

# Using Systems of Practices To Gain Top Performance

LOMA explores the influence of configurations of practices on multiple aspects of a company's performance in its ongoing *Cultures for Excellence* research. Finding the delicate balance between the best approach to incorporate and the desired outcome is key.

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In the last decade, we have witnessed a major transformation within the insurance industry. The blurring of lines between insurance and other financial services institutions as well as non-traditional entrants into the insurance arena contribute to significant changes happening all around us.

Since insurers now face a complex, turbulent, and highly competitive environment, the issue of performance improvement has gained renewed interest and importance. The question taking "front and center" in insurance planning strategies is often phrased this way: "What configuration of organizational systems is necessary to achieve maximum performance gains and sustainable competitive advantage?"

Until recently, answering such a question was reasonably easy. The insurance industry was fairly stable and, as such, could rely on traditional management processes and techniques to operate effectively.

Because of this stability and because competition was not as intense as it is today, only small adjustments in organizational structure or strategy were usually necessary for insurance organizations to adequately counter perceived competitive threats.

But, what worked in the past often does not seem relevant to current conditions. Evidence from other industries and from both practitioner and academic sources indicates that strong performance in these complex times requires multiple management techniques

and processes!<sup>1</sup> That is, successful organizations appear to adopt configurations of practices (i.e., a system of mutually reinforcing practices that enable an organization to meet performance objectives) geared toward improving performance.

It is unclear, though, whether a configural approach is also important in the insurance industry for organizations seeking to maximally improve performance. LOMA recently explored the influence of configurations of practices on multiple aspects of insurance organization performance as part of its ongoing *Cultures for Excellence* research, which is aimed at identifying the critical levers of competitive advantage.

Specifically, LOMA was interested in (a) how each of three performance improvement approaches influenced a wide variety of indicators representing overall organizational performance and (b) how unique elements within these approaches influenced the same outcomes. The three approaches on which LOMA focused were:

- Quality of Work Life (QWL) or human resource-oriented programs aimed at strengthening employee morale and affective attitudes.
- Employee Involvement (EI) processes that seek to create work forces with the skills, abilities, power, and motivation necessary to carry out an organization's strategy.
- Quality Service (QS) approaches that are geared toward quality products or services and customer satisfaction.

### Three Performance Improvement Approaches

Together QWL, EI, and QS are considered the key elements of a “culture for excellence.” As summarized in Table 1, each approach is also uniquely geared toward improving only certain performance outcomes through different means.

Briefly, QWL is a motivational approach that is internal to the organization and directed toward employees. Enacting a QWL approach to performance improvement generally requires such initiatives as helping employees achieve work-family balance, offering long-term job security, and providing the resources necessary to meet performance expectations.<sup>2</sup> QWL is primarily intended to improve overall employee morale (i.e., the degree to which employees are happy, committed, motivated, and willing to stay with the organization), but the benefits of improved morale are also expected to ultimately influence organizational productivity and financial performance.

EI, on the other hand, represents a systematic approach to including employees throughout an organization in important organizational decisions and activities. Therefore, EI focuses on the organization and competitive activities as a whole, rather than on employee attitudes and behaviors alone.

**A** configuration is a set or system of mutually reinforcing practices that work in combination to enable an organization to enable an organization to meet its many performance objectives.

To create EI, an organization must provide employees with (a) power to act and make decisions; (b) information about organizational processes, events, and business results; (c) rewards tied to business results and growth in capability and contribution; (d) knowledge of the work, the business, and the total work system; (e) extensive and continuous training.<sup>3</sup> The focal outcome of EI is improved organizational financial performance and competitive advantage through employees who work both harder and smarter for the organization.

Finally, QS is more of an operational approach that is both externally and internally directed—particularly toward customers. It is achieved by making customer satisfaction an important

organizational goal, collecting and using customer feedback, emphasizing the importance of quality service and creating a quality service climate throughout an organization, and using teams directed toward meeting quality goals. The primary outcomes of QS are improved quality and customer satisfaction, which are assumed to result in overall performance gains for an organization.

