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Dimitrios M. Mihail, Myra Mac Links, Sofoklis Sarvanidis

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High performance work systems in corporate turnaround: a German case study

Dimitrios M. Mihail

*Department of Business Administration, University of Macedonia,
Thessaloniki, Greece*

Myra Mac Links

Sapient GmbH, Munich, Germany, and

Sofoklis Sarvanidis

*Department of Business Administration, City College,
International Faculty of the University of Sheffield, Thessaloniki, Greece*

Abstract

Purpose – This study aims to investigate the nexus of high-performance work systems (HPWS) with corporate change that leads to enhanced performance.

Design/methodology/approach – The paper uses a case study method and analyzes the impact of a HPWS, adopted at a German medical technology company, on corporate turnaround and performance outcomes. In the present study, conducting in-depth interviews with the social partners of corporate change, the authors investigate how leadership, competition forces and employee relations interacted with a bundle of high-performance work practices led the company to massive changes in production with noticeable performance outcomes.

Findings – The analysis lends support to the HPWS approach that links certain high-commitment work practices to corporate changes and enhanced performance outcomes such as rising employee productivity and sales over the last decade.

Practical implications – The study pinpoints key factors that could optimally be used as a best practice framework for change management leading to corporate turnaround in a highly volatile world economy.

Social implications – The HPWS approach, facilitating corporate turnaround, underlines the importance of social partnership for modern corporations to handle groundbreaking changes and survive the fierce competition in global markets.

Originality/value – Using a case study method, the analysis lends some support to the HPWS perspective that links high-commitment work practices to enhanced corporate performance.

Keywords Change management, Corporate turnaround, High performance workplace, Flexible working, Germany

Paper type Case study

Introduction

Since the 1990s, we have observed a significant increase in academic research focused on human resource management (HRM) practices as “bundles” or the use of “high-performance work systems” (HPWS) and their impact on organizational performance (e.g., Lewis and Thomas, 1990; Wright and Snell, 1991; Ketchen *et al.*, 1993; Becker and Huselid, 1998; Osterman, 2000; Way, 2002; Martín-Alcázar *et al.*, 2005; Macky and Boxall, 2007; Purcell *et al.*, 2009; Kaufman, 2010; Jones *et al.*, 2010). This



trend is so profound that some authors consider it to be a new paradigm in the pertinent literature seeking to replace the predominant Taylorist principles in managing working people (Godard and Delaney, 2000; Godard, 2004).

Equally important, the new paradigm has attracted the interest of the business community across the globe, and they have been systematically committing resources and efforts in promoting the HPWS model in modern workplaces (CIPD/EEF, 2003; Williams *et al.*, 2003). The notion of HPWS is identified “as a specific combination of HR practices, work structures and processes”, which are integrated into “an overall system” in order to “enhance employee involvement and performance” (Snell and Bohlander, 2010, p. 710). The origin of this model stems from the new challenges of market liberalization and the adoption of flexible production systems since the 1980s. Indeed, modern companies face new challenges, such as increasing worldwide competition, managing change and new technology, and developing intellectual capital and containing costs at the same time.

Some globally active organizations seek to benefit from flexible and open economies moving to low-wage countries. Yet, for some companies in highly advanced and high-cost locations, improving productivity is the one critical success factor in order to keep up with global competition, the latter being the primary concern of researchers in articulating the HPWS approach. This, in turn, explains the increased application of this approach in analyzing the struggling US manufacturing industries over the previous two decades (e.g., Appelbaum *et al.*, 2000; Evans and Davis, 2005). Empirical findings show that the HPWS model is adopted by “high-road” organizations investing in employee involvement and participation instead of intense supervision, stable employment instead of job insecurity and fear, and high compensation based on superior performance instead of wage reduction.

There is still some uncertainty surrounding the exact nature of the “HR and performance link” (Mueller, 1996; Danford *et al.*, 2008). In particular, Guest (2011, p. 3) concludes that even after “two decades of extensive research” it is not yet possible to fully understand this linkage, with many basic questions still remaining unanswered, while this is largely attributed to the relatively limited number of longitudinal studies. Moreover, there is a need for more empirical research on services in comparison with the manufacturing sector (Liao *et al.*, 2009, p. 371), whereas Atkinson (2005) argues that it is harder to measure productivity and performance in the former setting. Several academics also criticize the lack of research on individuals and especially on workers’ values and motivation (e.g., Wright and Boswell, 2002). However, several empirical studies have recently evaluated:

- the impact of HR practices on “employee turnover” in the service sector (Batt and Colvin, 2011);
- “job engagement” as a consequence of job performance (Rich *et al.*, 2010);
- the impact of HPWS on the “quality of working life” (Danford *et al.*, 2008); and
- the influence of “family-friendly” management practices on organizational performance and “social legitimacy” (Wood and de Menezes, 2010).

This paper tries to shed light on the HPWS-performance nexus. It centers on the underlying factors linked to the HPWS model, as suggested by Appelbaum *et al.* (2000) that are hypothesized to lead to positive performance outcomes and adaptability to

change. Through a case study approach, a highly successful medical technology company will be analyzed. Aesculap, a German firm, is an internationally active player in medical technology that proved its adaptability to change through a major turnaround process that led to a Benchmark Factory in 2001. At the core of this corporate turnaround lies the systematic application of a bundle of new work practices aiming at employment security, performance-based pay, employee involvement, teamwork, open communication between management and employees, and training schemes. The aim is to contribute to the HPWS literature, but even more importantly to come up with some significant key factors that could optimally be used as a best practice framework for organizational turnaround in a highly volatile world economy (see Martínez-Sánchez *et al.*, 2008; Parish *et al.*, 2008).

Literature review

Prior studies of corporate turnaround have reported on strategies of declining companies following alternative paths of performance enhancement and rejuvenation including retrenchment, repositioning and reorganization (Boyne, 2006). Organizational turnaround literature has not, however, comprehensively discussed the impact of human resources on corporate recovery (Boyne and Meier, 2009). It is limited to investigating the impact of personnel downsizing on cost-cutting strategy (Barker *et al.*, 1998) and of top executive succession schemes on turnaround plans (Arogyaswamy *et al.*, 1995; Barker *et al.*, 2001; Lohrke *et al.*, 2004), but not that of radical work reorganization (Boyne and Meier, 2009). In another strand of corporate performance literature, numerous empirical studies sought to assess the effect of workplace reorganization, adopting a HPWS, on performance. In this section of the study we build upon this work to provide a framework for the analysis of the Aesculap case.

