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**Article**

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## **Assessing the Impact of Employee Participation on Team-work Performance: A Way to Reinforce Entrepreneurship**

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### **Abstract**

The purpose of this study is to examine how the promotion of active participation and teamwork within the firm contribute to business success and consequently helps firms to gain a competitive advantage. Initially, the emphasis is placed on employee participation approach, its characteristics and its contribution to continuous improvement. The concept of teamwork and its basic characteristics are also analyzed for entrepreneurship reinforcement. Specifically, we argue that business units need to adjust their strategy and pursue strategic management practices, in order to exploit the beneficial potentials of employee involvement. In such a way they may achieve a sustainable competitive advantage. The findings of this study are useful to top and middle level managers and policy makers.

**JEL Classification:** L1, L26, J21.

**Keywords:** Employee Participation, Team Work Performance, Entrepreneurship, Strategic Management, Competitive Advantage

### **1. Introduction**

Researchers around the world acknowledge that entrepreneurship is a key driver of innovation that stimulates economic development and enhance sustainable growth for economic units (Davidsson et al, 2006; Audrestch & Thurik, 2000). Firms and organizations, in order to improve entrepreneurship in the new globalized era, need to survive and gain a competitive advantage against their competitors (Porter, 1987). A competitive advantage can be characterized as sustainable, when it embraces any tangible or intangible asset that discriminates a company among its rivals. As a consequence, firms may gain profits exceeding the average profitability of the sector. The company that establishes sustainable competitive advantage succeeds in gaining leadership characteristics against its competitors.

Porter (1985) identifies two basic types of competitive advantage: a) cost advantage and b) differentiation advantage. These two characteristics may help modern enterprises to increase their efficiency and effectiveness so as to enhance overall performance, if are used properly by top level management. Specifically, firms enjoy competitive advantage when they are capable of obtaining similar benefits with their competitors at a lower cost (cost advantage) or deliver benefits exceeding those of competing products (differentiation advantage). Thus, a

competitive advantage enables firms to create superior value for their customers and superior profits for them.

Modern organizations, in order to support the mission statement in relation to business strategy, have to constantly take under consideration the major changes of the external environment, in their effort to identify possible opportunities and threats (Georgopoulos, 2013). Assuming that the strategy implementation and formulation process can be characterized as “*the two sides of the same coin*” (Wheelen & Hunger, 2012), the changes of the external environment can be classified into five main factors: a) the treat of substitute products and services, b) the threat of new entrants, c) the bargaining power of customers, d) the bargaining power of suppliers and e) the level of existing rivalry in the industry (Porter, 1979).

Based on the above factors, a firm can enhance its entrepreneurship level, namely its ability to perceive new opportunities and bring innovative ideas to the market (Carree & Thurik, 2003). It is worth emphasizing that when the entire workforce supports the overall strategy and the intermediate goals, firms may achieve strategic competitiveness and superior profits. Therefore, the new labor force practices should be applied as a source of contemporary competitive advantage, which enables firms to gain sustainable success for the future.

The rest of this paper is organized as follows. In Section 2 we highlight the importance of employee participation approach and team work performance to achieve strategic management objectives. In Section 3 we describe the methodology applied followed by the well known competitive five forces model, firstly introduced by Porter (1980). In Section 4 we discuss the main drivers that generate competitive advantage by the extensive use of employee participation and team work performance. Finally, in Section 5 we report the main concluding remarks of this study and encapsulate our main arguments.

## **2. Employee Participation and Teamwork Performance**

### **2.1 Employee participation**

Employees can be regarded as the most powerful source of competitive advantage, which lead any firm to organizational excellence<sup>1</sup>. It is worth clarifying that the employees carry their own assets to businesses they participate in, by working together, rather than as independent contributors. By this way, the workforce can create more value for the organization (Mayo, 2001). In this study, emphasis is given to the importance of human resources management compared to the other competitive success factors (Pfeffer, 1994).

