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Putting People First
How nonprofits that value their employees reap the
benefits in service quality, morale, and funding

By Jeffrey Pfeffer

Stanford Social Innovation Review
Spring 2005

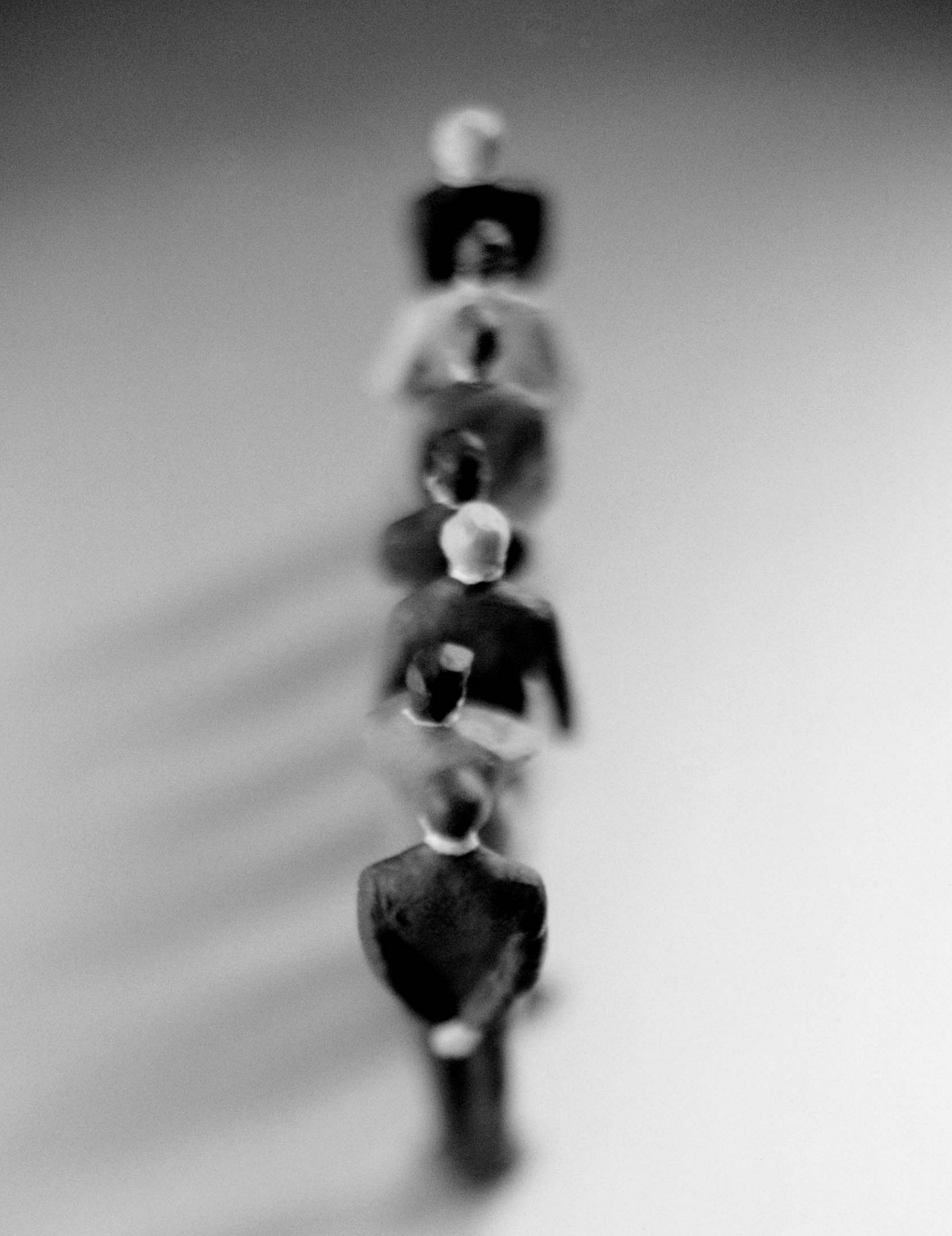
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How nonprofits that
value their employees
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service quality, morale,
and funding

PUTTING PEOPLE

First

NONPROFIT ORGANIZATIONS have a reputation for their people-centered services, but just as with for-profit businesses, the agencies' own employees often feel they are valued the least by management – behind funders, the board of directors, and clients.

