

The Enthusiastic Employee: How an Engaged Workforce Delivers Profits

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Increase Worldwide Productivity by 50%

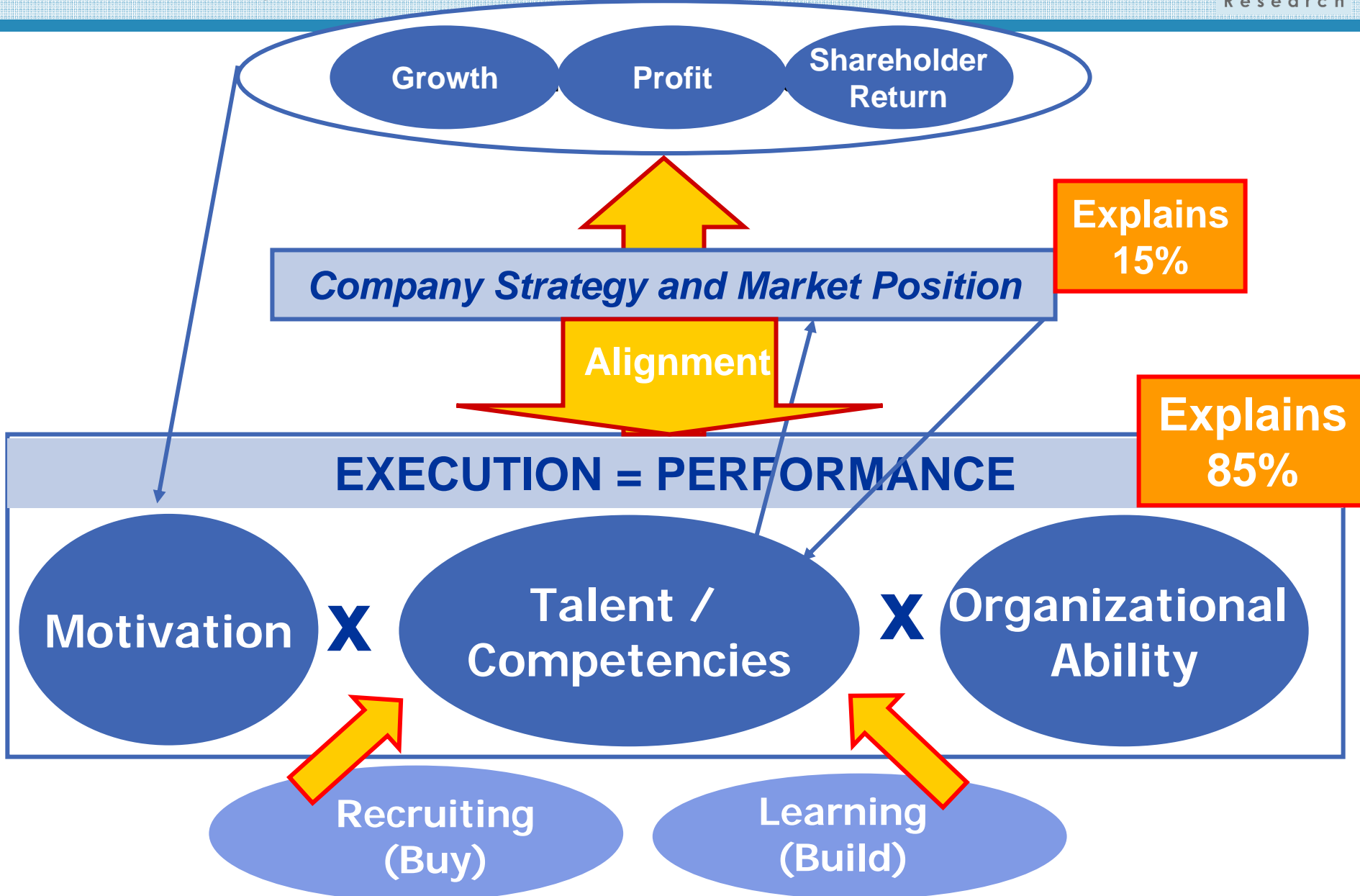
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Alignment and Execution Drive Worldwide Productivity



427 Years of Research



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Jason Corsello



Dr. Jac Fitz-enz



Dr. Charles Grantham



Tom Olivo



Lexy Martin



Dr. Lauri Bassi



Josh Bersin



Dr. Nick Bontis, Ph.D.



Dr. RJ Heckner



Dr. Peter Cappelli



Nov Omana



Bob Paladino



Dr. David Sirota



Ken Greer



Ronnie Tan Li Tong

David Sirota



David Sirota, Ph.D., an industrial psychologist, has been engaged in behavioral science research and its applications in organizations for over 40 years. Since founding Sirota Survey Intelligence in 1972, he has established an international reputation for improving the performance of individual executives, senior management teams, and total organizations. Dr. Sirota's approach starts not with pre-packaged solutions but rather with careful diagnosis using survey methods. He has been a pioneer in conducting attitude research that is *used*.

His clients at Sirota Survey Intelligence have included American Airlines, Bristol Myers-Squibb, Citigroup, Dow Jones, Ford Motor Company, IBM, Mercedes-Benz, The New York Times, Time Warner, The Washington Post, the World Bank, the U.S. Departments of Justice, Labor, Treasury, Health and Human Services, and Defense, and the cities of Cincinnati, Dallas, Los Angeles, and New York. From 1959 through 1972, Dr. Sirota performed his work as a Director of Behavioral Science Research and Application for IBM.

