstep isn't that. It should have been fixed right away!"

### *Is your strategy different from that of your competitors?*

Region 1: "One of the major differences with our competitors is that we're not looking for a quick buck but for long-term benefit. For example, despite the recession we have hired many sales trainees and we have given these a good education, while our competitors did exactly the opposite and send many trainees home. Now business is picking up and we have skilful and knowledgeable people in both our front and back offices while the other banks are struggling to hire new, qualified people. I also spend a lot of time explaining our strategy to the branches because it is especially branch people who have to know and understand the strategy. After all, they are the ones that make the difference to our customers."

Region 7: "Headquarters announces the strategy to us and we basically follow it. It frustrates me that people in the branches here are not that concerned about the strategy but worry more about what the other branches in the region are doing and how these are performing, and whether people at the other branches will get higher bonuses."

*How do you increase the speed of decision-making and action-taking?*

Region 1: “Short communication lines and discipline. If I decide this afternoon that we need a conference call the next morning at eight o’clock, I can contact my people directly and everybody knows he or she has to participate in the call, no exceptions. For this to be successful you need engaged people, people who are strongly committed to the company and in addition to that willing to go the extra mile.”

Region 7: “We still have a culture of ‘saying yes, doing no.’ This is inefficient because it can take quite a while before you discover that the things you thought would be done have not been taken care of at all. Why make any agreements when half of the people are not sticking to it anyway? It leads to a sliding scale where more and more people think: why bother to do this when nobody else does?”

Not surprisingly, the general atmosphere at region 1, the leading region, was much better than at region 7, the lagging region; management was genuinely interested in employees and clients, and people focused more on improvement and integrity. On the basis of the HPO Diagnosis the division was able to discover ‘best ideas’, for example activities of regions which proved to be very successful and from which other regions could and should learn, not necessarily by copying these ideas but by thinking about the ideas, tailoring these to the specific situation of the region and then implementing the adapted idea.

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## **Retail International Group (Europe/Asia/South America): learning from the ‘best countries’**

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### **KEY MESSAGE**

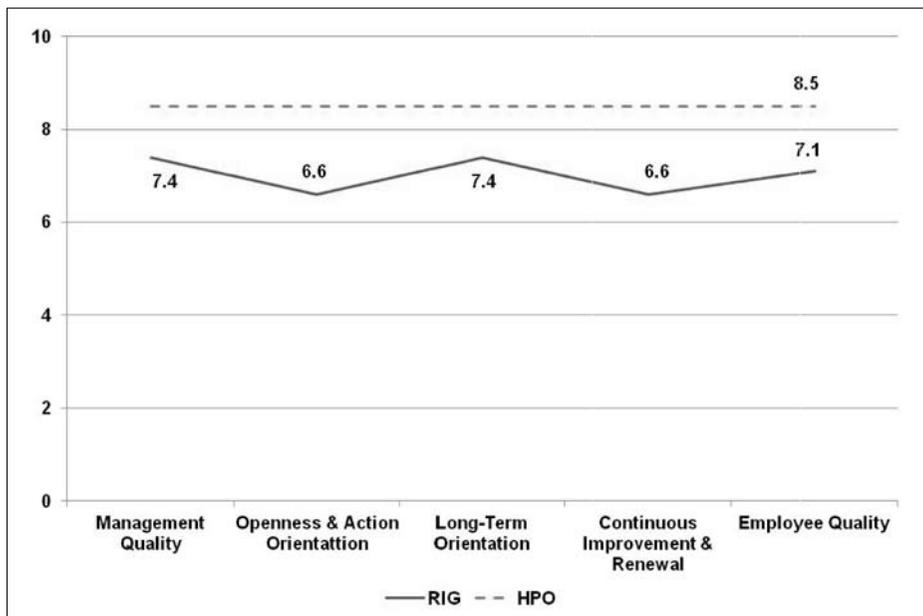
Because the HPO Diagnosis uses an absolute scale of 1 to 10, it is possible to compare the performances of multiple country divisions to identify which country divisions are ‘more HPO’ than others. Thus, best ideas for improving the HPO factors can be identified from ‘the best’ country divisions, from which other divisions can learn. At the same time, because the HPO Framework shows *what* is important without dictating *how* the HPO factors should be improved, each country division should tailor these best ideas to their local circumstances.

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Retail International Group (RIG) is a retailer which operates in 21 countries in Europe, Asia and South America.<sup>29</sup> The company sells fashion accessories in more than 850 shops with almost 11,000 employees. The turnover of the group is over €1 billion. RIG’s headquarters are based in Europe and consist of the board of management and several staff departments such as Corporate Controlling and Corporate Human Resources. The company has a highly decentralized structure in which responsibility for operations lays with the individual country divisions. These country divisions consist of regional headquarters, with management and support staff, and stores. Each store is manned by a store manager and store staff. Each country division typically carries several formulas, from a cheap brand to high-end luxury goods. Each formula has a different name but the information systems and logistical processes are the same for all formulas, while inventory is held in central warehouses in the different countries. The goods are designed both at corporate headquarters and at the country division and are manufactured in the Far East, after which they are directly shipped to the central warehouses in the different countries.