Not only do burnout and high turnover rates speak to the need for nonprofit organizations to treat their employees well, but research based on the business sector demonstrates a simple but, some would say, counterintuitive fact: Putting a priority on the development and compensation of employees can reap major benefits for an organization – from raising the quality of its products and services, to enhancing its reputation and improving its bottom line.

Admittedly, the primary goals of nonprofits and businesses – creating *social* rather than *economic* value – may seem as different as night and day. But nonprofits are as interested in ensuring they have adequate income as businesses are, for the sake of their own survival and the ability to pursue their social purpose effectively. One of the key differences between the sectors, however, is that businesses usually

generate income from customers, whereas nonprofits also depend on funding from philanthropic donors. The performance of both nonprofit and for-profit organizations can be improved through more effective management of their employees. After all, regardless of legal status both are still “organizations” composed of individuals, and created to perform a task that creates value – be this economic, social, environmental, or spiritual in the case of nonprofits. Their performance depends on fundamental principles of motivation, social interaction, and learning that are universal.

In my research, I have identified seven key practices of businesses that successfully produce profits through its people: Employment security, selective hiring of new personnel, self-managed teams and decentralization of decision making, comparatively high compensation based on the organization's performance, extensive training, reduction of status distinctions among employees, and extensive sharing of financial and performance information throughout the organization.¹

Although the seven dimensions complement one another and

SEVEN KEY PRACTICES OF EMPLOYEE-CENTERED ORGANIZATIONS

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Employment security

2

Selective hiring of new personnel

3

Self-managed teams and
decentralization of decision making

4

Comparatively high compensation
based on the organization's
performance

5

Extensive training

6

Reduction of status distinctions
among employees

7

Extensive sharing of financial
and performance information
throughout the organization

ought to be implemented as a package, I have selected three of the seven on which to focus in this article: self-managed teams, training, and information sharing. These three can prove particularly powerful for nonprofit organizations, and, as this article shows, many agencies throughout the country are trying their hands at them and seeing the fruits of their efforts.

Self-Managed Teams

Organizing people into self-managed teams is a critical component of almost all high-performance management systems. Articles and case examples, as well as rigorous scientific studies, attest to the effectiveness of teams as a principle of organizational design. Workers in self-managed teams find their work more rewarding, one researcher concluded from a review of two decades' worth of research in organizational behavior. Not only that, but teams outperformed traditionally supervised groups in the majority of empirical studies.²

Teams offer several advantages. First, they put control of work into the employees' hands. Peer control is frequently more motivational – and effective – than management supervision. Second, team-based organizations create a sense of accountability and responsibility among employees for the operation and success of the whole enterprise. This increased sense of responsibility stimulates more initiative, creativity, and effort on the part of all workers, rather than concentrating that responsibility in the hands of senior managers.

Natural-foods grocery chain Whole Foods Market attributes its success to the use of self-managed teams. One of *Fortune's* "100 Best Companies to Work For" in 2004, the company touts its "Whole People" philosophy, in which employees are called "Team Members" who are "partners in a shared mission of giving customers the very best in products and services," according to the company's 1995 annual report.

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"We invest in and believe in the collective wisdom of our Team Members," the report also stated. The company's goal is to create "a more intelligent organization – one which is less bureaucratic, elitist, hierarchical, and authoritarian, and more communicative, participatory, and empowered. The ultimate goal is to have all Team Members contributing their full intelligence, creativity and skills to continuously improving the company."

The business's 1997 annual report explained the organizational structure: Whole Foods stores are "operated by a group of teams, each of which is responsible for customer service, hiring, ordering, product margins, and other critical in-store functions. Teamwork develops a sense of community with immediate co-workers and within the store. Teams meet regularly to discuss issues, solve problems, and appreciate each other's contributions."

