

Why Engagement is a Critical Strategy Now

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“When the pace of change outside an organization becomes greater than the pace of change inside the organization, the end is near.” John R. Walter,

President, ATT Our current situation is in turmoil. We are facing the most significant recession since the 1930's, we see businesses closing or cutting back. So far at least half of the financial bailout hasn't yielded significant results. Banks are still not lending. Here are a few other “pre-meltdown” considerations for you as well- Eric Allenbaugh, a Lake Oswego based managed consultant published an article describing the three primary cultures represented in corporate America-

- **The “Glazed Eye Group”**- this group is most recognizable through their lack of spirit and vitality. They are adept at explaining why something can't be done, make excuses and avoid taking risks or being accountable at all costs. Here is the really bad news, Allenbaugh estimates this population at **54%** of the American workforce and as they range from neutral to mildly negative they don't take proactive action to improve their situation. Let me be specific here, what I mean is they don't leave under their own power; they stay and drain the energy out of your organization.

- **The “Beady Eyed Group”**- this is the group that is actively disengaged. They are your corporate terrorists. They actively seek out the flaws and the negative and “spread the wealth”, sharing their negative energy and disenchantment with everybody. Although they represent only about **17%** of the workforce their impact is disproportionate, they consume huge amounts of managerial energy and investment. They are not interested in finding solutions and improving things. By the way, they are also not significantly more likely to seek alternative employment either. Since “life sucks” they figure it’s all the same why go to the work of changing
- **The “Bright Eyed Group”**- this is the group you want, period. These folks are engaged, they buy into your mission, values, and vision. They embrace change, look for opportunities to improve their skills and aptitudes and embrace personal accountability. The unfortunate part is that they represent only about **29%** of the current workforce.

Before I talk about solutions I want to share a little more perspective with you to create the sense of urgency we need, the cost of “**presenteeism**”. A recent study by Cigna Healthcare provided some pretty startling statistics-

- U.S. workers reported that they spend two to five hours per **week** resolving personal issues at work, a productivity loss of 5 to 12%.
- 61% of U.S. workers have reported to work while they were ill or dealing with personal matters
- Of that group, 62% felt that they were noticeably less productive or attentive to their duties
- 46% missed at least one day of work in the preceding six months, with 22% of those absences related to family matters.

**“the costs of this productivity loss are over
\$200 billion annually”**

In “HR speak” we call this phenomenon – “**presenteeism**”. A different study by the National Mental Health Association estimated that the costs of this productivity loss are over \$200 **billion** annually. Let’s put that in perspective that means in three and a half years we have reached the point where these losses are equal to the Federal bailout! Now I want to make another point, these losses were calculated before we entered our current financial crisis! I would venture to say that the scores have not improved over the last few months. So now that I hopefully have your attention let’s talk about some solutions you can take to address this issue. While I talk about them in much more detail in my new book, ***Managing Whole People***, I’ll give you an overview here:

- **Hire Hard- Manage Easy-** my friend and colleague Joseph Skursky of Market Leader Solutions, uses this motto as the basis of his recruitment and selection system. I describe it briefly in Hire Right! The point is be careful about who you let in your lifeboat! Starting with the right folks makes it a whole lot easier, trust me!
- **Create An Appropriate Culture-** I have spent the last fifteen years refining my model – Moving from **Compliance to Commitment™**. It is composed of five elements: respect, responsibility, information, rewards and loyalty. My premise is simple; people join and stay with cultures, not organizations. As leaders you are the guardian of the culture. You notice I say join up. They make an affirmative choice to join up or **commit** to you. Ken Matejka describes commitment like this:

“Commitment is the act of being physically, psychologically, and emotionally impelled. It means that employees gladly give up other options.”

- Ken Matejka

- **Why This Horse Won’t Drink** 1991 Now think of those “glazed and beady eyed” folks I described previously and tell me that physically, psychologically, and emotionally impelled doesn’t sound better!