Turnaround process

An organization is perceived to be in “decline” when it suffers deteriorating economic performance for an extended period of time, such that the performance level is so low that it tends to compromise its viability (Cameron *et al.*, 1987). Conversely, a turnaround situation is one where a company addressing the causes of its decline adopts strategies that reverse its course beyond survival and ultimately lead to sustained profitability (Barker and Duhaime, 1997). Lohrke *et al.* (2004, p. 65) discussing the turnaround process depicts three relevant phases. In Phase I, a troubled organization needs to pinpoint the main causes of decline, which are usually related to “environmental changes, internal deficiencies, or combination of both”. In Phase II, the company’s management formulates and implements the appropriate strategies for addressing the sources of decline. Finally, in Phase III, the company’s turnaround outcome leading to performance improvement or failure is assessed (Pearce and Robbins, 1993; Morrow *et al.*, 2004, 2007; Van Wittelstuijn, 1998). Regarding the first phase, main environmental or external causes of relative decline are usually associated to decreasing market demand, increasing competitive pressures in open markets and increase in input costs, mostly raw materials. Moreover, among the major internal weaknesses that have been singled out are the high cost structure, inadequate financial control and poor management (Gopal, 1991; Grinyer *et al.*, 1990; Balgobin and Pandit, 2001).

In the second phase, company management is expected to react to an alarming situation indicating falling profits, revenues or/and shrinking market shares (Zimmerman, 1991, pp. 26-7). Hambrick and Schecter (1983), in one of the most widely-cited studies of the literature, present three clusters of the most common strategic moves that companies implement to turn performance around. The first cluster or “strategic *Gestalt*” is comprised of new product and market initiatives. The second is termed “efficiency”, involving adjustment of employee productivity and direct costs, and the last set of strategic moves seeks to affect the level and use of fixed assets by improving inventory and capacity-utilization management or employing new plant and equipment. Indeed, empirical studies have shown that a combination of such strategic moves tend to lead to successful turnarounds, emphasizing market refocusing and a combination of employee productivity and plant modernization (Hambrick and Schecter, 1983; Thietart, 1988; Barker and Duhaime, 1997). Yet the engineering of the turnaround process, involving management-labor relationships during the implementation and recovery phases, remains a relatively unexplored area of the relevant literature. Boyne and Meier (2009) rightly point out the absence of any analysis of the interaction between management and employees during the recovery effort. The present study aims to shed light on that issue of the turnaround process by utilizing another line of the performance literature, that of the HPWS.

Retaining informed and committed to company employees is a “key element” to a successful turnaround (Zimmerman, 1991, p. 273). And it is company leaders’ “overarching task for restoring confidence through empowerment – replacing denial with dialogue, blame with respect, isolation with collaboration, and helplessness with opportunities for initiative” (Kanter, 2003, p. 67). Yet confidence and trust relationships to transform an ailing organization into a high-performance one need to be built on a coherent system of human resource practices: skilled employee selection (Skaggs and Youndt, 2004; Boyne and Meier, 2009), employee participation (Kanter, 2003; Mohrman and Mohrman, 1983; Goldstein, 1988), open communication (Weitzel and Jonsson, 1989; Clausen, 1990), teamwork (O’Shaughnessy, 1995; Zimmerman, 1991; Goldstein, 1988), heavy training (Mirvis *et al.*, 2003), performance-based pay schemes (Kramer, 1987) and public recognition incentives (Armenakis *et al.*, 1995). Now we turn to the next section to discuss in some detail the HPWS-performance nexus.

Linking HPWS to organizational performance

Numerous review articles and empirical studies have been undertaken with regard to the contested arena of HRM and organizational performance, with a particular focus on the HPWS model (e.g., Snell and Dean, 1992; Youndt *et al.*, 1996; Ketchen *et al.*, 1997; Purcell, 1999; Ramsay *et al.*, 2000; Williams *et al.*, 2003; Godard, 2004; Paauwe and Boselie, 2005; Stavrou and Brewster, 2005; Becker and Huselid, 2006; Combs *et al.*, 2006; Boxall and Macky, 2007; Birdi *et al.*, 2008; Paauwe, 2009). These publications evaluated the implementation of “sophisticated HRM” (Purcell and Kinnie, 2007, p. 535), which is considered to lead to enhanced performance outcomes, while various theoretical approaches have also been developed in relation to this theme (Boxall and Macky, 2009; Boxall and Purcell, 2011).

In one of the most notable studies in this empirical fieldwork (Huselid, 1995, p. 645), the author adapted ten practices from another research project (i.e. Delaney *et al.*, 1989) and three other items were additionally evaluated (i.e. the intensity of recruitment or selection ratio, hours of training per employee, and promotion criteria). In a similar vein, Guest *et al.* (2004, p. 85) adapted a “bundle” of 14 HR practices in their study, by using the findings of MacDuffie (1995) and dividing these practices into four broad categories. Table I shortly summarizes a list of these practices (see Macky and Boxall, 2007, pp. 547-8; Golding, 2010, p. 59) and illustrates that the adapted practices are strongly interrelated across the two studies. In general, it is argued that there is no “magic list” of best “high-performance” practices, but the HPWS model appears to work better if a “bundle” of practices is consistently applied (Armstrong, 2009, p. 246).

Overall, extensive empirical research has been undertaken in the UK, the USA and other Anglo-Saxon countries, with regard to the adoption of “high-performance” practices and their potential outcomes (e.g., Cappelli and Neumark, 2001; Batt, 2002; Wright *et al.*, 2003; Sung and Ashton, 2005; Purcell and Hutchinson, 2007; Guthrie *et al.*, 2009; Messersmith and Guthrie, 2010; Batt and Colvin, 2011), combined with a broad range of studies across several European countries (e.g., Den Hartog and Verburg, 2004; Sels *et al.*, 2006; Apospori *et al.*, 2008; Panayotopoulou *et al.*, 2010; Stavrou *et al.*, 2010). In conclusion, several academics reviewed the principal findings of empirical studies in this field of research (e.g., Wall and Wood, 2005, pp. 436-40; Macky and Boxall, 2007; Armstrong, 2009, pp. 231-7; Golding, 2010, pp. 65-6; Wilton, 2011, pp. 80-81), while Table II provides an indicative list of these studies from 1993 to 2011.