The teamwork model was even highlighted in a PBS special, "The Excellence Files," which cited Whole Foods as one of eight companies "leading the way into the 21st century."

From one store in 1980 with 19 employees in Austin, Texas, Whole Foods Market has grown to 166 locations in North America and the United Kingdom with 32,000 employees. In part through acquisition as well as internal growth, total sales in fiscal year 2004 reached \$3.9 billion, a 23 percent increase over the previous year.

Even organizations for which it is impractical to design work to be performed by teams can benefit from one of the techniques: Decentralization of decision making to frontline people, who have the knowledge and ability to take effective action. Hotel chains Ritz-Carlton and Hampton Inn both give their employees authority to solve guest complaints without asking for approval from their managers. Managers say the practice boosts customer satisfaction.

The Ritz-Carlton Hotel Company, winner of the Malcolm Baldrige National Quality Award in 1992 and 1997, provides each of its people with discretion to spend up to \$2,000, without any approval, in order to respond to guest complaints. Hampton Inn, a low-priced hotel chain, instituted a "100 Percent Satisfaction Guarantee" policy for its guests and permitted employees to do whatever was required to make the guests happy.

One Hampton Inn employee recalled overhearing a guest complain that the complimentary continental breakfast did not include his favorite cereal. Without having to check with a

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supervisor or hotel general manager, the employee immediately took action by giving the patron his money back – not for the continental breakfast but for the cost of one night’s stay at the hotel.³

These policies may seem wasteful, but Ritz-Carlton managers will tell you that a satisfied customer will talk to 10 people and an unhappy customer to 100. Spending money to keep clients satisfied is a small price to pay for good advertising and encouraging guests to return. Similarly, at the Hampton Inn, “Company research suggests that the guarantee strongly influences customer satisfaction and loyalty to Hampton Inn, and that guests who have experienced the guarantee are more likely to stay with Hampton Inn again in the future.”⁴

Of course, decentralizing decision making and permitting people at all levels to exercise influence over organizational decisions requires trust – a commodity in short supply in many organizations accustomed to hierarchical control. One Massachusetts nonprofit, however, recently took the plunge after years of traditional management, and is starting to see the rewards of the power shift.

Returning from the Executive Program for Nonprofit Leaders at Stanford Business School in 2001, Edward P. Kelley, head of the Robert F. Kennedy Children’s Action Corps, was determined to change the management structure and culture his organization had been steeped in for years. It was configured with a central administrative office that took care of all the management decisions – including overall strategy, finances, and planning. Information was then disseminated from management throughout the agency, whose employees today number about 450. The program directors, located throughout the state, were left “to take care of the children,” Kelley said.

“We were absolutely bottlenecking our leadership,” he said recently, looking back. “They were talented and had a lot to offer. It put them in a bottle.”

In the fall of that year, Kelley created a “Leadership Institute” for about 60 middle managers, one that would teach them leadership skills and give them responsibility for developing policies and processes – not for their programs, but agencywide. They were tasked to identify issues needing improvement in four areas: human resources, quality, public relations/marketing, and training. A steering committee was also created.

The group now meets seven times a year, with subcommittees convening about 10 times in addition. The general meetings last all day – one is a two-day retreat – and in addition to discussing agency business, the managers receive leadership training and professional development from guest trainers. Previously, the only kind of education that staff members

received related to skill development in their fields, Kelley said.

What’s been the result? Employees seem buoyed by their new authority.

“When it works well, it’s more rewarding than the old way,” said Leigh Gallivan, the current chair of the steering committee and director of education for a juvenile justice program. “You not only see what a difference you make, ... but you also see how all the pieces fit together. A triumph somewhere else [in the agency] is still a triumph to me.”

The new model has given employees a greater sense of purpose, Gallivan said.

Among the subcommittees’ accomplishments so far have been a job evaluation form and orientation program, tasks that used to involve only the senior management team.

Kelley has also been pleased that the institute has improved the quality of the agency’s work. When an opportunity to work with young women in juvenile justice came up, a committee of 15 formed to apply for the state grant. Previously, one staff member would have written the proposal.

