



## Research Summary Number 5

# Participation and Decision-Making Affect the Bottom-Line

March 25, 1999

**Abstract:**

This study explores employee participation and decision-making practices as predictors of an organization's financial performance. The study uses factors from the Survey of Organizations to indicate organizational operational behavior. Organizational performance is defined by financial indicators such as return-on-investment and return-on-sales. Two indexes from the Survey, organization-of-work and decision-making practices, are found to have interesting connections to performance.

# Participation and Decision-Making Affect the Bottom-Line

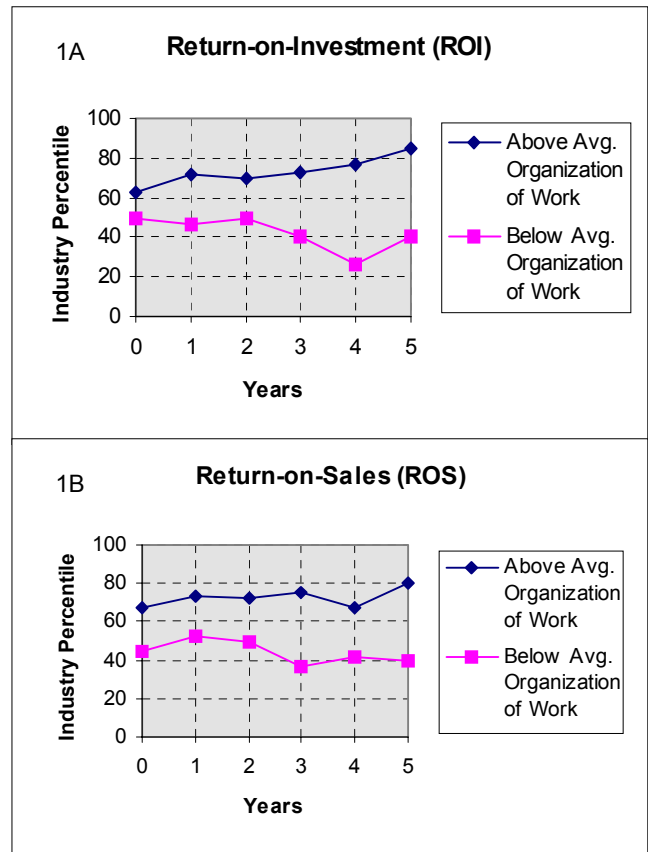
## Question # 1: How does the organization-of-work in an organization affect return-on-sales and return-on-investment?

**Results:** With regard to the organization-of-work index, at the beginning of the study (year 0) the organizations in the “above average” sample rated higher on both return-on-investment (ROI) and sales (ROS) than the “below average” sample. ROI started at the 63rd percentile (industry percentile) for the above average group and at the 50th percentile for the lower group. After five years, ROI for the top group had climbed to the 85th percentile, while the lower group had dropped to the 40th percentile compared to industry competitors. This is a 45-percentile difference in ROI between the top and bottom groups, as ranked by their response to the organization-of-work life survey. ROS for both samples started at nearly the same place, (63rd percentile for the top group and 45th percentile for the lower group). After five years the top group was at the 80th percentile on ROS vs. the 40th percentile for the lower group. See Figures 1a and 1b for a summary of the results.

**Conclusions:** Organizations which scored higher on the organization-of-work index showed significantly higher ROI and ROS than their competitors who scored lower on this index. This index consists of four

survey items that measure the degree to which work is sensibly organized, work methods are adapted to changing conditions, decisions are made at appropriate levels and the goals of the organization are understood by individuals. In summary this index reflects the degree that employees can effectively participate and be involved in day-to-day operations. The results of this study indicate that the more an organization encourages participation and involvement the more its financial performance will exceed its competitors that use less participative practices. In addition, the results suggest that financial performance

Figures 1A and 1B:  
Organization of Work vs. ROI and ROS



improves over time in the organizations that have greater participation.

## The Analytical Process

This study was based on companies represented in the Institute for Social Research (ISR) archive. The ISR data involved perceptions from 43,747 respondents in 6,671 work groups in 34 companies that had completed the Survey of Organizations (SoO). The SoO has validated scales on 22 indices including organizational climate, leadership, peer relations, group process, decision-making practices, organization of work, and employee satisfaction. These

companies represent 25 different industries. The performance data used in the study represented performance for the entire corporation as listed on the New York or American Stock Exchange and was taken from Standard and Poor's statistical service, COMPUSTAT. The performance data used included return-on-investment and return-on-sales.

