Book Summary: The 8 Practices of Exceptional Companies How Great Organizations Make the Most of Their Human Assets

The 8 Practices of Exceptional Companies How Great Organizations Make the Most of Their Human Assets
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Most companies give at least lip service to the notion that 'people are our greatest asset'. This book identifies companies where this really is the case, and tries to distill out from them their best human resource management practices.

"[This book is] a discussion of our findings and opinions based on research into how effective companies manage the "human asset" the people whose efforts are the basis of any organization's success. To manage as asset you first have to acquire it, then maintain it, then in the case of the human asset develop it and direct it. Human asset acquisition involves work force planning, succession planning, hiring, and orienting. Maintenance covers pay, benefits, employee and labour relations, information and communications systems, and retention. Development deals with training, learning experiences of all types, and career management. Direction has to do with scheduling, problem solving and disciplining, and perhaps termination. Collectively, these activities take up a large percentage of a manager's time and, depending upon the type of business, consume anywhere from 20 percent to 70 percent of revenues. The is what I am going to talk to you about." (p. 2)

Fitz-enz is the President of The Saratoga Group, a management and human resources development consulting company located in (where else?) California. Through intensive research in to the human resources policies and operations of over 1,000 companies, Fitz-enz has identified eight practices of companies that are outstanding in terms of how they manage their human resources, and have demonstrated superb financial performance. Companies that practice these he terms 'BHAMs' best human asset managers. The book is full of references to these BHAMs (of which there are thirty-five listed in the Appendix). As well as several small and medium-sized firms, they include British Airways, the Canadian Imperial Bank of Commerce, Hewlett-Packard, and Texas Instruments.

These eight practices that he discusses in the book are:

1. a balanced focus on value both human and financial: Here Fitz-enz examines the various aspects of value creation within a company, and identifies three spheres that contribute to value. These are: 1) the creation of human value (through such things as benefits, bonuses, provision of employee training, etc.); 2) the creation of production value (that is, the value of the product or service produced to the consumer as well as the cost-effectiveness of its production, which is determined by such factors as product quality, unit cost, and customer service standards); and 3) the creation of financial value, which is the end result of good performance in the first two areas. He argues that BHAMs have an equal regard for creating value in each of these three areas, rather than just focusing upon financial criteria.

2. long-tem commitment to a core strategy : "BHAM companies make a long-term commitment to a core strategy (e.g. shifting the culture to participative, operating ethically, providing the best service in the world, producing or marketing based on the lowest price, or turning out a top-quality product...) Once the commitment is made strategic and tactical plans can be developed. Plans change yearly or more often. Strategies endure. A plan is like making a reservation for a dinner date on a Saturday night. A commitment is like getting married for life. The issue is not the plan, it is the commitment." (p. 51)

3. close linkage between corporate culture and systems: Here Fitz-enz makes the point that the culture of exceptional companies and their operating systems should be aligned. If, for example, the culture of an organization is very open and trusting, then rigid and bureaucratic systems cannot be successfully imposed upon the employees without causing dissonance, suspicion and resentment, all of which negatively affects performance and profitability. Conversely, "a strong corporate culture can positively affect financial performance. It accomplishes this, first, by aligning and linking people through the values in the belief system. Second, it gives them a common vision that bonds the group and sends it off together in pursuit of

the vision and goals. Third, it provides a structure and form of control that make bureaucratic policies unnecessary." (p. 87)

4. massive two-way communication and information-sharing: Best human asset managing companies employ what Fitz-enz calls 'massive' communications, where information is shared both top-down and bottom-up throughout the company, and systems and procedures are put in place to facilitate this information flow. He identifies the supervisory level within a company to be the real hub of communications, as individuals in these positions are often the 'gatekeepers' of information in both directions.

5. effective partnerships with stakeholders: BHAMs are characterized by having relatively large numbers of partnerships in place - with employees, with customers, with suppliers, and possibly even other related institutions and organizations. These are arrangements where both parties have a vested interest in seeing something succeed, and there is a significant reward to both if things work out. Fitz-enz points out that such companies tend to have open, adaptive cultures which are characterized by cooperation, enthusiasm, open-mindedness, and a 'can-do' attitude - the perfect seed-bed for the development of partnerships.

6. mutual support and collaboration at all level: While the focus of the previous point was primarily upon external stakeholders, Fitz-enz turns here to the question of internal partnerships and collaborative efforts. He defines collaboration as a form of partnering that is centered within a function, but involving individuals from other departments and functional areas within the firm. "For example, when the compensation group is planning on changing the structure of the pay plan, in most companies compensation simply gets the approval of the CEO and senior line executives and then tells the recruiters, trainers and employee relations people what is coming. In a collaborative environment the compensation group reverses this process. It sets up an informal team to review the issues involved in a different pay plan. Questions fly around the room regarding the need for a new structure, the effects it will have on recruitment, how employees might view it, and what the trainers must do with their supervisory and management courses to teach the new plan. In the best cases, representatives of middle management and first-line supervisors are also brought into the discussion as well. You might think this is the norm if you hadn't experienced the self-centered life-style of many organizations." (pp.138,139)

7. the will to innovate and take risks: The main point to be made here is that companies that are successful are those that are willing to take risks. Companies where employees are punished for risk-taking are therefore not likely to be successful.

8. competitive passion and never being satisfied with the status quo: "Looking ahead for what's necessary to do in the future is a hallmark of the BHAMs. Never being satisfied avoids the complacency of success. So many executives who drive their companies to a dominant market position become arrogant. Their favorite audience response is "How can you argue with success?" The answer is "It's easy. That was yesterday and we are only going to get paid for what we do tomorrow." In 1995, gross sales of fifty-seven of the Forbes 500 declined from the previous year. Ninety-four saw their profits fall. And eighty-one watched their assets shrink.

Continuous improvement is driven by the institutional value of never being satisfied. It's part of the culture of the BHAMs. Nothing is sacred in these firms. Everyone knows that they can and should be reviewing all processes all the time. This constant pressure to improve yields a continuous stream of small and sometimes large reductions in expense or increases in productivity, quality or service." (p. 191)

While not startlingly fresh in approach or insights, The 8 Practices of Exceptional Companies does provide a useful framework to use to examine human resources and competitiveness issues. The discussion of each of the eight areas draws extensively upon examples and case studies for the thirty-five BHAMs, which provides much food for thought. Also, each of the eight areas contains a short opinion questionnaire where managers or employees can rate their organization's performance on each dimension, which is a useful tool for developing a quick assessment of where the company is weakest on the eight dimensions. For CEOs and mid-level managers alike, this book may open the door to human asset management practices that yield higher profits as well as more productive and committed employees.