The pooled expertise paid off, as it received the grant. And, said Kelley, “It was the highest mark we ever received.”

Another benefit to the new structure has been a high retention rate and higher loyalty, Kelley believes. Even employees who leave seem to do so more reluctantly, Kelley said. One assistant director said that the institute had made him feel more invested in the agency, instead of thinking of himself as “just a bookkeeper,” Kelley recalled. “They’re being much fussier about where they go. If we’re in the same range, salary-wise, ... they’ll not leave as quickly.”

Greater camaraderie has also resulted, which has helped the agency to operate more efficiently and effectively. One of the organization’s programs recently went through an unexpected staffing crisis. Members of the institute – whose primary concerns used to be taking care of their own programs – offered to share staff to cover shifts and to support the program’s director.

Though the Jacksonville (Fla.) Museum of Modern Art employs considerably fewer staff than the RFK Children’s Action Corps, 22 instead of 450, Executive Director Jane Craven has also found a tremendous benefit in involving more employ-



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ees in the agencywide operations, strategy, and planning.

Senior staff meet monthly for all-day planning sessions, which has led to more innovation and initiative taking, Craven said. The director of education wanted to bring a new learning methodology to museum patrons, called “visual-thinking strategies.” Typically, museumgoers are taught about art using a historical method. Even though all of the staff questioned the unorthodox technique, they as a team were able to have a dialogue about it. Ultimately they trusted the education director’s judgment, and the visual-thinking strategies have gotten positive reviews from patrons and have become a centerpiece in the museum’s education program.

In the fundraising arena, staff wanted to come up with a premier membership society that would distinguish the museum from other charitable organizations. Again pooling their ideas, they decided to name the membership level after a local donor who was well connected to the museum. They came up with the Memphis Wood Society, after a Jacksonville woman who lived in the early 20th century, taught art for 60 years, and left a \$260,000 endowment to the museum.

In addition to forming the special donor group, the museum’s education director suggested holding an annual competition for the best art teacher in Jacksonville, to honor Wood’s profession. Debuting this year, the contest will give the winner a \$1,000 cash prize, a visible connection between the Memphis Wood Soci-

ety donors and the education of the community.

To date, the society has brought in \$70,000, Craven said – not bad for an organization with a \$1.2 million operating budget that just five years ago was close to folding.

Soliciting staff input also led to a new personnel policy that could boost employee loyalty at the museum. Staff suggested the nonprofit give employees personal time off that would accrue over time, to make up for the many hours employees were working outside normal business hours. Craven admitted to being unfamiliar with the proposed idea, but agreed to it once staff explained the concept.

“It was very well received,” Craven said of the PTO plan. “It lets [employees] realize the longer they stay, the more they’ll be rewarded.”

Training

Nearly all descriptions of high-performance management practices emphasize training, and the amount of training provided by organizations that try to earn employees’ commitment – rather than controlling them – is substantial. One rationale for training is that organizations typically rely on frontline employee skill and initiative to identify and resolve problems, to initiate changes in work methods, and to take responsibility for quality. All this requires a skilled and motivated workforce that has the knowledge and capability to perform the requisite tasks.

What It Takes

To find a snapshot of an organization that values its employees, look no further than Wegmans Food Markets, named the country’s No. 1 company to work for in 2005 by *Fortune*. The business’s motto says it all: “Employees first, customers second.”

The 90-year-old, family-owned grocery chain employs 32,800 workers at 67 stores in New York, Pennsylvania, New Jersey, and Virginia. In 2004, sales totaled \$3.4 billion.

“No matter how much we invest in our people, we get much more in return,” said Chairman Robert Wegman. “When I visit our stores, customers stop me and say, ‘Mr. Wegman, you

have a great store, but wow, your people are wonderful.’”

Among the store’s benefits: top wages, medical insurance, a scholarship competition, 401(k) retirement savings plan, profit sharing, an employee assistance program, and more.

Wegmans has awarded \$54 million in scholarships to more than 17,000 employees since the company inaugurated the Wegmans Scholarship Program in 1984. About 2,500 students have active scholarships each year while they attend colleges and universities across the country.