Each formula typically has some well-selling products which stay in the assortment for several years, and products which only last one season. In contrast to the standardized logistical processes, the management systems (for reporting, evaluation and rewards) are tailored to each country due to local (legal) requirements. RIG management characterizes the company with the words: customer focused, professional, ambitious and decentralized; and demands from its employees that they act with integrity, are open to each other, and are result oriented. Integrity is seen by management as a powerful replacement for expensive and elaborate control systems; if someone's professional or personal integrity is in question, that person will have to leave the company. For RIG to be a learning organization, openness is a precondition as people can only learn from one another if they are willing to share not only their experiences and successes but also their problems. Result-orientation is important because retailing is a low-margin industry with strong competition, which requires all people to focus on achieving their targets in order to survive and thrive.

RIG's chief executive officer explained the reasons why the group decided to do an HPO Diagnosis as follows: "The HPO Framework provides us with a comprehensive framework which allows us to: evaluate where we stand today and how we should progress, categorize the wide variety of improvement initiatives we have, structure the improvement opportunities, and highlights areas on which we have to focus more going forward. We need this as competition is mounting and good is not good enough anymore. We have spent the past years getting our house in order, it is now time to take the next step forward and to fulfill our potential. Getting RIG to the next level will not require bold changes but incremental improvements, and that's where the HPO Framework comes in. It is not a quick fix but promotes a steady and continuous improvement effort. The framework also gives us the opportunity to evaluate current improvement initiatives and to ask ourselves: Are these the right initiatives or should we be doing other things?"



**Figure 2.3: HPO status of Retail International Group**

The HPO Diagnosis process was started by distributing the HPO Questionnaire among managers and employees in nine country divisions, both at regional headquarters and in the stores.<sup>30</sup> Additionally, interviews were held by the HPO Center at four country divisions. The data were analyzed by the HPO Center to determine the HPO status. Figure 2.3 shows that RIG, with an average HPO score of 7, was a well-performing organization but not yet an HPO.

For each of the nine country divisions the average HPO score was calculated by the HPO Center, and a ranking was made from the highest scoring country division to the lowest scoring country division. Then the financial results over the past five years were collected for the nine country divisions, and a ranking was made from the country divisions with the best financial results over those five years to the country divisions with the lowest financial results. Finally, the HPO Center matched both rankings. The result is given in Table 2.3

	Average HPO scores	Country divisions	Country divisions	Financial results ranking
<i>highest</i>	7,9	A	A	1
	7,8	F	F	2
	7,4	D	C	3
	7,3	C	D	4
	7,3	I	H	5
	6,4	G	I	6
	5,9	H	G	7
	5,8	B	B	8
<i>lowest</i>	4,9	E	E	9

**Table 2.3: Average HPO scores versus financial results of nine country divisions**

Table 2.3 shows that there was a direct link visible within RIG between the average HPO scores and the financial results: the country divisions that had the highest HPO scores (A, F) also had the highest financial results, and country divisions with the lowest HPO scores (B, E) had the lowest financial results. It showed that the performance situation at RIG had been assessed quite well with the HPO Diagnosis, and implementing the HPO improvements suggestions would mean the financial results of the country divisions were to improve substantially for a longer period of time. The results of the HPO Diagnosis, including strengths and weaknesses and improvement suggestions for the overall group and each of its country divisions and corporate headquarters, were presented by the HPO Center during a meeting with the entire management of the group. Subsequently the improvement suggestions were prioritized. The two most important ones are summarized below.

## **HPO improvement suggestion 1: Create a stronger and more visible management**

During the interviews conducted by the HPO Center as part of the HPO Diagnosis, it emerged that employees were looking for stronger role models at all management levels of the organization. They also wanted better coaching from managers who should show more interest in humans and less interest in financial figures. This would increase employees' trust in management. An employee put it as follows: "We have seen a lot of new management, each time a new strategy, as if to prove they were in charge. But we would like to see that management sees what happens on the floor, visits us in the stores, listens to what we need. Management by walking around. Listen! And quick follow-up on the problems of employees is vital to improve confidence and trust." Thus, there seemed to be a real need for increased accountability and visibility of managers on the store floor. An employee commented: "I have an intense dialogue with regional management. However, I would like to see that top management visits the stores more. If they do that, different decisions would be made. For instance, it is easy to make the decision from a distance that some stores only need one employee. However, they don't know the consequences, how it feels to work alone while four customers are waiting. Since they don't know that feeling, the wrong decisions are easily made." A store manager had a nice idea: "When the regional manager comes in the store, he now gives everybody a hand and then takes me to a corner of the store and starts telling me all the things that have to be improved. What I would like him to do is to give me a hand when entering the store and then talk with the employees to ask them how it is going and what suggestions they have for improvement."