Critique of the HPWS approach

Critics have described the HPWS perspectives as static and rigid (e.g., Marchington and Wilkinson, 2012) because they fail to evaluate the institutional forces that have a real impact on the implementation of HR policies and practices, while it is questionable whether the “high-commitment bundles” of HR are universally applicable in practice (Marchington and Grugulis, 2000). Other researchers are also skeptical about the use of HPWS, arguing that management may instigate such practices in order to enhance employees’ commitment and involvement but simultaneously undermine the role of trade unions so that employees are less attached with the union-based forms of representation (Edwards *et al.*, 2002; Harley, 2005; Danford *et al.*, 2008). There are also some reservations with regard to the direct linkage of employee participation and “high-involvement” management with organizational performance, because other contingencies may also affect this relationship negatively or positively (Wood, 2010). In addition, recent empirical findings indicate that the relationship between indirect and direct involvement with performance outcomes is rather ambiguous (Jaewon *et al.*, 2010). In fact, this skepticism centers on the pitfalls and fragility of employment relationship, such as lack of trust and low levels of commitment.

Thus, critics maintain that, in the “deregulated market economies”, alignment of interests among all parties can hardly be sustained, which may subsequently result in conflictual or adversarial relations with negative repercussions on individual employees and trade union representatives (Godard, 2002, 2004). On the other hand, the issue of trust and the aforementioned concerns are normally considered to be less problematic in “social market economies”, such as Germany and the Netherlands, and thus the limitations of the “high-performance paradigm” are much less prominent in

Huselid (1995)	Guest <i>et al.</i> (2004)	Description
<i>Competence of the workforce</i>		
1) Personnel selection through employment tests	1) Use of psychometric tests in selection	A method that seeks to assess a specific psychological aspect of a potential employee (such as personality or intelligence) in order to choose the most appropriate individual from a pool of candidates The proportion of individuals in the applicant population who are hired in order to fill the available positions
2) Selection ratio (i.e. qualified applicants per position)	2) Extensive opportunities to update skills through training and development	Capacities of employees are developed through training and learning at all levels, as a practice of investment in human capital in order to support performance improvement, while individuals are also provided with opportunities to make full use of their skills and abilities
3) Training (number of hours per employee)	3) Employee involvement in workplace decisions	Employees are involved in managerial decision-making, over various workplace issues, and contribute in the development of "high-performance" practices. This is achieved through formal arrangements (e.g., team briefings, quality circles, and suggestion schemes) in order to elicit greater employee understanding and commitment towards organizational objectives
<i>Employee motivation to perform</i>		
4) Participation teams	4) Regular use of performance appraisal	Formal and periodic evaluation of employee performance through benchmarking and setting of targets. Management defines what it is required, sets goals for success, monitors performance to ensure that the goals are achieved so that individuals are engaged in achieving agreed objectives and standards, and determines development needs
5) Performance appraisals to determine pay	5) Part of pay is related to individual performance	People are valued and rewarded according to their contribution. This is achieved through various schemes, by which employees are given a share of company profits (i.e. profit-sharing), in order to improve employee loyalty and connection with organizational objectives
6) Incentive compensation (e.g., profit-sharing)		A flexible method of employee remuneration, by which the promotion of employees is contingent upon the evaluation of individual or group performance (i.e. promotion criteria: seniority versus merit)
7) Employee performance determines promotion		

(continued)

Table I.
Main human resource
practices comprising the
HPWS model

High
performance
work systems

Huselid (1995)	Guest <i>et al.</i> (2004)	Description
<i>Opportunities for the employees to participate and perform</i>		
8) Information-sharing	6) Keep employees well-informed	The transmission by the employer to employees (or their representatives) of data, which are relevant to the organization and employee jobs, in order to enable them to acquaint themselves with the subject matter and to examine it
9) Formal job analysis and design	7) Actively try to make jobs as interesting and varied as possible	The systematic process of a) collecting and recording information about a specific job, and b) allocating, arranging and integrating organizational tasks and responsibilities. Alternative job design practices are also implemented (such as work teams, job enlargement/enrichment/rotation, and other related reforms)
10) Attitude assessment (regular surveys)	8) Actively use team-working where it is possible 9) Conduct a company-wide attitude survey in the past two years	A modern approach to work organization and design. It seeks to yield the required performance outcomes through the allocation of work to co-operative groups of employees rather than individuals. A survey is used in order to provide a picture of organizational needs. It solicits employee opinions on a variety of issues (such as the organization's success in communicating its mission to employees), or other workplace issues (e.g., quality of the working environment, climate of employee relations)
<i>Employee commitment</i>		
11) Internal hiring	10) Attempt to fill vacancies from within the organization 11) A stated policy of deliberately avoiding compulsory redundancies	Management primarily tries to fill jobs that have become vacant with people from inside the organization rather than by recruiting from the labor market. Thus, there is a widely-shared belief that employees are the organization's primary source of competitive advantage, and talent management is an espoused and enacted policy The organization is explicitly espousing and supporting the implementation of job security policies in order to enhance trust and commitment and sustain a good climate of employee relations in the workplace

(continued)

Huselid (1995)	Guest <i>et al.</i> (2004)	Description
	12) Actively implement equal opportunities practices	<p>The organization is espousing and supporting the belief that all employees should be treated the same regardless of social group characteristics. This policy is applicable in any sort of HR practices, in a specified context of egalitarian fairness and with the removal of any type of barriers and biases in relation to employment opportunities</p> <p>A holistic policy is espoused, with regard to job-related issues that affect the well-being of employees in the workplace. It is used in order to evaluate the extent to which work experiences are rewarding and fulfilling (e.g., intrinsic job motivation and satisfaction) and preclude any negative personal aspects (e.g., stress at work, work-role overload, turn-over intentions)</p> <p>The organization is espousing “employee participation” in decision-making in most of business and workplace issues through the establishment of a works council or consultative forum. Such forums or councils normally consist of management, employee and union representatives with the purpose to enable broad communication, consultation and negotiation between the parties</p> <p>The organization is adopting the implementation of a formal process in order to “channel” and resolve employee dissatisfaction so that the employers would be able to give reasonable consideration, in a fair and consistent manner, to any issues which cannot be resolved informally. Such issues may involve a) terms and conditions of employment, b) health and safety, c) work relations, d) harassment and discrimination</p>
12) Quality of work-life programs	13) Implement a range of family-friendly practices in place	
	14) To have a works council or consultative process in place	
13) Formal grievance procedures (or complaint resolution systems)		

High
performance
work systems

Table I.