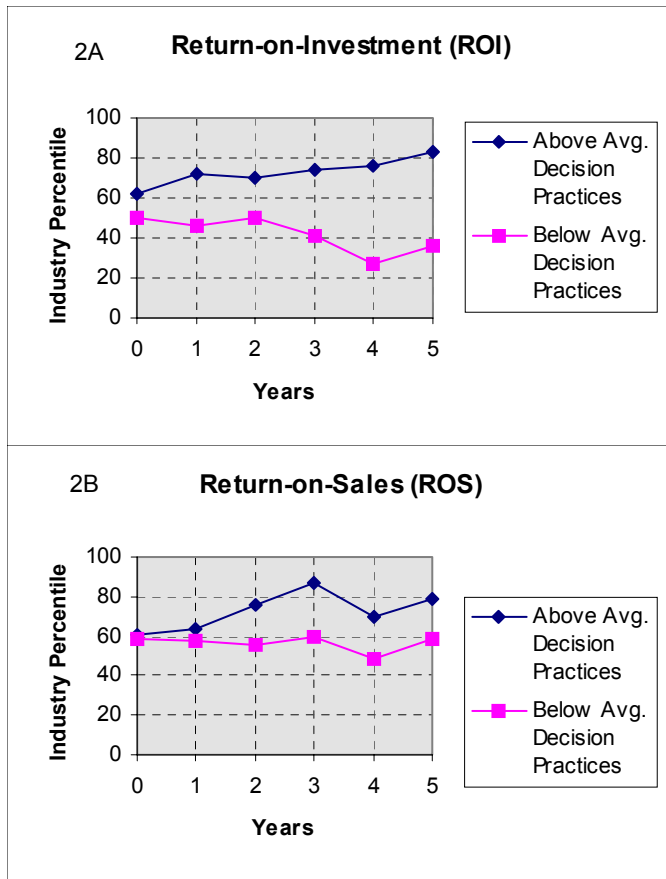
Each individual's SoO index score was averaged with that of the other people

from their work group to get a group score. All group scores within an organization were then averaged to get an organizational score for each index. Additionally, financial ratios for each of the 34 organizations, including return-on-investment and return-on-sales were computed. These financial ratios served as measures of organizational effectiveness. The ratios for each company were compared with its competitors within their respective industries. This produced performance data that represented each company's competitive position within its industry. The performance data used in the study covered a five-year period. The 34 companies were divided into two samples based on their SoO index scores: those above the average and those below the average. The two samples were compared by their financial ratios. The two indices that had the most substantial impact on performance as measured by the financial ratios were organization-of-work and decision-making practices.

**Question # 2: How do the decision-making practices in an organization affect return-on-sales and return-on-investment?**

**Results:** At the beginning of the study (Year 0), the organizations in the "above average" sample as measured by the "decision-making practices" index rated higher on both ROI and ROS. For the top group, ROI started 12 points higher (62<sup>nd</sup> percentile vs. 50<sup>th</sup> percentile). After five years, the ROI percentile ranking of the top sample had climbed to the 83<sup>rd</sup> percentile while the lower sample had dropped to the 36<sup>th</sup>. Initially

Figures 2A and 2B. Decision-Making Practices and Return-on-Investment & Return-on-Sales



ROS was virtually the same for the top and lower samples (61<sup>st</sup> vs. 59<sup>th</sup> percentile). By year five, the top group had climbed to the 79<sup>th</sup> percentile while the lower group remained at the 59<sup>th</sup> percentile.

**Conclusions:** Participation in decision-making practices appears to have an effect on ROI and ROS. Organizations which score higher on the decision-making practices index (compared to their competitors) had

high ROI and ROS for each of the five years investigated. It appears that involving employees in decision-making practices is an investment that pays off in the long term. The initial difference in the two samples was small but grew larger over time.

**Reference:** Dension, D. R. (1984), "Bringing Corporate Culture to the Bottom Line," *Organizational Dynamics*, 13, 2, pp. 4-22.

**Questions raised by this analysis:**

- Of the four factors that are used to define organization-of-work, is one a stronger predictor than others?
- Do either organization-of-work or decision-making processes affect other measures of organizational performance?
- Can involvement in decision-making processes become excessive and create negative consequences?

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