Evidently RIG's managers had to concentrate on better coaching and being more decisive in order to become high performing managers. They also had to start visiting stores more often and during these visits listen attentively to employees' questions and ideas and follow up on these.

## **HPO improvement suggestion 2: Make dialogue more sincere and 'richer'**

Within RIG there seemed to be confusion about the meaning of the words 'communication' and 'dialogue'. A lot of meetings were being held all over the group but the HPO scores and interviews revealed that people of all organizational levels wanted more dialogue and better information sharing. There existed a feeling among people that they were not really listened to by higher levels. The newly appointed corporate HR manager commented: "When I started at RIG, I overheard store managers complaining about regional managers not listening enough to them, regional managers complaining about country managers not acknowledging them, country managers complaining about corporate managers only imposing all kinds of initiatives on them without giving them room for their own ideas, and corporate managers complaining about the supervisory board not listening to them enough. The need for better dialogue was very clear to me." A side effect of the lack of openness created by the lack of dialogue was that distrust started to arise which resulted in people blaming each other for their misfortunes. As an interviewee said: "When performance is poor the first reaction of people is to point fingers at each other. People insufficiently reflect on themselves and what the effect of their behavior is on others. We should give more constructive and positive feedback." As an almost logical consequence stores and also departments in country headquarters hardly did any knowledge sharing, as a manager pointed out: "Each unit tends to operate as a silo. This appears difficult to break through. Also employees want to be more involved and require more performance information about their own results and that of the company."

It was thus evident that RIG had to improve the openness of the organization, starting with a review of the reporting process, the meetings in which performance information was shared, and the performance information sharing process from corporate and country division headquarters towards the regions and shops. In

this respect RIG had to look for ways to enhance both the formal and informal information processes by proactively encouraging people to share performance information. Furthermore, managers needed to concentrate on improving openness through sincere dialogues.

Looking back at the HPO Diagnosis and the subsequent actions that were taken, the Corporate Human Resources manager told us: “Because the HPO Framework caught on well within the company, we decided to make the HPO improvement suggestions part of our strategy and budget cycle for next year. This meant that country division management explicitly had to develop initiatives for the improvement suggestions, for which they were given budget. We also found that the HPO Framework worked as a management development tool because it focused the attention of management on the things that really matter which otherwise might have been overlooked or even ignored. The HPO Framework helped to develop the competency within managers to focus, prioritize and stay on course. To give an example of how important focusing was: our process improvement efforts. We were constantly improving and simplifying our processes but we had great difficulty managing these improvement projects, partly because there were so many of them. The HPO Framework learned us to prioritize: all improvement projects that did not support at least one of the HPO factors we should skip, and we did. And since the HPO Diagnosis, RIG experienced improved results. This might have been a coincidence but I don’t think so.”

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## **Ministry of Local Governance and Social Affairs (Rwanda): working on HPO in government**

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### **KEY MESSAGE**

The HPO database contains a lot of data from the governmental sector and the five HPO factors have also been validated for this sector. This means that the HPO Framework is, in addition to profit companies, also useful for governmental institutions to focus their improvement efforts. This is demonstrated by the case study of MINALOC.

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The Republic of Rwanda is a small landlocked country of 26,338 km<sup>2</sup> with a population of more than 10 million people, in the Great Lakes region of East-Central Africa and bordered by Uganda, Burundi, the Democratic Republic of the Congo and Tanzania.<sup>31</sup> A country of fertile and hilly terrain, the small republic bears the title 'Land of a Thousand Hills'. As part of the Rwandan government, the main mission of the Ministry of Local Governance and Social Affairs (MINALOC) is 'promoting the well-being of the population by good governance, community development and social affairs'. The Ministry has several main objectives: putting in place decentralized administrative units in order to implement government programs locally; ensuring synergy and collaboration between government institutions so they can support the local units; strengthening the local units so they can execute the programs effectively; putting in place mechanisms for assistance of vulnerable groups, especially genocide survivors; and implementing coordination mechanisms to deal with disasters. The Ministry itself is comparatively small (approximately 60 people) but has several semi-independent units such as the National Electoral Commission (NEC), the Rwanda Governance Advisory Council (RGAC) and the National Assistance Fund for Needy Survivors of Genocide (FARG) to execute the

programs. MINALOC is known in Rwanda as being one of the most effective ministries and as such the Public Secretary (the first civil servant after the Minister) was very interested in applying the HPO Framework in order to evaluate whether the framework could help MINALOC to improve its performance toward HPO.