But more than financial benefits, the company gives its employees a voice.

“We have tried to create an environ-

ment where our people’s ideas are listened to and where they feel empowered to make decisions that impact their work,” said the company’s president, Danny Wegman. Employees readily agree, saying their decisions on how best to help customers are always supported.

Wegmans has been chosen as one of *Fortune’s* “100 Best Companies to Work For” every year since the competition’s inception in 1998.

Companies were ranked based in part on questionnaires filled out by employees and in part based on its policies, practices, and philosophies.

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Training can be a source of competitive advantage in numerous industries for firms with the wisdom to use it. Consider, for instance, the Men's Wearhouse, an off-price specialty retailer of men's tailored business attire and accessories. The key to its success has been how it treats its people, particularly the emphasis it has placed on training. The company built a 35,000-square-foot training center in Fremont, Calif., its headquarters. Hundred of its "wardrobe consultants" attend Suits University – a concentrated five-day, six-night program covering "consulting and customer service techniques, corporate culture, merchandising and product knowledge, tailoring, and company benefits," according to its Web site.

Additional training sessions are offered throughout the year for employees at different levels. In 2004, the Men's Wearhouse was named one of the country's "100 Best Companies to Work For." Though it has invested far more heavily in training than have most of its competitors, it has prospered by doing so. The company had \$1.4 billion in revenues in 2003 and has nearly 700 stores in the United States and Canada.

The company has reported a turnover rate significantly lower than other stores, and a culture in which security devices are not needed.

"Our shrink is 0.6 percent, only about a third of the industry average," said Richard Goldman, executive vice president of the Men's Wearhouse. "And we spend zero on monitors in our stores. We have no electronic tagging and we spend nothing on security. ... We feel that if you create a culture and an environment that is supportive of employees, you don't have to spend money on security devices."⁵

A good retention rate is also one of the benefits of investing in training at the Kindering Center, a \$3.4 million Bellevue, Wash., agency that serves children with special needs.

The organization budgets \$200 for each of its 76 employees per year to pursue professional training – courses in physical therapy techniques, for example – and cultivates a culture of knowledge and continuing education within the organization.

"Staff have been excited about the opportunity to learn more. ... They feel like they're supported in adding to their education," said Sue Willey, Kindering's office manager.

One of its notable training approaches is the coaching of newer employees by veteran staff, for which the Seattle Foundation granted Kindering Center \$36,000 in December 2003. Through the program, experienced staff who have developed unique, specialized skills over many years of practice are paired with newer staff and provided with a struc-

ture to effectively share their knowledge.

An occupational therapist with specialized skills in children with feeding problems, for example, not only does the feeding with clients, but has other occupational therapists scheduled with her, as well as spending time with them in planning.

Some of the benefits that Kindering Center has experienced as a result of the staff-mentoring project include a more equipped staff, higher morale, and an increased reputation among professionals, Willey said.

Job applicants have expressed the opportunity to train with a mentor as one of the factors that led them to pursue a position at Kindering Center. Many veteran staff who have been with the agency for 20 to 25 years have decided to stay on a few more years to take advantage of the opportunity to pass on their training and skills to the next generation of therapists, according to grantwriter Amy Logan.

The time it takes for newer therapists to acquire a greater level of skill and knowledge about their job, and the children and families with which they work, has dramatically decreased. In addition, the morale of staff involved in the project has risen.

"The opportunity to teach to your colleagues is pretty exciting," said Willey. "I think the newer people have loved the opportunity to spend the time with those [veteran] people, and be able to do a brain dump. The people who've been there a long time don't think of themselves as goddesses of knowledge. It's had a positive circular effect."

She explained that through the coaching program, the agency had been able to leverage its resources.

"We recognized the resources [in the veteran staff]. Instead of saying, 'What are we going to do when so-and-so retires?' we're saying, 'Let's take advantage of them being here.'"

That reputation for quality has seen itself reflected both in terms of numbers of clients served and funding received by the organization, which was able to move into a new building two and a half years ago.

Their capital campaign raised \$3 million and raised community awareness. In 20 years, the organization went from serving a dozen children in a church basement to a 1,000 families a year in a brand-new building.