On this basis, participation can be defined as the employees’ active involvement in planning and implementing a teamwork intervention (Hurrell, 2005). In this way, employee participation is linked with changes in procedures that the employees are involved with: a) making decisions about the team in which they wished to work, b) planning how they wished to work together in teams, c) planning the implementation of teams (the speed with which they took on additional areas of responsibility), d) defining initiatives to support team implementation, such as additional training and finally, e) evaluating the results by reflecting on the implementation in teams (Nielsen & Randall, 2012).

In business theory there are several aspects of participation in an organization. The first aspect is related with the opportunity for employees to achieve their goals. The second refers

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<sup>1</sup> <http://www.refresh.com/lclbtalent.html>

to the way of seeking new ideas by the employees, and the last aspect involves the assignment of responsibilities to employees (Gibson, Ivancevich et al., 1992).

Employee participation needs to be accompanied by actual changes in everyday work practices, if important outcomes, such as increases in job satisfaction and autonomy, are about to happen. Moreover, employee participation is linked with the involvement in planning and implementation of organizational change ranging from direct to indirect. Specifically, in the first category employees are directly involved in their every-day work activities, while in the second employees are represented by authorized fellows (Busck et al, 2010; Nielsen & Randall, 2012).

Most of the relevant studies examining participation point out that in the indirect participation employees' involvement is higher, in the case of decision-making. This could be done by workers' representatives, employee directors, worker unions and work councils. It is worth clarifying that the relevant decisions, which the above representatives take, are not directly applicable to everyday workers' activities, but have great strategic importance to the organization as a whole (Wall & Lischeron, 1977).

In the everyday life of contemporary businesses, issues concerned with human resource management, such as employee participation, do not draw significant attention. Therefore, in order to undercut operating costs, the upper management hierarchy often leads to the reduction of human capital. In other words, top level managers decide whether to cut salaries or to decrease money spent for employees' training and development (Pessic et al, 2012).

At this point, we should highlight that participation can be regarded as a strategic tool for achieving employee total involvement. This leads to the resolution of specific organizational problems to support strategic management decisions. In other words, current businesses can ensure a successful implementation of an effective strategic management approach, by linking every discrete employee to the overall strategic management process (Hit et al, 1999). It is worth clarifying that one of the main influences of the rise of participative management is the re-evaluation of the organizations structures and the redefinition of employee relations (Hyman & Mason, 1995).

Strategy represents the organization's ultimate goal broken down by certain discrete objectives. Contingency theories argue that the effectiveness of different organizational structures and practices depends basically on business strategy (Delery & Doty, 1996; Doty, Glick & Huber, 1993; Miles & Snow, 1978). In this study, we argue that an organization's business strategy will be related to the amount of participation that it adopts.

According to Wheelen & Hunger (2012), the basic elements of strategic management are: a) Assessment of internal and external environment, b) Strategy formulation, c) Strategy implementation and d) Evaluation and control. Additionally, the primary benefits of the strategic management can be briefly summarized as follows: a) Awareness of strategic vision for the organization, b) Attention to the factors that are strategically important and c) Assessment of the external environment. Other additional benefits include the improved organizational performance and the relationship between the external environment of the firm and its strategy, structure and its internal processes.

## **2.2 Teamwork Performance**

The concept of team work can be outlined as *“a group of people pooling their skills, talents, and knowledge, teams can often tackle complex and chronic problems and come up with effective, permanent solutions”* (Scholtes, 1998).

Nowadays it is quite common that many firms and organizations are trying to improve the creativity of their workforce by organizing the employee's competency to work successfully within a team environment. Katzenbach & Smith (2015) describe the concept "team" as "*a small number of people with complementary skills who are committed to a common purpose, set of performance goals and approach, for which they hold themselves mutually accountable*".