During an HPO workshop representatives of the Ministry and its semi-independent units filled in the HPO Questionnaire. Figure 2.4 gives the scores of MINALOC on the five HPO factors. The average HPO score is 7.5 which shows that MINALOC was a good performing organization but not yet an HPO.<sup>32</sup> MINALOC’s HPO curve was almost level which meant that it was a well-balanced organization. This constituted a good starting-point for improvement at MINALOC.

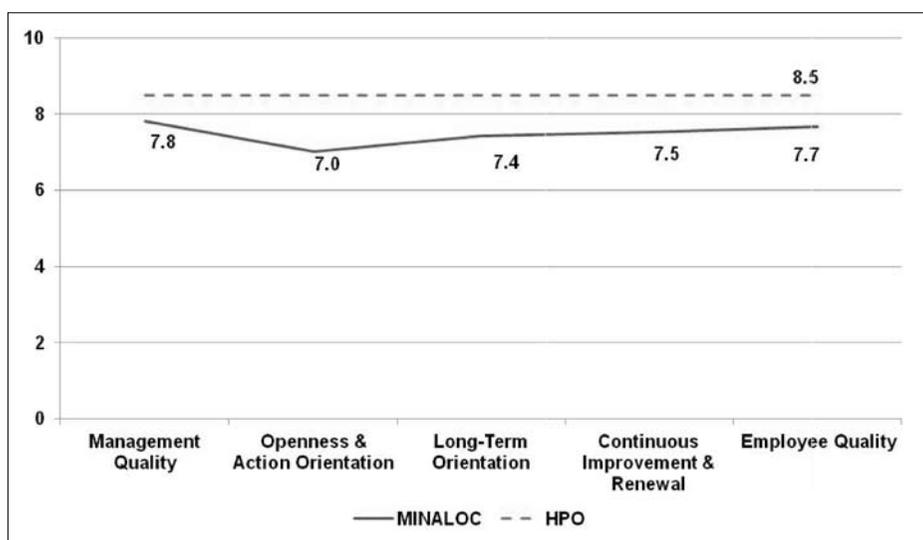


Figure 2.4: HPO status of MINALOC

During the HPO workshop three main attention points were discussed, which MINALOC needed to address in order to become a high performance governmental organization. Attention point 1 was that MINALOC had to improve its process improvement process. Although the ministry’s processes were continuously improved,

they were not simplified and aligned enough. The reason for this was that MINALOC was a complex organization of a small ministry with many semi-independent units and cooperations with other governmental institutions. Thus MINALOC had to perform a bundle of coordinating tasks on behalf of many parties, which made for many complicated processes which were difficult to simplify. Recommendations to deal with this attention point were to strengthen local authorities as they were the ones that should implement the programs; reinforce the decentralization process for other ministerial processes so that these ministries could deal with local units themselves and no longer needed MINALOC for that; and from now on only finish a limited number of improvement projects in time, within budget, with the required results before starting new process improvements.

Attention point 2 was that MINALOC had to improve its appraisal process as it allowed non-performers to stay too long and did not enough promote new management from within. One of the reasons for this was that poor performers were given too much time, often years, to improve themselves. Another reason was that there existed the possibility of performance appraisal bias so some low-performing employees got a performance rating which was too high. By law there was a limit for government employees: if they got three times a performance appraisal score below 70 they would be fired. It was therefore likely that management rated poor performers higher to prevent them from getting fired. Firing was generally not preferred because of its serious consequences to family well-being. Finally, labor laws limited promotion from within, vacancies had to be offered to people outside the organization to prevent nepotism. Because of this, well-performing people felt they had to leave the Ministry for real promotion opportunities. Recommendations to deal with this attention point were to make the performance appraisal process more objective and realistic and to use standards for the interpretation of rating scales. In a broader context, the labor law should be changed to allow internal

promotions and to develop an internal promotion process that is transparent in order to prevent nepotism.

Attention point 3 was that MINALOC had to improve knowledge sharing. Employees did not sufficiently share knowledge with colleagues at other MINALOC units. The reason for this was that, in the decentralized MINALOC organization, the units still operated mainly independently and did not actively get together to share knowledge, ideas and experiences. In addition, there was so much work to do that there was not enough time available or taken for knowledge sharing activities. Possible solutions were to actively develop a culture which encouraged knowledge sharing skills and reward people for sharing knowledge. The representatives agreed that they were part of a bigger entity and that, even if individuals or units performed well but MINALOC as a whole was not performing well, no one at MINALOC was regarded successful by society.

The case study of MINALOC showed that the HPO Framework could be used to assess the strengths and weaknesses of a governmental organization. MINALOC's representatives stated that the HPO Framework provided them with the coordinating framework to direct and guide future improvement efforts.

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