"We have great results and family satisfaction is high here, and you can take that to a funder. I would say we are known for really good programming," Willey said.

Information Sharing

Information sharing is an essential component of high-performance work systems for two reasons. First, the sharing of



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information on things such as financial performance, strategy, and operational measures conveys to the organization's people that they are trusted. Second, even motivated and trained people cannot contribute to enhancing organizational performance if they don't have critical information – as well as the training on how to use and interpret that information.

At Whole Foods Market, CEO John Mackey goes so far as to make public what each employee earns – including himself.

"If you're trying to create a high-trust organization, ... an organization where people are all for one and one for all, you can't have secrets," he said.⁶

Whole Foods also shares detailed financial and performance information with every employee – things such as sales by team, sales results for the same day last year, sales by store, operating profits by store, and even information from its annual employee morale survey – so much information that the SEC designated the employees 'insiders' for stock-trading purposes.⁷

Understanding financial data became a hallmark of the Springfield (Mo.) ReManufacturing Corporation. The company was created in 1983 when the plant's management and employees purchased an old International Harvester plant. Jack Stack, the former plant manager and now CEO, knew that if the plan was to succeed, everyone had to do their best and to share all of his or her wisdom and ideas for enhancing the plant's performance. Stack came up with a system called "open-book management" that has since become a popular object of study – so popular that the company now makes money by running seminars on it.

The system has a straightforward underlying philosophy, articulated by Stack: "Don't use information to intimidate, control, or manipulate people. Use it to teach people how to work together to achieve common goals and thereby gain control over their lives. ... Cost control happens (or doesn't happen) on the level of the individuals. You don't become the least-cost producer by issuing edicts from an office. ... The best way to control costs is to enlist everyone in the effort. That means providing people with the tools that allow them to make the right decisions."⁸

The system involved directing the company's people to generate numbers reflecting their work performance and production costs on a daily basis. Then, it involved sharing this information, aggregated once a week, with all of the company's people, everyone from secretaries to top management. Third, it involved extensive training in how to use and interpret the numbers – how to understand balance sheets and cash flow and income statements.

"Understanding the financials came to be part of everyone's job," Stack said.⁹

Springfield ReManufacturing Corporation has enjoyed tremendous financial success. In 1983, its first year of operation, sales were about \$13 million. By 1992, sales had increased to \$70 million, the number of employees had grown from 119 at the time of the buyout to 700, and the original equity investment of \$100,000 was worth more than \$23 million by 1993. Today, the enterprise consists of 10 independently run companies.

Although most organizations may not choose to be as extensive in their information sharing as Whole Foods and Springfield ReManufacturing, those that do, including nonprofits, report similarly positive results with their efforts to be more transparent.

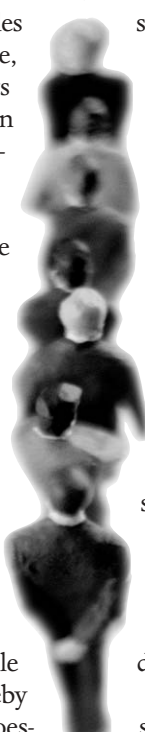
At the Disability Law Center in Salt Lake City, team leaders meet monthly, and the entire staff meets quarterly in an ongoing needs assessment and planning process, according to Executive Director Fraser Nelson. At the daylong quarterly meetings, management shares all data available – trends in client needs, financial reports, allocation of time by team (comparisons between what the teams planned for and what is really happening), changes in federal and state laws, and more. They also use the time to share team successes and challenges and to improve their agency's ability to help clients and staff be more successful. They also work on strategy and occasionally retool the mission and vision statements to make sure they continue to be strategic in their approach to civil rights work.

The inclusive and ongoing nature of their planning has struck others in their peer group as odd or a waster of time, says Nelson. "They ask, 'Why would you really bring your clerical staff in at this level? How can you afford to shut down business for a whole day every three months?'"