Sirota Is A Guru on the Motivational Factor



***The Enthusiastic Employee: How Companies Profit by
Giving Workers What They Want***

June, 2007

Organizational **breakthroughs**. Bottom line **results**.

What Enthusiastic Employees Do

- **Routinely produce significantly more than the job requires, often working all kinds of hours to get things done and done right**
- **Volunteer for difficult assignments**
- **Search for ways to improve things rather than just reacting to management's requests or to crises**
- **Encourage co-workers to high levels of performance and seek ways to help them**
- **Welcome, rather than resist, needed change**
- **Conduct transactions with external constituencies – such as customers – in ways that bring great credit (and business) to the company**
- **And are more likely to stay with the company, be an advocate of the company and its products and services, and contribute to the bottom-line business success**



So What?

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Morale Found to be Related to a Host of Performance Measures:

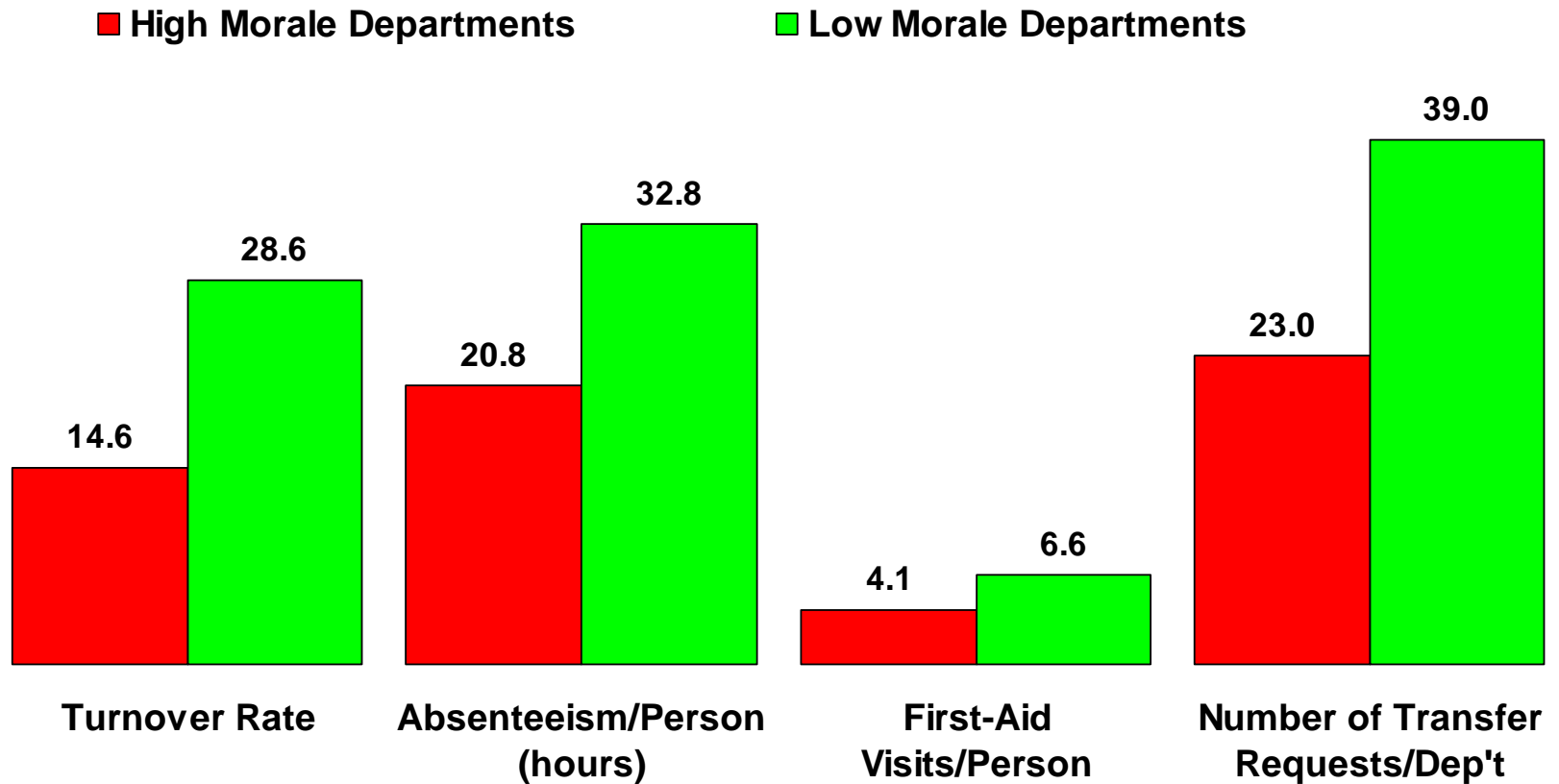
- **Efficiency**
- **Work quality**
- **Customer satisfaction**
- **“Withdrawal” Behavior (turnover, absenteeism, “retirement on the job”)**
- **Stock market performance**