Author(s)	Empirical findings
US Department of Labor (1993)	In a survey of 700 organizations, the implementation of innovative HR practices indicated a significantly higher level of shareholder and gross return on capital.
Arthur (1994)	In a sample of 30 US mini steel mills, the adoption of “high-commitment” related strategies led to higher productivity, lower wastage rates and lower employee turnover, in comparison with the “control” related strategies.
Huselid (1995)	In 968 US organizations (with 100 or more employees), the implementation of 13 HR practices (see Table I) had a notable impact on both employee outcomes (such as lower turnover and higher productivity) and long-term financial measures
MacDuffie (1995)	In 62 worldwide car-assembly plants, the implementation of team-based work systems, in conjunction with “high-commitment” practices (including main HR practices, such as performance-related pay and training) within a context of flexible production practices, was correlated with increased productivity
Delaney and Huselid (1996)	In 590 (for-profit and non-profit) US heterogeneous organizations, the implementation of particular HRM practices (such as employee participation in decision-making process, incentive-based remuneration systems and highly selective hiring) was positively correlated with improved productivity.
Ichniowski <i>et al.</i> (1997)	In a longitudinal study, with a sample of 36 homogeneous US steel production lines (owned by 17 companies), the implementation of a “bundle” of “innovative” work practices (such as incentive-based remuneration policies, team-working, flexible job assignments, employment security and training) was correlated with higher levels of productivity in comparison with the more “traditional” work practices
Wood and de Menezes (1998)	In a representative sample of 1,693 UK workplaces (based on: “the 1990 UK Workplace Industrial Relations Survey” and “the Employers’ Manpower and Skills Practices Survey”), four progressive styles of “high-commitment management” (HCM) were identified across four types of workplace (ranging from the high to low adoption of HCM). Empirical findings showed that there were no significant differences across the four types of workplace on productivity (with the exception of some changes in financial performance)
Hoque (1999)	In a sample of 209 UK hotels, 21 HR practices were evaluated (e.g., harmonization, job design, training and merit pay). Empirical findings showed that the relationship between HRM and performance was dependent upon the applied business strategy. In addition, organizations that had a particular focus on the quality of services within their strategy performed better, while HRM would appear more likely to lead to competitive success if it was introduced as an integrated, coherent or “bundle” of different practices.
Appelbaum <i>et al.</i> (2000)	A sample of 44 US manufacturing plants/facilities was used, where approximately 4,400 employees were surveyed. Empirical findings showed that “high-performance” practices (e.g., opportunities for the employees to participate, high-skills policies, employee motivation and increased employee discretion) were positively correlated through the mediation of other factors (e.g., mutual trust and intrinsic rewards) with employee commitment, job satisfaction, low stress and improved performance

Table II.
Selected empirical studies
from the HPWS literature

(continued)

Author(s)	Empirical findings
Cappelli and Neumark (2001)	In a sample of a) 433 US manufacturing plants (1977-1993 panel data), and b) 660 US manufacturing plants (1977-1996 panel data), various HR practices were evaluated (e.g., job rotation, self-managed teams, teamwork training, cross-training, pay for skills/knowledge, profit/gain sharing, meetings and total quality management). The empirical findings indicated that the introduction of these practices was not correlated with any notable change in productivity and efficiency
Batt (2002)	In a random sample of 260 US call centers, which was based on "the Dun and Bradstreet" listings of establishments, empirical findings showed that where HR practices focused on a) high skills, b) employee participation in decision-making and team-working, c) incentive-based remuneration schemes and d) employment security, quit rates were lower and sales growth was higher
Wright <i>et al.</i> (2003)	In a sample of 50 business units of a US food services company, empirical findings showed that the implementation of HR practices and the resultant organizational commitment were not significantly correlated with operational measures of performance (such as quality and productivity), but they were positively related to lower operating costs and increased profitability
Den Hartog and Verburg (2004)	In a sample of 175 organizations, from various sectors in the Netherlands, the HPWS model was adopted as a combination of different practices (e.g., employee skills and direction, autonomy, pay-for-performance, profit-sharing, performance evaluation, team performance, information-sharing meetings and job evaluation). Empirical findings showed that the adoption of the HPWS model had a significant impact on several performance outcomes (e.g., perceived economic outcomes and absenteeism etc.) and a positive correlation with three organizational culture orientations
Sung and Ashton (2005)	In a sample of 294 UK organizations, empirical findings showed that the level of adoption of the HPWS model, as measured by the number of practices in use, was correlated with organizational performance. Those organizations that more consistently adopted the practices as "bundles", rather than in isolation, had greater levels of employee involvement and were more effective in delivering adequate training provision, managing staff and providing career opportunities.
Sels <i>et al.</i> (2006)	A sample of 416 units of small enterprises in Belgium (with ten to 100 employees) was used and derived from "the BELFIRST" data file. Empirical findings showed that the implementation of the HPWS model was associated with increased productivity and an overall positive effect on profitability, in spite of the increased labor costs
Purcell and Hutchinson (2007)	A sample of 12 UK "excellent" companies was used in order to evaluate the mediating role of front-line managers on the link between HRM and organizational performance. An employee survey assessed the extent to which employees' commitment towards their employer and their job could be influenced by the quality of leadership behavior and by satisfaction with HR practices. Five items were used to measure leadership behavior covering the dimensions of involvement, support, communication and fairness. Both factors (i.e. leadership behavior and satisfaction) appeared to have a strong effect on employee attitudes

(continued)

Table II.