- **Good Leadership-** good leadership is critical, but what is it? I like Marcus Buckingham's definition-

“Effective leaders don’t have to be passionate. They don’t have to be charming. They don’t have to be brilliant...They don’t have to be great speakers. What they must be is clear. Above all else, they must never forget the truth that of all the human universals...our need for clarity is the most likely to engender in us confidence, persistence, resilience, and creativity.”

-Marcus Buckingham, The One Thing You Need to Know: ...About Great Managing, Great Leading, and Sustained Individual Success (Free Press 2005)

What do you think about that? Clarity; who are we, what are we trying to accomplish, what is my role? Every employee asks these questions. Our job is to answer them.

- **Effective Management-** management is different than leadership, period. Richard Rumelt, a professor of Management at UCLA describes the role of management this way-

“The most important role of any manager is to break down a situation into challenges a subordinate can handle. In essence, the manager absorbs a great chunk of the ambiguity in the situation and gives much less ambiguous problems to others.”

Richard Rumelt Strategy’s strategist: An interview with Richard Rumelt

When you combine these elements you have created a “culture of engagement”. I am not going to tell you that you ever “arrive”, but you will perform at a place where you want to be.

Some recent information from Pepper and Rogers and BlessingWhite show us some pretty impressive reasons why engagement is important and what kind of outcomes you might expect.

One of the first things that study distinguishes is a new view of engagement. They distinguish between the traditional view of the **intellectual**, **behavioral**, and **emotional** elements we have traditionally associated with engagement. To describe those a little more fully, the **intellectual** level is where an employee agrees with your company vision statement and/or a customer values the attributes of your brand. The **behavioral** level, recommending or purchasing your product or service is where you start to see energy or discretionary effort. The third level, the **emotional** level, is where you actually see “buy in” and enthusiasm. You can see in some ways this parallels Ron Willingham’s three dimensions of congruency™; the **I think, I feel**, and the **I am**. Willingham pointed out, and Pepper and Rogers agree the emotional “buy in” is much more impactful than the intellectual appeal.

They go on however, to describe a different more comprehensive model which includes five levels and incorporates critical concepts like satisfaction, quality, and loyalty.

The “new” levels in hierarchical order are; **satisfied, loyal, recommend, best products and services, and pride**.

Most importantly they also describe the critical foundation that this system is based upon, a foundation called **trust**.

The point here as I have discussed thoroughly is without a trust based relationship, the rest of the engagement initiative is a wasted effort; and trust is built at the front line level between the immediate supervisor and the employee. It is the trust factor that the five elements of Compliance to Commitment™; respect, responsibility, information, rewards, and loyalty address. There is also a clear relationship to the Human Resources Pyramid™ that I have described before as well. This model also takes into account both employee and customer engagement and argues they are inextricably linked. They also say that true engagement affects three critical elements that every organization should be concerned about: **Productivity, Performance, and Sustainability**.

The most important thing in this article is it provides some pretty definitive numbers in each of these categories.

Productivity

Depending upon what business you are in your costs for “human capital” on average represent 60 to 70% of total expenditures. As we know in some businesses it is much higher. As we point out, the best companies are recognizing this and leveraging their return on investment in this area. A 2008 study by Development Dimensions International (an international training and consulting firm) indicate that moving an employee’s level of engagement from low to high represented a 21% increase in individual performance. Employees at the highest levels of performance have per capita productivity of 20% higher than the average across industries and offices with high levels of engagement are 43% more productive according to studies by the Society for Human Resources Management and the Hay Group.

Engaged customers also enhance your productivity through repeat business and word of mouth recommendations.

Performance

In addition to the productivity increases you also experience direct correlations to financial performance. Engaged employees tend to stay with their current employers at a rate of 85% versus 27% according to BlessingWhite, an international consulting firm.