Parker & Williams (2001) claim that effective teamwork is driven by changes in structures and procedures that led to significant changes in work design (i.e. employees within the team are mutually dependent gaining more autonomy as a group). According to this argument, when completing a task, employees are more responsible and interact in an efficient way to support each other (van Mierlo et al., 2005). Effective teamwork leads employees to gain more opportunities on how to fulfill their labour tasks and organize their everyday working duties. Van Mierlo et al., (2005) also claim that the high level of individual and team autonomy come as a result of assigning increased tasks and responsibilities to the working group by the top level management. It is also worth mentioning that employee participation enhances team effort and leads to higher efficiency, effectiveness and productivity. Also, it reduces the operational cost and, finally, leads to greater dedication from the employee perspective (Doucouliagos, 1995).

As a consequence, it is crucial for modern firms to constantly achieve their strategic goals in order to exceed competitors' average performance. To obtain this target, team members need to agree on the common strategic goal which will provide the proper direction for future action. Moreover, constant management support is an indispensable key to success, as long as team building needs the proper selection, commitment, trust and cooperation. According to the previous analysis, employee participation and team work management approach contribute to the gradually improvement of modern firms, enhancing their overall effort of obtaining a competitive advantage.

Based on Wheelwright (1989), when an enterprise obtain and mainly sustain a competitive advantage, it can be distinguished by the following characteristics: a) Participation support, b) Customers' satisfaction, c) Product specialty, d) Core competence, e) Employees' inspiration and f) Continued improvement process.

### **2.3 Employee participation in decision making**

Modern firms use explicit strategic practices to engage employees in decision making process. Based on the existing literature, there is a vast majority of alternative models describing the strategy process. Specifically, De Wit & Meyer (2010), describe the strategy as a dynamic three stages process, namely: a) Analysis stage, b) Formulation stage and c) Implementation stage. Each stage requires different practices for employee participation and employee involvement.

Considering the above classification, during the analysis stage manager's ultimate objective is to examine the internal and the external environment of the firm. The result that will emerge will be the identification of the strengths and weaknesses of the internal environment in accordance with the opportunities and threats of the external environment. According to Porter (1980; 2008), the external environment contains information about the bargaining power of suppliers and buyers, competition between rivals, threats of substitution and barriers to entry.

In each of the aforementioned stages, upper management can use different practices in order to enhance employee participation but it is crucial to identify that all practices cannot be used in every stage.

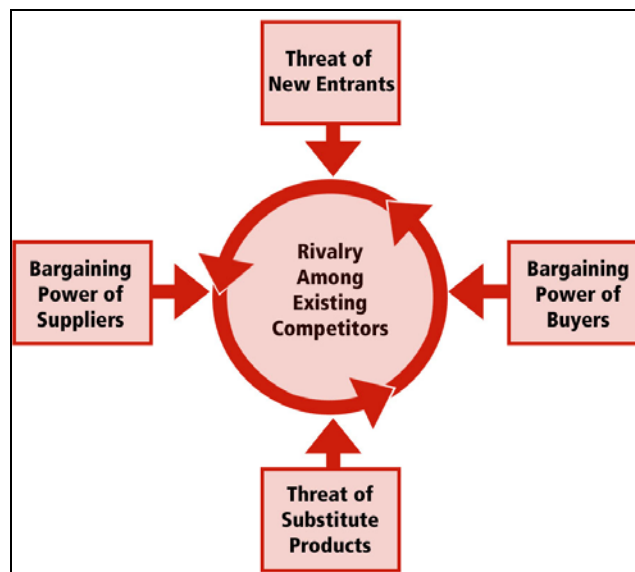
Specifically, the alternative methods that the executive officers can use in order to combine employee participation with the overall strategy are the following: a) consultative participation, b) employee ownership, c) representative participation, d) informal participation, e) employee involvement, f) employee involvement teams, g) work councils and employee board level representation and finally h) social media jam (Cotton et al, 1988; Lawler, 1994; Cabrera et al, 2003; Kleinknecht, 2014; Whittington, 2015; Bjelland & Wood, 2008).