Author(s)	Empirical findings
Gooderham <i>et al.</i> (2008)	A sample of 3,281 EU firms was derived from “the Cranet” data set in order to evaluate the impact of HRM practices on organizational performance. A factor analysis of 80 different HRM practices was adopted and resulted in 15 “bundles” of practices, which were then further categorized as being either a) “calculative”, b) “collaborative”, or c) “intermediary”. The empirical findings showed that primarily the “calculative” and “intermediary” practices had a positive correlation with organizational performance rather the “collaborative” ones. Overall, it was further noted that the overall effect of HRM on performance was relatively modest.
Guthrie <i>et al.</i> (2009)	A sample of 1,338 firms was used (derived from “the <i>Irish Times</i> Top 1000 Companies” and “Ireland’s Top 1000 Companies”) in order to evaluate the effectiveness of the HPWS model. The empirical findings showed that greater use of the HPWS model was related with positive HR and organizational outcomes. In particular, those firms that were utilizing higher levels of this model appeared to have lower rates of employee absenteeism and voluntary turnover along with higher labor productivity and lower labor costs.
Messersmith and Guthrie (2010)	A sample of 2,018 US firms was used (derived from “the National Establishment Time-Series (NETS)” database) in order to address the factors that contribute to the success or failure of developing organizations by examining the role that the HPWS model could play in the performance of high-tech new ventures. Through the resource-based view and dynamic capability perspective, empirical findings indicated that the use of HPWS was positively associated with sales growth and innovation, but the hypothesized mediating role of voluntary employee turnover was not finally supported.
Batt and Colvin (2011)	A longitudinal sample of 93 US call centers was used, in conjunction with a cross sectional sample of 339 establishments (based on “the Dun and Bradstreet” listing of establishments and a 2003 nationally random survey of call centers in all industries). Empirical findings showed that the implementation of “high-involvement” work practices and the use of long-term investments and inducements were associated with significantly lower quit and dismissal rates, but on the other hand, short-term performance-enhancing expectations were related to significantly higher quit and dismissal rates. Finally, establishments with higher quit and dismissal rates appeared to have significantly lower customer service

Table II.

this type of economies (Godard, 2004; Hall and Soskice, 2001). In addition, some researchers have identified notable inconsistencies between the espoused or intended HR policies and the policies that are actually implemented (Purcell *et al.*, 2009; Kinnie and Swart, 2009).

Overall, in the academic literature, there are numerous proponents of the “high-performance paradigm” (e.g., Boxall and Macky, 2009). It is evident, though, that some theorists insist that precise conclusions about the linkage of HRM with performance outcomes are yet pending (e.g., Dany *et al.*, 2008). Along this line, further research is necessary with regard to “the nature of any intermediary processes” that affect this linkage (Purcell *et al.*, 2009, p. 8) and thus the pertinent concern of unlocking the “HR black box” is still open for debate (Boxall and Purcell, 2011; Guest, 2011).

Methodology

The aforementioned discussion pinpointed that the mechanisms on how HPWSs affect organizational outcomes are still seen as a “black box”. The present research attempts to shed some light on that “box” by investigating the Aesculap case study. Gennard and Judge (2006) point out that the introduction of HPWS is not enough. Many other factors, such as good leadership, a clear vision, commitment to continuous improvement, a culture that encourages innovation and capital investment are vital factors to accomplish the adoption of HPWS. For that reason, the discussion of how such factors or contingencies conditioned the adoption of a HPWS in the case of a German company calls for qualitative research. In the case study method, the fact that data collection is not limited by predetermined categories of analysis contributes to the depth of qualitative data (Patton, 1987). Indeed, it is a highly valuable research method when “how” or “why” questions are the focus of interest, and when the boundaries between phenomenon and context are not clearly evident (Yin, 2009).

In the case of Aesculap, conducting in-depth interviews with the protagonists was extremely enlightening regarding how leadership, competition forces and employee relations interacted with a bundle of HPWS and led the company to a turnaround with impressive performance outcomes. Two interviews were conducted in October and November 2009 and later evaluated. The employer’s side is presented by Norbert Braun, senior manager and director of the production plant. He was personally interviewed in Tuttlingen, Germany. Ekkehard Rist, chairman of the works council, presents the employees’ point of view; a long telephone interview was carried out in November 2009. During the interview, closed questions were asked in order to test the adoption of HPWS and their impact; open questions were used to examine other relevant factors that contributed to the success of the turnaround process. The interviews were audio taped and then transcribed. By direct comparison of the different points of view, the consistency was tested. Since Aesculap’s Benchmark Factory was opened in 2001, the interviews focused on both the negotiation phase and the period of operation.

The case study of Aesculap AG

Company background

Aesculap AG is a division of the B. Braun Melsungen AG. With a workforce of around 2,800 people in Tuttlingen (9,000 worldwide), it is a globally active company and the largest employer in the region of Tuttlingen/Lake Constance in Germany. The company initially produced surgical instruments and expanded into the field of artificial joints in the 1960s. In 1996 it became clear that the existing premises had become inadequate for maintaining production over the long-term, and thus plans were made to build a new factory. By the end of the 1990s Aesculap faced threatening international competition. Some major acquisitions in this industry meant increasing competition for market share: Hoffman La Roche bought Boehringer Mannheim and Johnson & Johnson invested in a new plant in Ireland with a production capacity of 60,000 artificial joints per year (Ungethüm, 2009).

Due to growing market pressure (Zimmerman, 1991), the company was forced to either increase performance or shut down the German site and relocate production. High wage rates in Germany meant consideration had to be given to finding a site outside Germany and to moving the entire production to a country that permitted

production at lower costs. Despite the fact that the solution of a relocated factory would have been much more positive in terms of cost, the company, nevertheless, decided to build the new factory in Germany (Hambrick and Schecter, 1983; Barker and Duhaime, 1997). However, this solution was only made possible by exemplary negotiations and cooperation between the board, the management, the employees, the works council, the state politicians, and the town council (Kanter, 2003; Mohrman and Mohrman, 1983). The negotiation process culminated in a corporate agreement between the management, the works council and the labor union (Weitzel and Jonsson, 1989; Clausen, 1990). An HPWS has been instituted in the turnaround corporate agreement.