Employee Morale and Stock Market Performance

Average 2002 Stock Market Performance

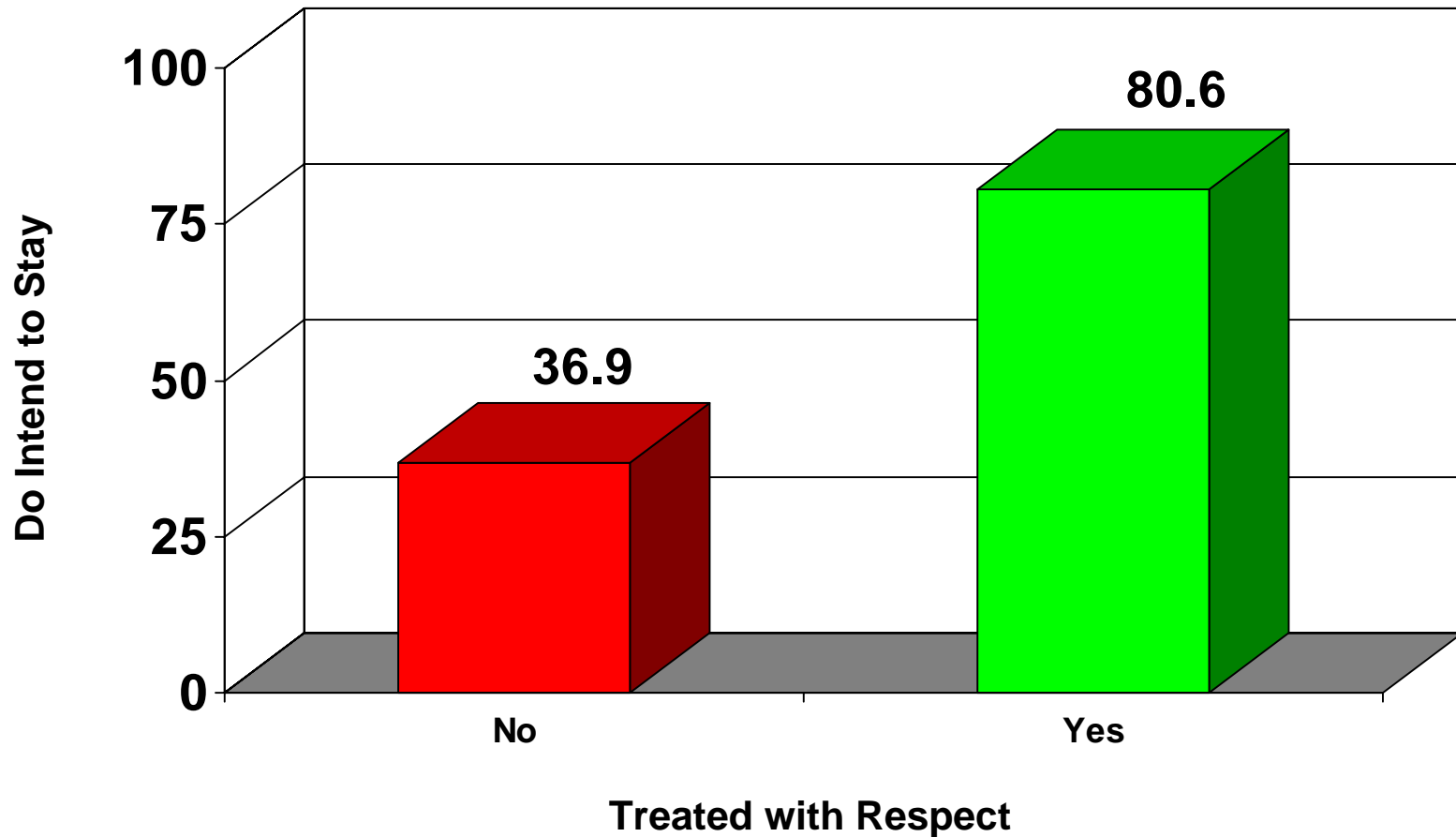
	Of Companies in Each Category	Of Industry Comparison Companies	Difference
Morale Category			
High	+1.80%	-18.23%	+20.03%
Moderate	-14.41%	-9.19%	-5.22%
Low	-24.92%	-19.93%	-4.99%

Morale and “Withdrawal” Behavior



Treated with Respect vs. Intention to Stay with Company

Percentage Intending to Stay With Company More Than 2 years



Mayo Clinic: Impact of Employee Enthusiasm on Patient Care

Illustrative patient comments:

- **“Two nurses gave up their day off to be with us for my peace of mind. They brought me smoothies. They hemmed the pajamas my mother sent. They were so wonderful.”**
- **The phone rang...it was a Mayo heart surgeon. I couldn't believe it. He personally called to say come see him.”**
- **My oncologist is...the kindest man I ever met. He related some of his personal life to me. I was more than my problem to him. He related to me as a person.”**
- **People who come up to the desk are nervous, or angry, or abusive. These ladies at the registration desk just keep their cool. I wish they could train customer service reps in department stores.”**

About Job Security

Ken Iverson, late Chairman of Nucor:

“Painsharing’ has helped us get through the tough times without ever laying off a single employee or closing a single facility for lack of work, even when the industry overall was shedding thousands of jobs. But, our history of no layoffs is not noble, altruistic, or paternalistic. It’s not even a company policy. We’ve told our employees time and again, ‘Nothing’s written in stone. We’ll lay people off if it is a matter of survival.’ The question is, when is laying people off the practical and sensible thing to do? To compete over the long term, a company needs loyal, motivated employees. Can management expect employees to be loyal and motivated if we lay them off at every dip of the economy, while we go on padding our own pockets?”