The savings from reduced turnover alone are huge. Additive to that other studies showed similar correlations to companies with double digit versus single digit revenue growth and an average total shareholder return of 24% for organizations where 60 to 70% of employees rate themselves as engaged versus 9.1% total shareholder return for organizations with an engagement percentage of 49-60%. In retail environments stores in the top 25% engagement level deliver 36% higher operating income than stores with low engagement. Customer engagement shows similar statistics including higher loyalty, increased revenue, increased profit, and increased wallet share. When you combine high employee and high customer engagement the results show literally a **100% difference** in financial performance on a peer to peer basis. I don’t know about you, but to me those kinds of bottom line impacts get my attention!

Sustainability

Beyond the financial and productivity gains let’s talk about sustainability of the organization. I want to talk about three different areas that Peppers and Rogers identified:

- **Brand**- a 2003 study stated the experience a customer has with your employees influences repeat purchase decisions so much that “they are your brand.” In the same study they reported that 51% of consumers report that “outstanding service” is the number one reason they continue to do business with an organization and that conversely 80% state they will discontinue doing business because of a bad experience.
- **Strategy**- the biggest reason CEO’s fail is not bad strategy, but bad implementation of their strategy according to a study by Ram Charan reported in Fortune magazine. Engaged employees play a critical role in that implementation.
- **Human Capital**- over the next 10 to 15 years the demand for experienced talent is expected to increase by 25% while the supply decreases by 15%. Under these circumstances retention of critical talent becomes even more important. Remember that “engaged” employees are 87% less likely to seek alternative employment.

The 2008 BlessingWhite study that I referenced earlier identifies less than 30% of employees as being engaged. The same study identifies 19% as being “disengaged”, but it gets worse, disengaged workers are not the most likely to leave- they “quit and stay”.

The same study found that only 27% of organizations globally have a formal program or strategy to increase employee engagement and 19% don’t even have it on their radar screen.

This sounds remarkably like the numbers from Allenbaugh doesn’t it? Now the punch line, Allenbaugh did his research in 1994 **fourteen years** earlier than BlessingWhite and Pepper and Rogers, look at the productivity we squandered in that period!

So let’s go back to the beginning. Consistent with our thinking at New Paradigms, the foundation of employee engagement is the same as any healthy relationship- mutual trust between the parties. We believe there is a direct relationship between the five elements of Compliance to Commitment™ and building that foundation of trust.

So let's look at the numbers - \$200 billion per year lost to presenteeism, a potential 21% per capita increase in productivity, and significant increases in financial performance and every other key metric- or we can keep doing what we are doing.

President Barrack Obama just gave us a case study in engagement. Using effective marketing, clarity, and commitment versus compliance he got young people out in historic numbers to participate in a political process they had rejected. He was elected as a mixed race first term senator by a broad demographic coalition. They estimate that 2 million people were in Washington to watch him take the oath of office. I am not making a political statement; I am illustrating a brilliantly conceived and executed management campaign.

As he shared with us yesterday as well we are facing a significant challenge economically, politically, and internationally. Like him I think "yes, we can". If we can galvanize the untapped energy of the American worker and move them from Compliance to Commitment™ we can see the fruits and benefits of **engagement**. You can do it, we can help! This Margaret Wheatley quote summarizes it beautifully-

“In organizations, real power and energy is generated through relationships. The patterns of relationships and the capacity to form them are more important than tasks, functions, roles, and positions.”

For those of you that think it is too hard, takes too long, or just can't be done; I just have one question- What is your plan B?

*Mark F. Herbert is a speaker, author and consultant with over thirty years of experience helping organizations like Honeywell, SpectraPhysics, Mobius, Oregon Community Credit Union and others take their organizations from Compliance to Commitment™. He is currently a principal at the consulting firm of New Paradigms LLC. He recently published his book *Managing Whole, One Man's Journey*, which is available at amazon.com or his website at www.newparadigmsllc.com. He can be reached at Mark@newparadigmsllc.com*