### 3. Methodology

The methodology applied in this section is based on Porter's competitive five forces model ("*Five Forces model*"). By using this research tool, we will be able to assess the way that employee participation and team work performance influence competition stemmed from the five relevant forces. This model is widely known as a framework to analyze the way modern businesses develop their strategies (Porter, 1980; 1985). In other words, it enables a firm to compete with its rivals, so as to retain or increase its market share in the relevant market. Moreover, the Five Forces model is a "*useful starting point for strategic analysis even where profit criteria may not apply*" (Johnson, Scholes & Whittington, 2008).

Five forces model focuses on the exploitation of market power and the intensity of existing competition in the industry and can be used to evaluate the main drivers of the strategic development process (Porter, 1996; Roney, 2004). The relevant model explores the five key areas that analyze and determine the competitiveness of an industry. These are the threat of entry, the threat of substitution, the bargaining power of customers; the bargaining power of suppliers and finally, the existing competition rivalry (see Figure 1).

**Figure 1:** Porter's Competitive Model of Five Forces (1979)



This study assesses the contribution of employee participation and teamwork performance, taking into consideration the upper goal of modern businesses, namely the differentiation in the market. In this way competitive firms increase their profitability levels and reinforce



entrepreneurship. Under these circumstances, the objective of this paper is to identify how much attention has been given to the terms of employee participation and teamwork performance, as stimulants of competitive advantage. It is generally acknowledged that there is a downturn regarding the competitive advantage theory from the traditional strategic tools (i.e product and process technology, financial assets and resources, economies of scale, etc) toward newly established theories. These theories aim at the examination of the role of human resource management on the formulation of the competitive advantage.

According to the requirements of this study, we consider that Porter's five forces model constitutes a very useful tool for the upper management as far as the strategic management process is concerned.

Before we carry on with the analysis, we should mention that "The Five Forces model" does not fully assess the resources and capabilities of a company and also its internal environment (Rivard, Raymond & Verreault, 2006).

#### **4. Factors that facilitate the competitive advantage**

Previous studies highlight the influence of human capital to macro-economic competitiveness and economic growth (see for example Krueger & Lindahl, 2001). Undoubtedly, in many successful firms the most valuable strategic asset to gaining market positioning, is not related only with marketing strategies, but also concerns the implementation of human factor practices as well.

The work of Foudraine (2015) provides a framework outlining modern practices that companies can follow to include employee participation in different phases of the strategy process. Based on the seminal studies of Porter (1980; 1996), the competitive five forces model incorporates the essence of competitive strategy formulation as a way to link the company with its environment. We can also assume that the most effective way for a firm to increase its market share is to build an ideal relationship with its value-chain market participants (i.e customers, suppliers, firms with supplementary/complimentary products, new entrants and domestic rivals).

This study also investigates the impact of employee participation on the formulation of a sustainable competitive advantage. We must argue that employees are the only "thinking" resource since they are characterized by attributes such as knowledge, abilities, experience, etc (Pessic et al, 2012). Moreover, it should be highlighted that in modern firms the key to improve competitiveness will be achieved through the cultivation of human resource knowledge and the abilities that enhance employee participation. Yussof & Ismail (2002) argue that the appropriate investments in human capital through higher education and professional training can lead to better capabilities for the employees. Besides, it is observed that members of the upper management take their strategic decisions based on information collected from suppliers, distributors, customers and competitors (Bosma, 2004).