The Three Factor Theory: What People Want from a Job

- I. *Equity*: To be treated justly in relation to the basic conditions of employment**

- II. *Achievement*: To take pride in one's accomplishments by doing things that matter and doing them well; to receive recognition for one's accomplishments; to take pride in the organization's accomplishments**

- III. *Camaraderie*: To have warm, interesting, and cooperative relations with others in the workplace**

Evidence for the Near-Universality of the Three Factors

Correlations with Overall Satisfaction				
	Equity	Achievement	Camaraderie	
Total	.59	.43	.36	
Within Racial and Ethnic Groups				
White	.60	.45	.34	
Black	.57	.45	.34	
Hispanic	.58	.47	.41	
Asian	.63	.45	.41	
Native American	.54	.44	.37	

(continues)

Evidence for the Near-Universality of the Three Factors

(continued)

Correlations with Overall Satisfaction				
Within Tenure Groups				
0-2 yrs	.60	.48	.35	
2-5 yrs	.60	.45	.33	
5-10 yrs	.58	.42	.33	
10-20 yrs	.59	.44	.36	
> 20 yrs	.56	.39	.36	

(continues)

Evidence for the Near-Universality of the Three Factors

(continued)

Correlations with Overall Satisfaction			
Within Genders			
Women	.59	.42	.35
Men	.59	.45	.37
Within Levels			
Mgt	.58	.44	.33
Non-Mgt	.58	.43	.36
Within Positions			
Professional	.60	.46	.36
Non-Professional	.55	.39	.30
Within Regions			
North America	.60	.45	.37
Europe	.58	.40	.32

More Broadly, Four Employee Relations Cultures

Four Employee Relations Cultures

- I. ***Paternalistic:*** Employees as children
- II. ***Adversarial:*** Employees as enemies
- III. ***Transactional:*** Employees as ciphers
- IV. ***Partnership:*** Employees as allies

The Key Components of the Partnership Organization

Win-Win: The parties recognize that they have key business goals in common and that the success of one party depends on the success of the other.

Basic trust: The parties trust each other's intentions.

Long-term perspective: The parties are committed to a long-term relationship, one that will survive the short-term vicissitudes of business.

Excellence: The parties set high performance standards for themselves and for each other.

(continues)

The Key Components of the Partnership Organization

(continued)

Competence: The parties have confidence in each other's competence.

Joint decision-making: The parties make key decisions jointly on matters that affect each of them.

Open communications: The parties communicate with each other fully.

Mutual influence: The parties listen to and are influenced by each other.

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Mutual assistance: The parties help each other perform.

Recognition: The parties give recognition to each other for their contributions.

Day-to-Day Treatment: The parties routinely treat each other with consideration and respect.

Financial Sharing: To the extent that the collaboration is designed to generate improved financial results, the parties share equitably in those results.

Partnership Relationship Applies to Many Constituencies

- **Employees**
- **Unions**
- **Customers**
- **Suppliers**
- **Investors**
- **Communities**
- **The Nation**
- **Humankind**

Thank you!



research@successfactors.com

bsegall@sirota.com

<http://www.successfactors.com/research/thought-leaders/>



More Specifically:

**Research-Verified Policies and Practices
for a Partnership Culture**

Moving an Organization Towards a Partnership Culture

Have seen that the key questions for any employee-related policy or practice are:

- **What is its impact on employees' sense of fair treatment?**
- **What is its impact on their pride in their jobs and organization?**
- **What is its impact on productive social interaction among employees?**

Moving an Organization Towards a Partnership Culture

Caveats:

- These are *examples* of action *alternatives*
 - Solutions must be tailored to the conditions of the organization
- No “silver bullet” – a combination of changes works best and nothing works perfectly!
- Both organization-wide and individual-manager solutions
 - Don’t make the first-line manager the scapegoat

Ten Examples of Specific, Research-Verified Action Recommendations that Can be Widely Applied

- **Formulate a clear, credible and inspiring organization vision (incl. unit level)**
- **Establish “rings of defense” for job security**
- **Provide competitive compensation and consider above-average key benefits**
- **Truly and visibly tie a portion of compensation to performance through “gainsharing”**
- **Introduce genuinely participative approaches to performance improvement (most powerful: Self-Managed Teams)**

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Ten Examples of Specific, Research-Verified Action Recommendations that Can be Widely Applied

(continued)

- **Recognize good performance (“Catch them doing something good”)**
- **Deal with poor performance firmly and in a timely way**
- **Establish an open-communications culture (vs. “need-to-know”)**
- **Eliminate needless practices that signify second-class status**
- **Management, get out there (“MBWA”)**

In Sum:

- **Most of the problems in dealing with employees derive from the behavior of *management* who inadvertently depress or destroy the enthusiasm that employees naturally bring to their jobs**
- **Satisfying the three basic goals of employees – through a culture in which employees are treated as *partners* in the enterprise (rather than as children, adversaries, or ciphers) -- brings huge returns for the business**



Additional Detail on a Number of the Action Recommendations



Organization Vision – More than Profits

Clear and Inspiring Vision

- **The way I see it, leadership does not begin with power but rather with a compelling vision or goal of excellence**
 - **Frederick W. Smith, CEO, Federal Express**

- ***I want to...express the principles which we in our company have endeavored to live up to...Here is how it sums up: We try to remember that medicine is for the patient. We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered that, the larger they have been.***
 - **George Merck II, Former CEO, Merck and Company**

A Clear and Inspiring Vision for a Three-Person Benefits Department

“Benefits are about people. It’s not whether you have the forms filled in or whether the checks are written. It’s whether people are cared for when they’re in trouble.”