Turnaround process

Because of major developments in the health sector, the international competition for market share was reinforced and the market showed a consolidation tendency. By the mid 1990s Aesculap held a small market share of only 2 percent. At that time the sector was dominated by a few international firms, most of them subsidiaries of large pharmaceutical companies. The six major competitors exceeded Aesculap's revenue by five to seven times. The German manufacturer sold 40,000 artificial joints, whereas the competitors achieved sales numbers of 100,000-70,000 units (Ungethüm, 2009). Because of the economic and demographic shift, Aesculap opted for an internationalization strategy and started its worldwide business. This step drastically increased the price pressure, since products have to be sold at a low price despite high market entry costs, such as sales and marketing expenditures (Gopal, 1991; Grinyer *et al.*, 1990). At that time a Charnley Hip (a standardized artificial joint) in India was sold at the price of 350 Deutsche marks (approximately 175 Euro), whilst the same product would be sold at double the price in Europe (Ungethüm, 2009).

Compared with its competitors' position, Aesculap's market position was highly doubtful and therefore the senior management began to contemplate a turnaround plan (Balgobin and Pandit, 2001). For a relatively small and specialized company like Aesculap, increasing productivity and sales volume seemed vital factors to staying in the business (Barker and Duhaime, 1997). Part of the turnaround was a state-of-the-art technology plant combined with a high-performance work system (Hambrick and Schecter, 1983; Thietart, 1988). Additionally the factory was arranged as a total quality management workplace satisfying high environmental standards (Ungethüm, 2009). The senior management, in cooperation with the works council, conducted a study to compare different location options in terms of costs, employee skills and quality. Quite expectedly, the German site turned out to be the leader in terms of its highly-skilled employees and high productivity; yet high wages and an unfavorable tax system appeared to override these positive aspects. Since tax circumstances could clearly not be changed, the only option to lower the production cost turned out to be labor costs. The direct comparison of the total wage bill necessary to run the factory indicated that the German site would cost approximately 8 million Deutsche Marks (approximately 4 million Euros) more than the alternative sites. A corporate agreement securing a reduction in unit labor costs by increasing productivity faster than wages led senior management to invest finally in Germany (Thietart, 1988). Michael Ungethüm, chairman of the management board until his retirement in April 2009, opened the Benchmark Factory in Tuttlingen, Germany in 2001 and managed to increase the company's performance significantly in the following period.

According to the turnaround plan, the employees agreed to extend their working time by 24 minutes per day, without remuneration in return for receiving a bonus for achieving performance targets (Kramer, 1987). The new plant would remain within the trade union “Arbeitgeberverband Südwestmetall”, and there would not be any layoffs or relocations without the acceptance of the works council. The management agreed to transform part of the additional working hours into training (“qualification time”). The works council’s argument was that state-of-the-art technology should be accompanied by a higher qualified workforce in order to achieve the expected results. Thus training was the vehicle for raising employees’ value for the company and making them relatively irreplaceable (Mirvis *et al.*, 2003). The works council also required that the funds that would be saved through increased productivity achieved by additional unpaid working time should be invested in future markets. The terms of Aesculap’s corporate agreement are summarized in Table III.

The turnaround led to impressive corporate performance: the Benchmark Factory has been running successfully and revenues have increased remarkably throughout the period under consideration (2002-2008). Figure 1 illustrates an increasing trend in employee productivity from early on (2003), followed by a remarkable boost in the factory’s revenues, as is shown in Figure 2.

Employer’s commitment	Employees’ commitment
<i>Investment</i> A new state-of-the-art production plant “Benchmark Factory” in Tuttlingen/Germany (28m euros) Additional investment of 15 million euros in the following period	<i>More working time</i> Unpaid extension of working time by 90 hours per year (= 24 minutes per day) 60 hours unpaid additional work time per year for apprentices By March 10, 2004: smoking breaks are allowed only during official breaks
<i>Employee participation</i> <i>Team-based work organization</i> Aesculap’s commitment to work and negotiate with the trade union “Arbeitgeberverband Südwestmetall Effective team-based production in a state-of-the- art production plant	<i>Cost-cutting working time</i> <i>Time flexibility</i> No nightshift bonus Official working hours: 6 a.m. until 8 p.m. (flexible working hours)
<i>Job security</i> No layoffs without the acceptance of the works council Commitment to keep minimum number of employees (1,930) and a certain number of apprentices (9.5 percent quota)	
<i>Training/skills enhancement</i> 43 hours of training per year according to a skills- build-up catalog	<i>Training time arrangement</i> Partly unpaid 43 hours of training
<i>Performance-based pay</i> Wages are linked to productivity targets (ideally to balance the unpaid extra working time)	

Table III.
Adopting a HPWS
through a corporate
agreement

The adopted high performance work practices did lead to significant positive outcomes, such as growth in revenues and increased productivity. In addition, the prospected target of 10 percent savings in personnel costs was achieved. Nonetheless, the employees earned even more money than they did before the changes: the performance-linked bonus exceeded the wage loss (Ungethüm, 2009). Aesculap invested part of the saved money in strengthening its international market position. Since the opening of the new production plant in 2001, around 400 new employees were recruited and the apprentice quota was increased. In February 2007, the German government awarded Aesculap a prize for outstanding innovation (Armenakis *et al.*, 1995). In the following year the Benchmark Factory received an award for being one of the most modern and environmentally friendly plants in producing artificial joints in Europe. The solid foundations of Aesculap's turnaround process were truly proven during the current world economic crisis. In a period where economic activity was rapidly shrinking in advanced economies, the company kept increasing its revenues and workforce at a remarkable pace, averaging 7.3 percent and 13.4 percent respectively between 2009 and 2011 (B. Braun, 2011). Indeed, through a rejuvenation plan Aesculap's stakeholders managed to create a "win-win" situation for both the company and the employees by implementing a high performance work system. The main practices of the latter are discussed below in some detail.