##### **4.1 Threat of substitution**

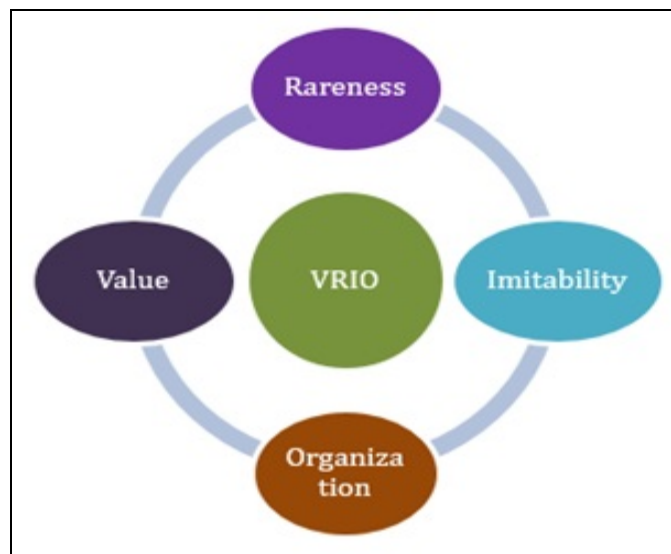
The 'threat of substitution' refers to the ability of a product (or service) from another market to satisfy market demand in a more coherent way that an existing product cannot do. Specifically, it affects directly the competitive environment and influences the market player's ability to achieve higher profitability. In other words, a substitute product offers close benefits to the customer similar with the product produced by the firms within the market. According to this definition, the threat of substitution implies a level of risk that a company must undertake in its effort to differentiate from the existing substitutes products.

This force includes various forms of competition, such as price competition (i.e price discrimination, volume or invoice discounts, fidelity rebates, etc), new product offerings, advertising campaigns and service improvements (Porter, 2008). We should refer that this factor can be influenced by specific parameters, such as the growth rate of the industry, the level of fixed costs or storage costs, the level of switching costs between competitors, the number of firms in the industry, the horizontal and vertical differentiation and finally the barriers to exit (Hubbard & Beamish, 2011; Slater & Olson, 2002; Johnson et al., 2008).

Based on the above, we argue that the factors that influence the threat of substitutes are the switching costs between substitutes and also the buyers' loyalty to buy substitutes (Hubbard & Beamish, 2011; Klempere, 1995).

Applying the Valuable, Rarity, Imitability, Organization framework ("VRIO"), managers can be helped in recognizing sources of competitive advantage (see Figure 2). Specifically, VRIO model constitutes a framework suitable for the analysis of a firm's larger strategic design. We can assume that when a firm has valuable and rare resources, can anticipate competitive advantage at least temporarily. We conclude that when the resources are valuable, rare and costly for other businesses to imitate, a firm can also expect sustainable competitive advantage, if organized appropriately (Barney & Hesterly, 2012).

**Figure 2: VRIO Model**



Source: Barney and Hesterly (2010).

#### **4.2 Threat of entry**

The '*threat of new entrants*' in a market denotes how a potential competitor can easily enter the market and start competing effectively the incumbent company. It should be noted that industries facing low entry barriers, have specific characteristics, such as limited economies of scale, low level of product differentiation, non-significant capital requirements, absence of switching costs, limited cost advantages, etc. According to Porter (1979), the six most important barriers to entry are the following: a) Economies of scale, b) product differentiation, c) capital requirements, d) cost disadvantages, e) access to distribution channels and f) government policy.



Dominant firms in their efforts to deal with the level of existing competition must have flexibility toward the constantly changing needs of the market. Therefore, the imperative need to expand their activities, forces them to overwhelm the commercial, economical and political barriers looking for new markets to entry.

According to Porter (1979), new entrants bring new capacity, willingness to gain market share compared with the other rivals, and also are characterized by substantial resources. The existence of structural barriers to entry mitigates effective competition by potential rivals in the market and therefore, affects the rivalry among existing competitors (Johnson et al, 2008). As a result, the lower the barriers to entry, the higher the threat of new entrants.

In contrast to the manufacturing industry, in services sector employees' characteristics are recognized as a vital part of the final product they produce (Heller et al, 1998). Generally, when a firm decides to enter the market, it conducts a thorough research along with a strategic management plan. The ultimate goal is to formulate the ideal strategy derived from careful competitor analysis to achieve its strategic goals.