Characteristics of an Effective Vision/Values Statement

An effective vision/values statement is:

- **Simple and clear (not necessarily short)**
- **Relevant to the business – not so general and filled with platitudes as to be virtually meaningless**
- **Inspirational:**
 - **Appeals to values that employees hold above and beyond profits -- *especially the usefulness and quality of the product or service for customers***
 - **Encourages excellence in the achievement of those values**
 - **Promotes a feeling of being special, noticeably different from others**

A Long but Terrific Values Statement: Lands' End

- 1. We do everything we can to make our products better. We improve material, and add back features and construction details that others have taken out over the years. We never reduce the quality of a product to make it cheaper.**
- 2. We price our products fairly and honestly. We do not, have not, and will not participate in the common retailing practice of inflating mark-ups to set up a future phony "sale."**
- 3. We accept any return for any reason, at any time. Our products are guaranteed. No fine print. No arguments. We mean exactly what we say: GUARANTEED. PERIOD.**
- 4. We ship faster than anyone we know of. We ship items in stock the day after we receive the order. At the height of the last Christmas season the longest time an order was in the house was 36 hours, excepting monograms which took another 12 hours.**

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A Long but Terrific Values Statement: Lands'End

(continued)

- 5. We believe that what is best for our customer is best for all of us. Everyone here understands that concept. Our sales and service people are trained to know our products, and to be friendly and helpful. They are urged to take all the time necessary to take care of you. We even pay for your call, for whatever reason you call.**
- 6. We are able to sell at lower prices because we have eliminated middlemen; because we don't buy branded merchandise with high protected mark-ups; and because we have placed our contracts with manufacturers who have proven that they are cost conscious and efficient.**
- 7. We are able to sell at lower prices because we operate efficiently. Our people are hard-working, intelligent, and share in the success of the company.**
- 8. We are able to sell at lower prices because we support no fancy emporiums with their high overhead. Our main location is in the middle of a 40-acre cornfield in rural Wisconsin.**



Layoffs as Last Resort: “Rings of Defense”

About Job Security

Ken Iverson, late Chairman of Nucor:

“Painsharing’ has helped us get through the tough times without ever laying off a single employee or closing a single facility for lack of work, even when the industry overall was shedding thousands of jobs. But, our history of no layoffs is not noble, altruistic, or paternalistic. It’s not even a company policy. We’ve told our employees time and again, ‘Nothing’s written in stone. We’ll lay people off if it is a matter of survival.’ The question is, when is laying people off the practical and sensible thing to do? To compete over the long term, a company needs loyal, motivated employees. Can management expect employees to be loyal and motivated if we lay them off at every dip of the economy, while we go on padding our own pockets?”

About Job Security: : “Rings of Defense”

Exhaust all possible alternatives before laying off people, such as:

- Freeze hiring**
- Restrict use of temporary employees**
- Reduce or eliminate overtime**
- Bring in work that has been subcontracted**
- Transfer people to other departments that have openings**
- Accept lower-profit work that the company would normally reject**
- Have people perform other useful tasks, such as deferred maintenance**
- Provide the training that has been deferred because of prior heavy workload**
- Freeze salaries/Institute across-the-board pay cuts**
- Shorten workweeks**
- Require unpaid vacations and leaves of absence**

About Job Security (cont'd)

At the individual manager level:

- **Some managers believe that the most effective way to motivate employees is to keep them in a continual state of anxiety (a “slippery slope,” “What have you done for me lately?”)**
 - **As if, normally, employees are not anxious enough about their performance and desirous of doing work of which they can be proud**
- **It is a no-win condition for employees that has a deleterious impact on their morale, often their health, *and their performance (especially over the long term)***



Tying Compensation to Performance: “Gainsharing”

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- Many methods for tying pay to performance, e.g., merit pay, piecework, commission plans, profit sharing bonuses, stock distribution
 - All of these have serious problems ranging from a sense of inequity (e.g., piecework grievances; large %'s of employees seeing little relationship between their merit and their pay under merit pay plans) to little or no impact on performance (e.g., profit sharing)
- Research has demonstrated large performance improvements (averaging 25%) and wide employee acceptance of “gainsharing” plans (such as Scanlon, Rucker, and Improshare). *Where applicable, this is by far the most effective method for tying pay to performance*

Tying Compensation to Performance: “Gainsharing”

- **What is “gainsharing”?**
 - **Group-based, usually applicable to units of no more than a few hundred employees where performance can be measured**
 - **Baseline performance is established – the financial gains over that baseline over a period of time are shared with employees (usually 50-50)**

(continued)

■ What is “gainsharing” (cont’d)