High performance work practices at Aesculap: production based on teamwork

The implementation of HPWS usually begins with the redesign of work flows towards customer-value driven work teams (Belcourt *et al.*, 2008). Aesculap emphasizes teamwork, that is, group-based production. The Benchmark Factory is organized on a team structure. There is a plant manager, who is fully responsible for overall operation and the plant's workforce of up to 500 people. The plant itself is divided into segments

Figure 1.
Employee productivity in
the new factory

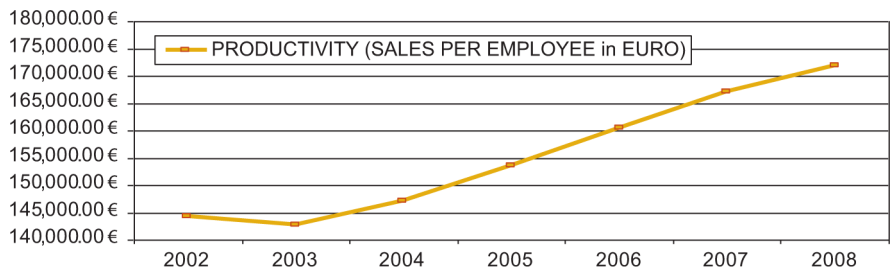
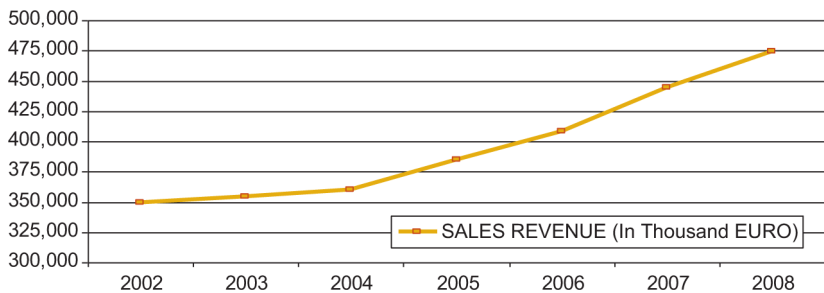


Figure 2.
Revenues at Aesculap/B.
Braunt, Germany



with a segment leader for each; the segment leader supervises up to 100 employees and reports directly to the plant manager. The next hierarchical level would be the teams with one or two team leaders, who supervise ten to 40 employees. The team leaders are responsible for compliance with processes, operation procedures and quality standards. The teams are organized in an optimal structure to support the most effective work flow (O'Shaughnessy, 1995).

According to Pfeffer (1998) team-based, organized work is one of the key factors when adopting HPWS. Norbert Braun, representing management, explains the importance of team and work flow design for Aesculap:

Due to the fact that technical and operational processes are increasingly complex, it is impossible for one employee to know all the correct handling procedures. You need several persons to combine their knowledge and achieve the best results.

However, Mr Rist, representing employees, stresses the difficulties when adopting team-based production processes:

We also changed the whole production cycle and implemented new processes that challenged the employees even more. We introduced team-based production. It was a difficult process to support the employees and to make sure that the company does not ask too much of them. This typically happens in such cases.

Mr Rist points out that team-based production practices, not commands, improve the employees' working conditions. If the management only strives for increasing performance results without caring about the employees' interests, these practices can easily lead to negative outcomes for the staff, such as excessive demands.

High performance work practices at Aesculap: worker participation and communication
Aesculap relies on worker participation to a great extent, especially when it comes to the restructuring of basic work processes (Kanter, 2003; Mohrman and Mohrman, 1983; Goldstein, 1988). The company does not fully support autonomous group work; it stresses "guided team work", but there are formal participation processes such as meetings on a regular basis, group activities, suggestion schemes and feedback groups. Mr Braun points out the importance of the concept:

Basically employee participation is very important to us; it's an important component. Especially due to high complexities of practices we do emphasize employee participation [...]. Without the employees' involvement we can't be successful. Knowledge comes with people.

In addition to the formal processes, there are special cases when management asks for employees' consultation on process improvement. Off-Line teams are assigned to work on analyses and come up with suggestions. Hence, employees directly contribute to organizational design, and, again, this factor supports the idea of bottom-up communication. As Mr Braun explains:

For restructuring projects though, we do ask for the staff's feedback in the sense of "how do you rate the process, how can we constantly optimize the operation?" By the help of our employees' experience we come to an optimal solution – that's how it works.

This process counts for communication as well (Kanter, 2003; Weitzel and Jonsson, 1989). As Mr Braun points out:

Through the help of our group discussions, we try to advance communication and information among the employees. Many companies have to face that: there can't be only top-down management; today's employees actively get involved [...] Open communication means sharing good and negative feedback. Through that we prove our trust-based relationship.

Along the same line, Mr Rist, maintains:

I think the more you involve the employees the more commitment you will gain. If you openly discuss issues, it is likely that employees will contribute to change processes [...] the majority of employees constantly ask "what can I do for the company?"

It is noteworthy that open communication played a crucial role in the employee familiarization with the turnaround process. Mr Braun explains:

We totally restructured the production and organization. It was a huge change process. It was made possible by constant effort; it's an ongoing process. . . We published a lot of information for the employees about the Benchmark Factory: the timetable, what happens, what we expect of our employees, what kind of changes we have to face.

This practice was also acknowledged by employees' representative Mr Rist:

If you openly discuss issues, it is likely that employees will contribute to change processes. It was very important to us to involve the employees at an early stage.

High performance work practices at Aesculap: training, career development and job security

Enhanced training is a key principle in adopting HPWS, since it assures that employees have the skills needed to assume greater responsibility in a high performance workplace (see Guest *et al.*, 2004). Aesculap is such a workplace. It promotes training: the majority of the employees constantly receive training (Mirvis *et al.*, 2003). Every year the company publishes a training and development agenda. The program offers further training, such as product and process training, communication training and language courses. The (standardized or individual) training is done by professional external trainers. Attendance is basically open to every employee on agreement. Employees in production are evaluated by their managers and may receive training according to their needs. Individual training is offered if employees have to develop certain skills in order to be promoted. The company invests heavily in employee development. On-the-job training is used for the induction of new team members and apprentices.