Because the three approaches are oriented toward different performance outcomes achieved via different mechanisms, there are two plausible possibilities regarding how performance might improve using the three approaches.

First, organizations may need to incorporate all three approaches in order to achieve the maximal performance gains that transform human resources into a long-term competitive advantage. This possibility suggests that exclusively pursuing only one approach may actually lead to performance decrements in other areas (e.g., as in focusing only on EI and neglecting employees’ work balance or as in focusing only on QWL and neglecting the actual quality of goods and services provided).

The second possibility suggests that, depending on the specific performance goals being pursued, organizations may only need to incorporate some of the

**The Three Performance Improvement Approaches**

Table 1

	Focus of Performance Improvement Efforts	Expected Outcomes
QWL	<ul style="list-style-type: none"> <li>■ The internal organization</li> <li>■ Employee attitudes and behaviors</li> <li>■ Work-load and work/family balance</li> <li>■ Sufficient resources</li> <li>■ Long-term job security</li> </ul>	<ul style="list-style-type: none"> <li>■ Improved employee morale (primary)</li> <li>■ Improved objective performance (secondary)</li> </ul>
HIWP	<ul style="list-style-type: none"> <li>■ The overall management system</li> <li>■ The organization and “people” sources of competitive advantage</li> <li>■ Providing employees with power, information, rewards, and knowledge</li> </ul>	<ul style="list-style-type: none"> <li>■ Improved employee morale</li> <li>■ Improved objective performance</li> <li>■ Employees who work “harder” and “smarter”</li> </ul>
QS	<ul style="list-style-type: none"> <li>■ Both the external (i.e., customers) and internal organization</li> <li>■ Organizational operations</li> <li>■ Quality products and services</li> <li>■ Customer service</li> <li>■ Teamwork</li> </ul>	<ul style="list-style-type: none"> <li>■ Improved quality and customer satisfaction (primary)</li> <li>■ Improved objective performance (secondary)</li> </ul>

approaches or some elements within the approaches. In this case, the optimal combination of approaches that an organization pursues may be a function of the precise objectives the organization wants to achieve. Pursuing all approaches or all elements within an approach may simply be overkill.

### LOMA's Research

To identify the organizational configurations necessary to achieve optimal gains, LOMA collected survey data from 10,437 employees in 96 insurance companies. Each respondent was asked to rate his or her organization regarding the key attributes of QWL (i.e., work balance, job security, resources), EI (i.e., power information, rewards, knowledge, and training), and QS (i.e., customer feedback, customer satisfaction, quality climate, and teams).

LOMA also gathered data regarding three categories of organizational performance:

- Overall ratings of performance as measured by *Best's Insurance Reports – Life/Health*<sup>4</sup> and employees' own ratings of their organizations' overall images.
- Financial performance as measured by assets, percent change in

capital surplus between the year of the survey and the previous year, investment income, net premiums written, return on surplus, return on assets (ROA), and return on equity (ROE).

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- Employee morale as measured by organizational commitment, job satisfaction, and turnover intentions.
- Employee responses regarding the performance approach attributes within organizations were averaged so

that each organization could be assigned a score for each attribute in each approach. Thus, a high score on a given attribute indicated that an organization had a high level of that attribute. To the extent an organization demonstrated high scores across attributes within an approach, that organization had extensively implemented that approach.

Similarly, organizations were assigned scores for organizational commitment, job satisfaction, turnover intentions, and employee perceptions of company image by averaging employees' responses on each of these dimensions within each organization. All indices of financial performance and the Best's overall image rating were collected from *Best's Insurance Reports – Life/Health*.<sup>5</sup>

### What did LOMA find?

Results demonstrate that pursuing one performance improvement approach exclusively or even a combination of only two of the approaches will lead to gains in only some aspects of organizational effectiveness. Table 2 summarizes the significant relationships between each of the three performance improvement approaches as a whole and each of the measures of organizational performance. Table 2 shows that each approach substantially and positively influences multiple performance domains, but that no one approach influences *all* indices of performance. Thus, while pursuing only one or two approaches is beneficial, organizations that want to achieve the greatest gains in *overall* performance (i.e., image, financial performance, and employee morale) should pursue all three performance improvement approaches: QWL, EI, and QS.