- **Example: 100 employees produce 100 widgets at Time 1. Production increases to 120 widgets at Time 2 but workforce increases to just 110.. Average salary of employees is \$30,000: savings = 10 employees x \$30,000 = \$300,000, \$150,000 of which is shared with employees on an equal basis**
 - **Performance criteria are often expanded to include measures such as quality**
- **Will not work unless coupled with a highly participative management system (such as Self-Managed Teams) through which employees are heavily involved in performance improvements**



Participative Approaches to Performance Improvement

Participative Approaches to Performance Improvement

- **There is an enormous amount to be gained by involving the workforce in organization improvement**
 - **They have much to contribute, especially about improvements in their own jobs and work areas**
 - **They are motivated to make work the changes that *they* have initiated**
 - **Involvement – treating them as intelligent and dedicated employees -- is a sign of respect for them that boosts their morale and their commitment**
 - **True at *all* organization levels**

Participative Approaches to Performance Improvement

- **The individual manager: Listening and delegating**
- **At a broader organization level:**
 - **Task forces to remove obstacles to performance (e.g., “destroyer” task forces for excess reports and approvals)**
 - **More permanently: Self-managed work teams**

The Ideal Self-Managed Team

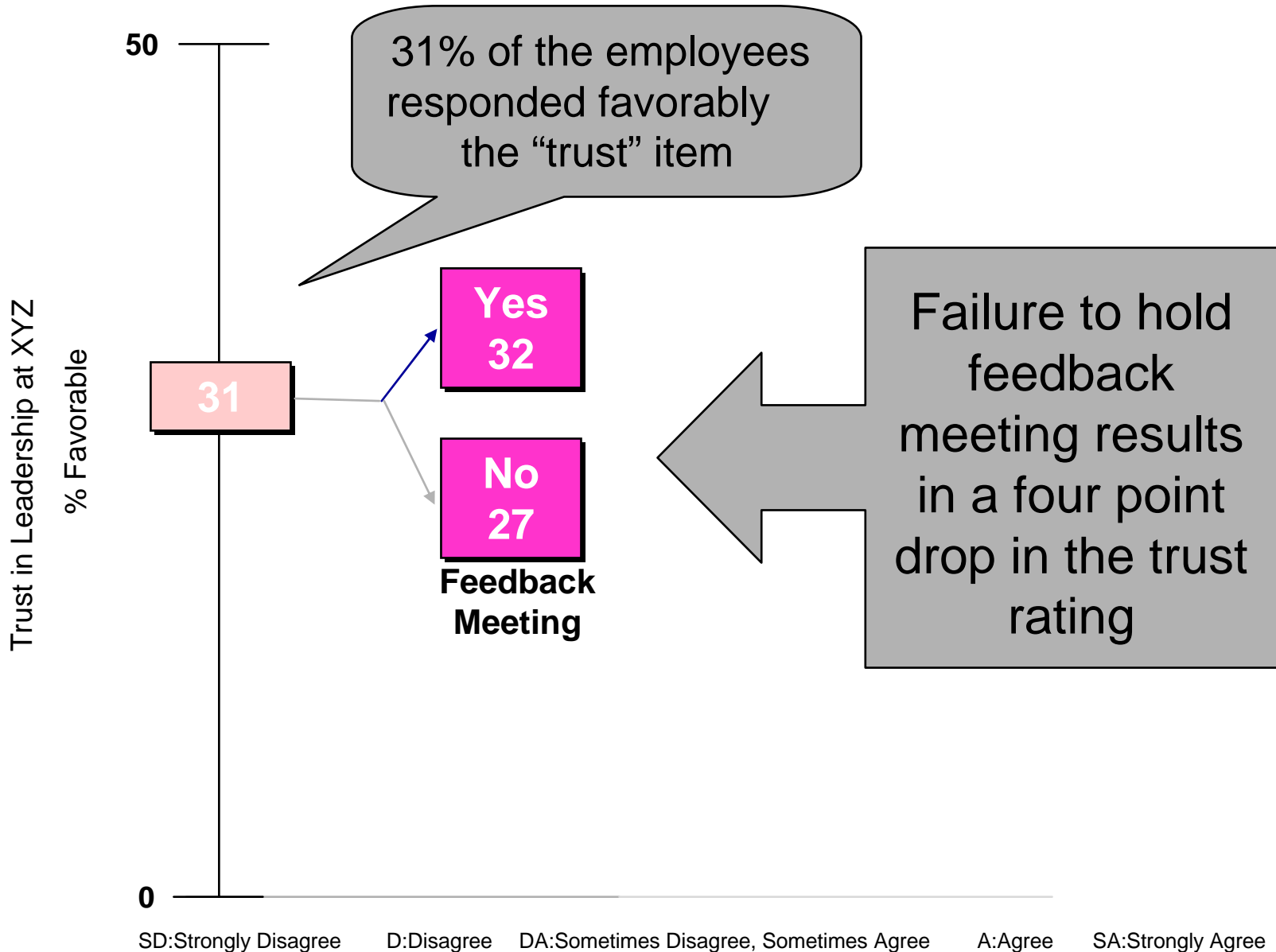
- **Produces the whole thing (product or service) for an identified customer or set of customers with whom the team interacts**
- **Has clear goals for which it is accountable**
- **Is delegated wide authority to get the job done (including control over resources and access to information)**
- **Contains within it all the skills needed to get the job done (employees usually multi-skilled) and decides on the distribution of work to team members**
- **Receives rewards based on team performance, most effectively through “gainsharing”**