Based on the above, it is obvious that a company should be aware of potential competitor's threat and the pressure by substitute products in order to analyze the globally market environment (Porter, 1985).

In alignment with the aforementioned analysis, Hitt et al (2006) recognize that companies' penetration to foreign markets cannot be achieved without utilizing high-quality employees', since they represent the most important source of competitive advantage.

#### **4.3 Bargaining power of buyers**

The '*bargaining power of buyers*' represents the strength that customers impose on an industry. When customers are in a strong position, they can put great pressure on the market and achieve better quality obtaining lower prices. It is worth mentioning that this force is severe when there are few buyers in the market possessing considerable market shares.

Undoubtedly, the most significant part of customer relations is related with the added value that customers gain through the provision of excellent service and satisfaction. The bargaining power of customers is higher, if buyers are larger compared with the number of suppliers and are able to switch easily to another supplier (Slater & Olson, 2002).

Globalised firms, in their effort to develop their business strategy, are systematically reorganizing their internal procedures in order to design an efficient business model. This model is a necessary tool to help them distinguish and gain competitive advantage over their rivals. The bargaining power of buyers refers to the pressure that consumers can put on businesses in terms of providing higher quality products, better customer service and lower prices. This power can be maximized when buyers establish consumer unions (Barney & Hesterly, 2012). It can be also argued that consumers may discipline firms directly through product boycotts and can also affect business strategy by exerting public pressure on regulators to intervene on their behalf (Hendel et al, 2017).

The crucial issues that derived so far are the identification of customer needs, the detection of customer groups and the finding of the distinctive competencies in order to satisfy the target market. During the last decade, human resources and especially employees' participation importance has been especially placed to the creation of value for customers.

Empirical evidence has shown that employee participation is very important driver for analyzing the level of customer service. There is also a positive relationship between: a)

Employee fulfillment and customer satisfaction and b) Employee participation and employee satisfaction (Cabrera et al, 2001).

#### **4.4 Bargaining power of suppliers**

The *'bargaining power of suppliers'* determines the strength that suppliers can exert over firms competing in an industry. Moreover, this factor analyses the pressure that suppliers can put on businesses as long as they can provide higher quality products which can lead to better customer service and lower prices. According to Porter (1979), "*Powerful suppliers can squeeze profitability out of an industry unable to recover cost increases in its own prices*". The bargaining power of suppliers is maximized when there are few suppliers providing the same type of product. Moreover, it should be stressed that "*The bargaining power of suppliers can be influenced by the size of the supplier, the number of suppliers, and the availability of alternative customers*" (Slater & Olson, 2002).

The bargaining power of suppliers affects the competitive environment and profit potential of the buyers. This factor constitutes one of the forces that shape the competitive landscape of an industry and helps determine its attractiveness. There are five major factors when determining the bargaining power of suppliers: a) Number of suppliers, b) Dependence of a supplier's sale on a particular buyer, c) Switching cost, d) Availability of suppliers for immediate purchase, e) Forward integration by suppliers (Porter, 1980; 1985).

We must argue that, when suppliers exert bargaining power, they put pressure on a company in certain ways (e.g imposing higher prices, adjusting the quality of the product, controlling availability and supply schedules). It is crucial to mention that when suppliers possess this bargaining power, they can affect the competitive environment and directly influence the level of profitability for a company (Porter, 1980).

#### **4.5 Existing competition rivalry**

The *'existing competition rivalry'* is based on the level of price formulation, its differentiation and other important factors, such as customer service and unique advertising campaigns (Hitt et al, 1995).