"But we always have plenty to discuss and adjust for," Nelson said. "For example, we recently used 90-plus volunteers and staff on Election Day to survey polling places for accessibility. Staff and volunteers fanned out across the state of Utah. An Election Day Access Hotline was also staffed by attorneys. Some 400 sites were visited. We were able to adjust all our resources to make this happen and, as importantly, pay for it, because of the detail in our plan, a shared understanding of our core mission and values, and the buy-in of all teams."

Similarly, Craven strives to communicate as much information as possible.

Although the Jacksonville Museum of Modern Art doesn't share salary information, all other financial information, such as loan balances, bank account balances, and budget forecasts and actuals are shared on a monthly basis. The museum's perfor-



Discovering Common Bonds

Leigh Gallivan remembers one particularly exhausting meeting at the Robert F. Kennedy Children's Action Corps. It was shortly after the nonprofit's Leadership Institute was founded, and the middle managers were gathered to discuss the agency's core values.

"We knew they already lived within all of us, but we didn't know how to pull them out," Gallivan recalls of trying to articulate what it was that they all believed in. "We thought, 'Maybe we can't do it!' ... At one point, I was starting to despair."

But the group worked their way through the conversation carefully, trying to express what motivated their work with the children and youth who were their clients. One by one, they began to see themselves not as mere co-workers but as allies in a common cause.

"I realized how great it was to have conversation with these people, who believed closely to what I do," Gallivan said. "We'd never had this conversation before."

United by their shared vision, the co-workers began feeling "like family," she said.

That bond has emboldened people to speak up – and disagree. Trusting that one's opinion will be heard and received has not been easy for all of the managers, Gallivan said, but they're further along now than they ever were before.

Edward Kelley, the agency's president and CEO, often talks about the nonprofit organization as having a destination in mind, but not necessarily a map in hand. Discovering shared core values, Gallivan said, has given employees more confidence that their destination is staying the same, even when the route changes.

mance measures consist of how well employees fulfill the goals they themselves created for the strategic plan. The staff members seem to appreciate knowing where the museum stands financially, Craven said. And because they create their own performance measures, there is much buy-in and ownership there.

She has asked staff to quantify their achievements as well and compare them with the previous year. For example, the director of education may have listed "Hosted 150 school tours this year for a total of 4,500 students." The new version might read "Hosted 150 school tours (4,500 students) this year, which represented a 30 percent increase over last year in the number of students who experienced the museum."

"This means the staff must constantly keep budget forecast/actuals in mind as they go about their daily work," Craven said of the results.

At the Robert F. Kennedy Children's Action Corps, managers who have been a part of the Leadership Institute say they are more invested in the information they receive, in part because they have a new perspective of the agency as a whole. It helps them to align their programs to the same core values and purpose, and gives them a confidence that other staff are doing the same.

The free flow of information also helps the middle managers to be able to explain management decisions to staff. "I think it's important overall to know where the agency is going, what the goals are, how they can contribute. When decisions are made, [it's good to hear] what the rationale is behind them – that there is a rationale behind them," Gallivan said. "My own belief is that in working with employees, when people are able to see the reasoning and relevancy behind things, they're much more apt to understand and support."

A recent decision to change Kelley's title from executive director to president and CEO proved an example of the new approach. Anticipating questions and concerns, he gathered the institute members to talk about the change, why it was being made, and even how various board members felt about it.

"That would not have happened before," Kelley said.

Whether an organization shares more information or decentralizes its management structure, executives like Kelley admit that changing an organization takes considerable effort. There will always be employees who favor hierarchy, either because they are senior managers who prefer to retain control, or because they are line-staff who enjoy having limited responsibility.

But as Gallivan can attest, employee-centered workplaces have proven worthwhile in many ways.

"This is a much more dynamic situation. It's about change – changing the organization for the better, and changing the individuals so we can grow," she said. "That's exciting to be involved with. You can see the results of it."

And the benefits are not measured in employee-satisfaction surveys. As examples from both the for-profit and nonprofit worlds show, employee-centered management practices do go far in improving the attitudes and abilities of a nonprofit's workforce. And that can only enhance the fundamental mission of nonprofit organizations – to improve the world and lives of those around us. □

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