The Self-Managed Team: An Antidote to Bureaucracy

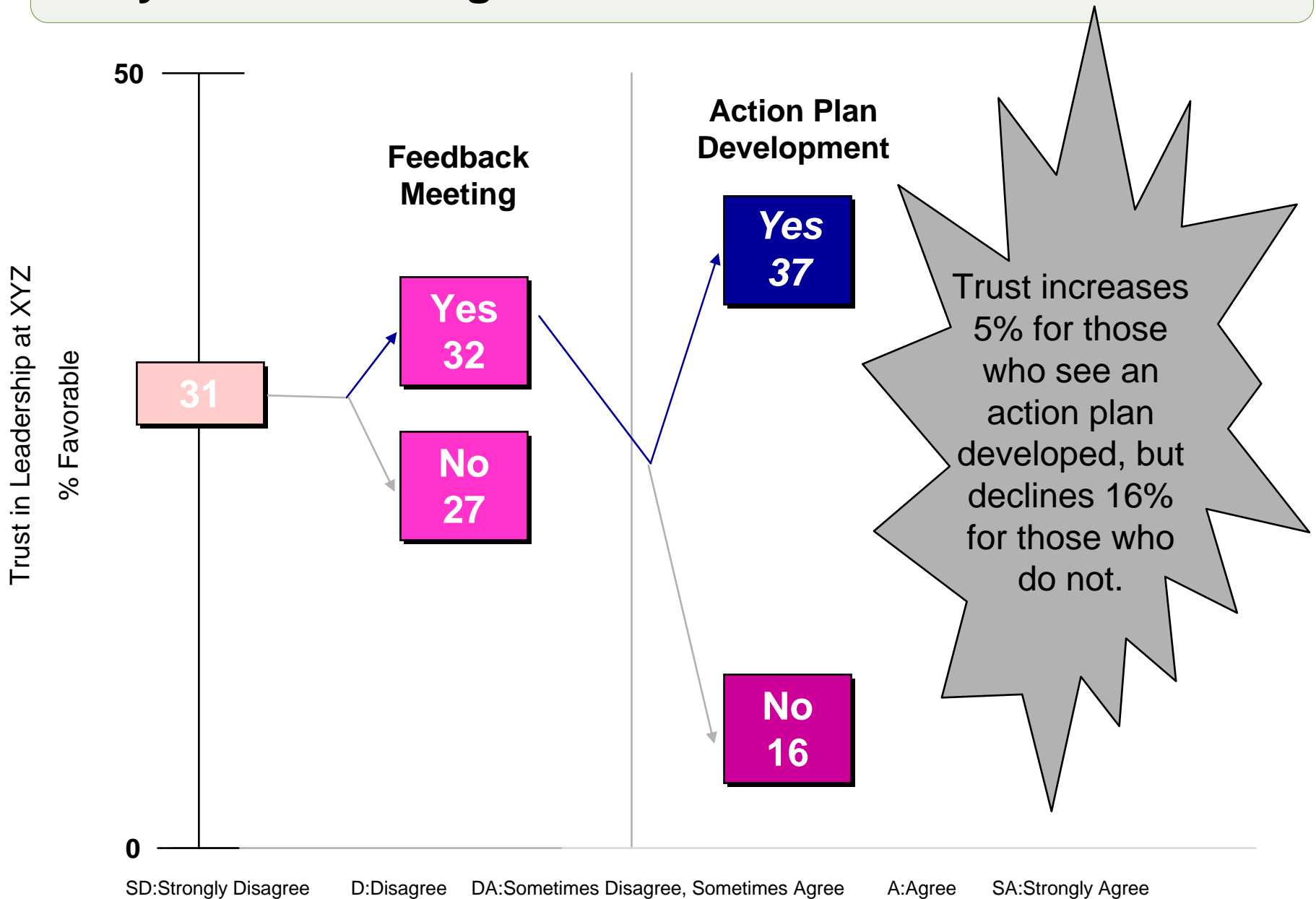
- In addition to gains through teamwork, a major beneficial result of the self-managed team is the reduction in number of management levels needed, because:
 - Delegation of many management tasks (such as distribution of work) to the team
 - Less need for obtaining assent of other groups because so many functions are performed within the team
 - The enthusiasm of team members renders command-and-control unnecessary (a “virtuous circle”: the less command-and-control, the more the enthusiasm; the more the enthusiasm, the less the need for command-and-control)
- Steep organization structures are the bane of effective organization functioning – especially tempting and dysfunctional as a response to growth