Understandably, training in "high road" companies such as Aesculap is viewed by employees as "more qualifications", an important element further securing their job positions. As Mr Rist admits:

From the employees' perspective, qualification means a chance to adapt to challenges of a modern production site; thanks to these qualifications, the employees are irreplaceable in the company.

Through training, the company offers good conditions for employees to develop and get promoted. Heavy training and secured jobs are practices ingrained in the company and quite expectedly lead to a low employee turnover. Some of the employees have been with the company for more than thirty years.

High performance work practices at Aesculap: competency-based employee selection

Aesculap recruits highly skilled employees. Due to the fact that working processes have become more and more complex, an increasing number of high caliber engineers are needed. In addition to high skills, however, the company emphasizes social skills. According to Mr Braun:

First of all, he or she [the employee] has to be qualified in terms of skills and education. But at the same time the employee has to be equipped with social competencies. If an employee is highly qualified but does not satisfy our social requirements, such as willingness to communicate effectively within the team, we would not hire this person.

This practice indicates the significant importance of effective team work and communication in the new workplace. High performance workplaces crucially depend on selecting the right candidates (Skaggs and Youndt, 2004; Boyne and Meier, 2009). Companies not only strive for highly skilled individuals, but also look for employees with the ability to learn continuously and work cooperatively towards the company's goals (Belcourt *et al.*, 2008; Boxall and Macky, 2009).

High performance work practices at Aesculap: performance-based compensation and benefits

Aesculap established a comprehensive performance-based pay system (Kramer, 1987). Employees receive a fixed income and an additional bonus if the performance targets are achieved. Bonus-relevant are the criteria of order cycle and production time and number of delayed orders, since these criteria are directly linked to customer satisfaction. The performance targets are set once a year. Throughout the year employees constantly receive relevant company data in order to know how they are doing in terms of performance and quality. Aesculap strives for information transparency and publishes the data on their notice boards at the plant entrances (Kanter, 2003). Contingent compensation leads to increased effort since it provides the employees an economic incentive (see Stavrou *et al.*, 2010).

According to Mr Braun, the company pays satisfactory wages:

I would say we pay in line with the market or above. In many areas, such as production, we pay above the market price. We appreciate good employees and are willing to pay the price.

In addition to the performance-based pay system, Aesculap offers a range of benefits. There is a company pension and health insurance scheme. According to Mr Rist, the management in cooperation with the works council keeps on working towards the employees' benefits; just recently they introduced a renewed pension scheme.

High performance work practices at Aesculap: employee relations based on trust

One key element of Aesculap case is the company's approach to employee relations. According to Mr Braun, open communication, the willingness for self-critique and trust between managers and employees characterize the company's state of employee relations (Kanter, 2003; Zimmerman, 1991). Mr Rist attaches great importance to the trust factor:

I do think that trust was an important factor. The responsible persons proved integrity in the past. The management at Aesculap and the employees are on a par with each other. There is

no “an eye for an eye, a tooth for a tooth” atmosphere; we have a fair relationship [...] both sides stick to their promises; this is part of the company culture.

Apparently, this trust-based corporate culture forged by job security conditions made Aesculap a high-commitment workplace and contributed to the company’s successful turnaround with impressive performance outcomes.

Conclusions

The aim of this case study was to shed light on the particular processes (“black box”) through which a German multinational company uses a comprehensive HPWS to turnaround its production base and survive in global markets. The study found evidence that the implemented HPWS has a positive impact on main organizational outcomes, such as productivity and revenue growth. Both interviewees, Mr Braun representing senior management and Mr Rist, representing employees, agree that the high performance work practices adopted at Aesculap’s Benchmark Factory did lead to a positive organizational outcome and a “win-win” situation for both the company and its employees.

The study pinpoints the specific contingencies that condition HPWS effectiveness. At the core one can single out a corporate culture nurtured by a stakeholder approach. Indeed, a culture of institutionalised open dialogue between the two social partners based on trust led to a crucial development: a corporate agreement that cemented high performance work practices in the new workplace. Thus, management’s open communication, pay and training incentives and job security were balanced by employees’ drive to higher quality and greater output.

Among many limitations, two are quite distinct and serious in the present study. First, the study focuses only on one single company operating in manufacturing. Thus its findings can hardly be generalized. Second, Aesculap, the study’s case study is a German company, and as such it is a genuine example of a stakeholder’s corporate culture. So it provides “fertile soil” for a HPWS to flourish. It would be more reassuring for the HPWS perspective if our case study of turnaround had taken place in a typical Anglo-Saxon environment, for instance in New Zealand, or in a rapidly developing democratic country, such as Brazil or India. Hence, even though the results of the present study are encouraging, they are far from decisive for the HPWS paradigm. Rather they call for further investigation of multiple corporate case studies of HPWS adoption across different industries, sectors and countries.

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About the authors

Dimitrios M. Mihail is Professor of the Business Administration Department at the University of Macedonia, Greece. He holds a PhD in Economics from The Graduate Faculty, New School for Social Research, New York, USA. His current research focuses on labour market flexibility, career development and student and women employment issues. His recent research has been published in *International Journal of Manpower*, *European Management Journal*, *Personnel*

Review and The International Journal of Human Resource Management. Dimitrios M. Mihail is the corresponding author and can be contacted at: mihail@uom.gr

Myra Mac Links holds a Diploma in Media Studies from J.W. Goethe University Frankfurt and a Master's in Management (HR focus) from International Hellenic University Thessaloniki. She brings along almost ten years of international recruiting and HR experience. Currently she is leading the Continental Europe Hiring Team with SapienNitro in Munich.

Dr Sofoklis Sarvanidis was a doctoral researcher in Work and Employment Research Centre (WERC) at the University of Bath (2004-2008). His research focused on "The implementation of information and consultation of employees regulations in Great Britain". He was awarded a full CASE studentship (ESRC, +3) and collaborative research scholarship by the: Economic and Social Research Council (ESRC); Advisory, Conciliation and Arbitration Service (ACAS); and University of Bath. He was also a collaborative research fellow of ACAS during the conduct of his empirical fieldwork. In the academic year 2009-2010, he joined City College as an adjunct lecturer in the Business Administration and Economics Department.