To what extent, though, must each attribute within these approaches be implemented in order to achieve substantial improvements across all performance domains? Table 3 summarizes the significant relationships between the individual attributes of each approach and all of the indicators of organizational performance.

Note that, while each of the approaches uniformly, *positively* influences the measures of performance (see Table 2), some attributes within each approach negatively relate to certain performance indicators (negative relationships are indicated by a negative sign enclosed in parentheses).<sup>6</sup>

Table 2

**Significant Relationships Between the Three Performance Improvement Approaches (in their entirety) and the Measures of Performance**

Outcomes	QWL	EI	QS
<b>Financial Performance</b>			
Assets			◆
% Change Capital Surplus			◆
Investment Income		◆	
Net Premiums Written		◆	
Return on Surplus	◆	◆◆◆	◆◆◆
ROA			◆◆
ROE			◆
<b>Overall Ratings</b>			
Best			◆
Company Image	◆◆◆	◆◆	◆◆◆
<b>Attitudes</b>			
Organization Commitment	◆◆◆	◆◆◆	◆
Job Satisfaction		◆◆◆	◆◆
Turnover Intentions		◆	◆◆◆
◆ = Moderate relationship (significant at a minimum of $p < .05$ )			
◆◆ = Strong relationship (significant at a minimum of $p < .01$ )			
◆◆◆ = Very strong relationship (significant at a minimum of $p < .001$ )			

Table 3

## Relationships Between Key Attributes and Measures of Performance

	QWL			EI				QS				
	Work Balance	Job Security	Resources	Power	Information	Rewards	Knowledge	Training	Customer Feedback	Customer Satisfaction	Quality Climate	Teams
<b>Financial Performance</b>												
Assets					◆						(-)◆◆	◆
% Change Capital Surplus												*
Investment Income			(-)◆		◆◆							
Net Premiums Written		(-)◆◆◆	◆◆◆		◆				*			
Return on Surplus		*	*		◆◆		◆◆	(-)◆	(-)◆◆◆	◆◆◆		(-)◆
ROA												◆◆
ROE												◆
<b>Overall Ratings</b>												
Best									(-)◆		◆	
Company Image			◆	◆◆◆		◆					◆◆◆	(-)◆
<b>Attitudes</b>												
Organizational Commitment	◆	*	◆		◆◆	◆◆					◆◆◆	(-)◆◆
Job Satisfaction				◆◆◆							◆◆◆	
Turnover Intentions	(-)◆		(-)◆				(-)◆				(-)◆◆	◆

\* = Weak relationship (significant at a minimum of  $p < .10$ )  
 ◆ = Moderate relationship (significant at a minimum of  $p < .05$ )  
 ◆◆ = Strong relationship (significant at a minimum of  $p < .01$ )  
 ◆◆◆ = Very strong relationship (significant at a minimum of  $p < .001$ )  
 (-) indicates the relationship was negative

These results suggest that the attributes within each approach serve to drive unique aspects of organizational performance and counterbalance one another in order to produce net gains across the performance domains.

For example, knowledge and training are negatively related to returns on surplus. As many organizational leaders might suspect, maintaining a knowledgeable workforce is not without financial costs. Operating expenses increase with greater emphases on training and other venues for promoting worker knowledge.

Much like providing employees with training and knowledge, providing employees with job security is also costly and negatively impacts financial measures such as investment income and net premiums written. Similarly, an emphasis on customer satisfaction is negatively associated with assets, indicating that satisfying the customer may cost an organization in terms of returns to the customer, filling claims at a loss to satisfy the customer, or simply the cost of administering some form of quality program oriented toward the customer.