The impact of survey feedback – *acted upon*

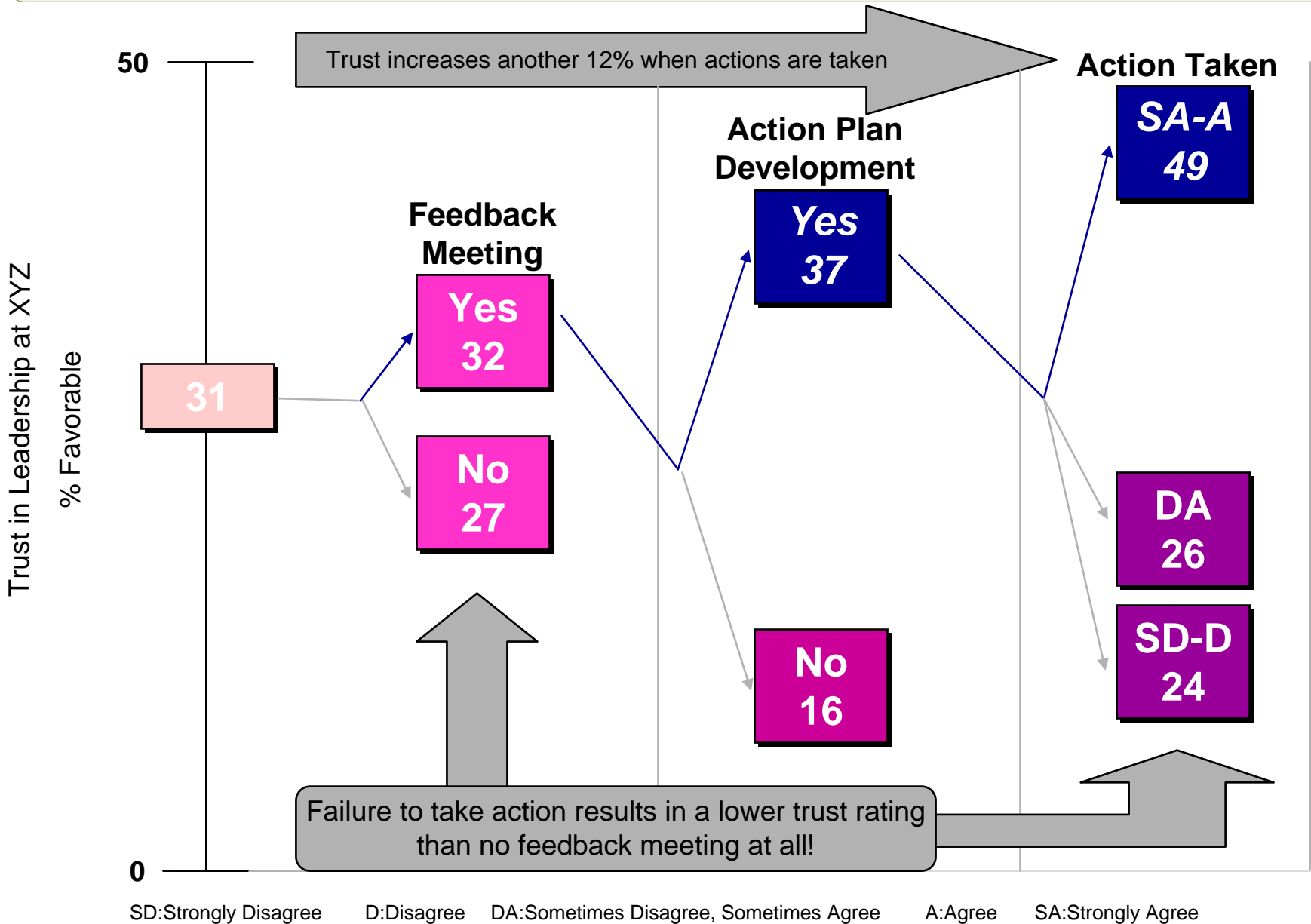
Why Follow Through?



Why Follow Through?



Why Follow Through?



Open Communications

About Open Communications

Jack Stack, CEO of SRC Holdings, on “Open-Book Management”:

“...SRC embraces open-book management. We are building a company in which everyone tells the truth every day – not because everyone is honest, but because everyone has access to the same information: operating metrics, financial data, valuation estimates. The more people understand what's really going in their company, the more eager they are to help solve its problems. Information isn't power. It's a burden. Share information, and you share the burdens of leadership as well.”

Four Key Principles for Effective Employee Communications

- **“Need to know” is one of the most counterproductive of management rules**
 - **Conveys exclusiveness (“communicate this *only* to those who have a need to know”) rather than inclusiveness (“communicate this to *all* who have a need to know”); information as both power and status**
- **For many companies and managers, good communications is not a natural instinct, a top-of-the-mind concern**
 - **Need discipline, e.g., regular communications meetings, explicit plan for communications to others after decisions**

Four Key Principles for Effective Employee Communications (cont'd)

- **Straightforward communications is best; no spin, tell it like it is**
- **Communications must be two-way**
 - **A major communications problem: Assumption that message has been understood**
 - **And genuine listening signifies respect**

Status Distinctions

Key Elements of Respectful Treatment

- **Welcoming employees into the organization**
- **Physical working conditions “fit for human beings”**
- **Elimination of other status distinctions**
- **Job autonomy/Listening to employees**
- **Open communications**
- **Day-to-day courtesies**

About Status Distinctions

“In Pontiac [Michigan], GM executive parking garages are heated, while the poor guys who work in the plant freeze their tails off while walking to work in the snow. It costs \$140,000 a year to heat one parking garage. I’d shut the thing down. It has nothing to do with cars.”

Ross Perot, when on the board of General Motors

“MBWA”

MBWA

“MBWA”: “Management by Wandering Around”

- **Get out there – employees want to see you and have a chance to talk to you!**
- **Will learn an enormous amount**
- **Will show employees that you are involved and that you care about them, what they’re doing, and their views – that you see them as *important***
- **But don’t do it as an auditor or as part of a ceremonial visit with a retinue!**