As mentioned above, employee participation can be regarded as a helpful mechanism that a firm must use in order to respond to the changes of the external turbulent environment. The main changes of the external environment can be classified as follows: a) pressure stemming from the existence of strategic threats, b) continuous technological improvements, c) increased number of competitors, and d) product obsolescence (Pessic et al, 2012). According to Lawler et al (1995), in a dynamic environment, globalized competition and constant pressures for greater performance are strongly interrelated to the adoption of employee involvement practices. In such a way, companies that operate in a highly competitive environment can maximize their profitability by making good use of employee participation (Doucouliagos, 1995; Miller & Monge, 1986).

Due to the increasing use of information technology, all market participants have access to extensive information resources. This leads to a formation of new business models that change the notion for competition substantially (Dälken, 2014). Furthermore, we must argue that modern firms have better access to more information relevant with their customers, their suppliers or their competitors.

According to Cabrera et al (2001), the special characteristics of the external business environment (i.e level of competition, percentage of employees belonging to a trade union), influence the amount of employee participation. Moreover, this study reveals that the level of existing competition positively affects employee participation in an industry (Cabrera et al, 2001). More specifically, firms that follow a cost leadership strategy emphasize cost control and efficiency, in order to be able to offer lower prices to their clients (Porter, 1980). One of the main factors that contribute to the overall costs is labor cost reduction. As a result, human resources can be regarded as a production 'cost' and therefore are closely monitored by the upper managers (Hyman & Mason, 1995). As far as employee participation is concerned, the time required for involving employees, for sharing information, will also be considered as an important cost for the organization (Cabrera et al, 2001).

According to Porter (1980), the alternative strategy to cost leadership is the differentiation strategy. The latter is focused on the uniqueness of the product and the most common differentiation strategies are the following: a) superior product quality and b) excellent customer service. According to the existing literature, most quality improvement programs are based upon the premise that both increased sharing of information and participation in decision-making is positively related to product reliability and quality (see for example Beatty, 1991, Deming, 1986, Lawler et al, 1995).

In other words, employee participation can be regarded as a competitive advantage strategy for the companies that, if used properly, may help them to tackle competition from the rival firms (Douglas Mc Gregor, 1960). During this stage, upper managers have to conduct competitive analysis and identify the strengths and weaknesses of the internal environment along with the opportunities and threats created by the external environment.

## **5. Conclusions**

This study investigates the impact of employee participation on the formulation of a sustainable competitive advantage. Based on the above analysis, we argue that there is a positive influence of employee participation in a firm's efficiency in its effort to obtain and sustain a competitive advantage. However, in practice, modern firms don't take full advantage of a participative management approach. As previously mentioned, employees participation can support upper managers in their effort to deal with the opportunities and threats of the external business environment.

It is evident that modern firms should focus their policy on a more participative approach, in order to take advantage of the benefits of employee involvement in the process of strategic management. Therefore, human factor should not be treated as an unnecessary cost burden but as the most important asset for the firm to dominate its existing rivals. It can also be regarded as a very important parameter in the development of the strategic decision-making process. Basically, through the employee participation in strategic decision making process, a business can reap the benefits of quality improvements and productivity increases.

In this way, employees with different values and expertise should be encouraged to participate throughout the whole process of implementing strategic objectives. It is worth mentioning that this participative approach should be a part of a continuous development effort, aiming to embrace employees of all the departments into the procedure of designing and implementing strategic objectives.

Under these circumstances, current businesses should continuously encourage employee's involvement, create new knowledge and spread it throughout the company's new products

and processes. In such a way, human resources and especially employee participation and teamwork performance can be considered as very important factors of competitiveness.

It is worth emphasizing that research and quantitative analysis examining the relationship between human resources and competitive advantage are limited, especially concerning the Porters' Competitive five forces model and employee participation (Pessic et al, 2012).

Based on the above, we conclude that effective teamwork and employee participation are the prime elements of a successful business playing a strategic key to reinforce entrepreneurship. By relating the five Forces model along with the principles of effective employee participation and teamwork, the business is reinforced in gaining a competitive advantage.

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