Do these negative relationships suggest that organizations would be better off not pursuing these elements

of the three performance improvement approaches? The answer to this question is a resounding “No!”

In every case, our data indicated that the negative influences among these elements and certain outcomes were more than counteracted by strong, positive relationships with other indicants of organizational performance. More importantly, eliminating one of the

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“negative” elements from a particular approach can actually compromise the benefits to be gained from the “positive” elements of that approach.

Thus, the results for the independent attributes demonstrate that, not only does exclusively pursuing one approach lead to performance gains in just some areas, it can even lead to negative outcomes in others.

### Conclusions

Given the pattern of results depicted in Tables 2 and 3, two primary conclusions can be drawn. The first of these conclusions is that organizations wanting to impact their overall performance must do many things directed toward such a goal. The second conclusion is that the many things an organization does must support or mutually reinforce one another. Though some activities (e.g., knowledge provision, training, a focus on customer satisfaction) appear to have negative consequences for some organizational outcomes when considered alone, it is important to consider the role of these activities in supporting and reinforcing other practices that do strongly and positively influence organizational performance.

Let’s return to the question asked in the opening paragraph of this article, “What configuration of organizational systems is necessary to achieve maximum performance gains and sustainable competitive advantage?” Our research clearly demonstrates that organizations should strive to create a complete *Culture for Excellence* characterized by a configuration of QWL, EI, and QS.

<sup>1</sup> Becker, B. E. and B. Gerhart, "The Impact of Human Resources Management on Organizational Performance: Progress and Prospects," *Academy of Management Journal* 39 (1996): 779-801; Eastman, L. J. and R. J. Vandenberg, *Cultures for Excellence* (Atlanta, GA: LOMA, Inc., 1998); Meyer, A. D., A. S. Tsui, and C. R. Hinings, "Configurational Approaches to Organizational Analyses," *Academy of Management Journal* 29 (1986): 727-753; Ostroff, C. and N. Schmitt, "Configurations of Organizational Effectiveness and Efficiency," *Academy of Management Journal* 36 (1993): 1345-1361; Richardson, H. A. and R. J. Vandenberg, "Configurations for Improved Organizational Performance Across Multiple Domains: Quality of Work Life, High Involvement Work Processes, and Quality Service Approaches" (Paper presented at the Annual Meeting of the Academy of Management, Chicago, IL, August 1999).

<sup>2</sup> Higgins, C. A. and Duxbury, L. E., "Work-family conflict in the dual career family," *Organizational Behavior and Human Decision Processes* 51 (1992): 51-75; Lau, R. S. M. and May, B. E. "A win-win paradigm for quality of work life and business performance," *Human Resource Development Quarterly* 9 (1998): 211-226; Olian, J. D. and Rynes, S. L., "Making total quality work: Aligning organizational processes, performance measures, and stakeholders," *Human Resource Management* 30 (1991): 303-333.

<sup>3</sup> For more information on the attributes of EI and how to implement them, please see the article entitled "Employee Involvement Equals Competitive Advantage" by Lorrina Eastman and Robert Vandenberg in the October, 1996, issue of *Resource*.

<sup>4</sup> *Best's Insurance Reports – Life/Health Insurance Edition* (Oldwick, NJ: A. M. Best Company, 1994, 1997).

<sup>5</sup> *Best's Insurance Reports – Life/Health Insurance Edition* (Oldwick, NJ: A. M. Best Company, 1994, 1997).

<sup>6</sup> Note that the relationship of the attributes with turnover intentions was expected to be negative. As the attributes increase, turnover intentions should decrease. Thus, the notable relationships for turnover intentions are those that are positive.

Further, organizations should attempt to implement the key attributes of these approaches as fully as possible. While doing so may be difficult—even costly—it will ultimately result in strong gains in long-term competitive advantage as measured by bottom-line financial performance, company image, and employee morale. Pursuing only one approach or parts of each approach will only result in limited gains, and the long-range results may even be negative.

The good news is your company may already be well on its way to appropriately implementing all three approaches. Your company can measure its current level of a *Culture for*

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