

Spillover

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Mark Herbert

Principal, New Paradigms LLC

mark@newparadigmsllc.com

541.741.3490



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The new secret weapon

By Mark Herbert

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Principal, New Paradigms LLC
mark@newparadigmsllc.com
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In a lot of my writing and speaking over the last few years you have heard me talk about this concept of **commitment** and why having a workforce that is committed rather than compliant is a competitive advantage without regard to the industry that you occupy. When you make a statement like that you get questions, questions like:

- What does engagement look like?
- How do I create an “engaged” workforce?
- Does engagement really contribute to my bottom line, and if yes then how much?
- Do you have any data to support your premise?
- Is happiness engagement?

These and others are very fair questions and I believe that some of the answers have been provided by information I have shared with you from Peppers and Rogers and BlessingWhite from their recent publications. I just came across some additional

information from Allegiance, a consulting firm specializing in engagement, and the Rhoads-Whitlark study conducted by two engagement experts at Allegiances' request.

In their study Professors Rhoads and Whitlark took the premise that there is a relationship between employee engagement and customer satisfaction and set out to statistically quantify it. They label this statistical relationship the **spillover effect**.

Many of you may recall the book, *The Service-Profit Chain*, published several years ago, about the relationship between demonstrated corporate values, employee satisfaction, and organizational profitability. Considered a management "bible" by many, the conceptual framework makes intuitive sense.

Rhoads and Whitlark argue however that "satisfaction" may not be the right index and they offer some pretty compelling points. The first argument they make is that satisfaction reveals past behavior, but it's not necessarily indicative of the future.

A partially satisfied or even unsatisfied customer may continue doing business with you because of convenience or price; they do business with you, but they do not promote or advocate for you!

“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

They next take on one of my old favorites: **happiness**, the concept that happy employees mean happy customers. They point out the employee may be "happy" because of the opportunity to interact socially with peers or other factors having little to do with the performance of the work. The things that make them "happy" may actually impede good customer service. Ever shopped in a store staffed by Millennials who were annoyed when you interrupted their conversation to make a purchase?

Their point is that **engagement** occurs when employees and customers develop a relationship with your organization based on a pattern of repeated positive experiences. The key here is the relationship to the **work** and the **experience**.

A human resources study conducted in Canada by international consulting firm Towers Perrin put actual numbers to it:

- **84% of highly engaged employees feel that they can positively impact the quality of the organizations product or service versus 31% of disengaged employees.**
- **72% of highly engaged employees feel they contribute directly to improved customer service versus 27% of disengaged employees**

And finally -

- **68% of highly engaged employees feel they can directly impact costs versus 19% of their disengaged counterparts.**

These engaged employees feel like they are meaningful partners in achieving the organizations goals.

Not surprisingly Rhoads and Whitlark recommend that organizations focus on hiring and retaining emotionally engaged employees. We will talk about how to do that a little later.

**“the key is the relationship to the work
and the experience”**

The Bottom Line

I recognize that some of you are saying this is nice, but how does this show up on my bottom line, so I thought I would share some of the studies' conclusions before I talk about what promotes or impedes an engaged workforce.

Employee Engagement

The studies yielded some pretty positive impacts from demonstrated high engagement environments, impacts include:

- An average total shareholder return of 24% with organizations with a population of 60% or more of employees describing themselves as highly engaged. Where high engagement is between 40 to 60% of the population the TSR drops to 9.1% and when it drops below 25% the average TSR is negative.
- At Best Buy they were able to correlate a .1 percent increase in engagement on a five point scale to a \$100,000 annual profit increase per store.
- JC Penney found that stores in the top 25% engagement scores produced 36% higher per store operating revenues and 10% higher sales per square foot than their counterparts in the bottom 25%.

Customer Engagement

Customer engagement yielded similar results.

- Executives agreed that high customer engagement includes factors like improved customer loyalty- 80%, increased revenue- 76%, and increased profit -75%.
- Independent research concluded that high customer engagement increased “wallet share” an average of 23%.
- They saw similar patterns in gross margin, return on investment, and earnings per share.

The “Spillover” Effect

While the benefits of either customer or employee engagement is impressive, the “perfect storm” yields even greater results. A 2005 study conducted by the Gallup

organization and published in the Harvard Business Review showed financial performance **twice** as strong as one form of engagement alone.

Creating an Engaged Environment

When I began working on my management model, **Compliance to Commitment™**, almost 15 years ago I was passionately committed to the concept that you would never give better customer service than the internal customer service experienced by your staff. I am pleased to announce that in 2007 the Harvard Business Review validated my conclusions stating,

“Too many organizations focus on what customers think – to the exclusion of what employees think. Companies are more likely to be growing if employee’s opinions of the company are better than customers’.”

Our “front line” employees are the **organization** to our customers. If they don’t feel the passion and the commitment they will not reflect it.

Global research organization ISR’s research director, Patrick Kulesa, put it even more clearly-

“Our research continues to show that a well substantiated relationship exists between employee engagement- the extent to which employees are committed, believe in the value of the company, feel pride in working for their employer, and are motivated to go the extra mile- and business results”.

When I designed my Compliance to Commitment model™ I included five key elements: Respect, Responsibility, Information, Rewards and Loyalty. In addition in my book *Managing Whole People: One Man’s Journey*, I included some other elements that I

thought were critical for any organization attempting to achieve an **engaged** environment.

The first of those additional considerations is the concept of **Congruency™**, from Dr. Ron Willingham. He described congruency this way, “Our view of an activity, our view of our ability to perform the activity, our view of the activity as it relates to our values, commitment to do the work, and our belief in the product or service.”

Dr. Willingham believes that if we ask employees to perform an activity or task that is *incongruent* on any level we are putting them in conflict with their values.

The second set of considerations I describe in terms of creating an environment, an environment that has been articulated by the “new” workforce as critical to them in committing to an employer:

- Satisfying work content.
- Association with an organization that they respect and that respects them.
- Mutual commitment to them and their careers.
- Meaningful and timely feedback to help them improve their skills.
- Equitable compensation.

In addition to desiring feedback, they also describe four other elements in an optimal employment environment:

- Maximum delegation.
- Personal responsibility and “ownership” of their projects and tasks.
- Clear boundaries and a sense of the big picture.
- Shared ownership (credit) for end results.

I found it interesting and reassuring that in their research Dr’s Rhoads and Whitlark described the critical elements this way:

- An opportunity to have a positive impact on the lives of customers and team members.
- Opportunities to learn new skills.
- Opportunity to complete a whole task or job from start to finish.
- The opportunity to receive and provide meaningful feedback

- Feeling free to perform the work the way they believe is best to accomplish the task at hand.

“One bad manager can pollute multiple levels of an organization, and poor managers bring down employee morale, which spills over into the engagement level of customers.”

My three decades of experience aligns with their research. I've seen proof of these conclusions in the field.

We also agree on the single biggest impediment to creating and sustaining engaged cultures- management. They state, “One bad manager can pollute multiple levels of an organization, and poor managers bring down employee morale, which spills over into the engagement level of customers.”

From his book *The Service Profit Chain*, James L. Heskett is even more explicit:

“... the hardest concept is the deployment of the culture change ...which requires that organizations identify values, behaviors, and measures that help reinforce the service profit chain relationships. But it also requires actions. That is when managers are not managing by the values and cannot be admonished or retrained to do so (which rarely works), they have to go.”

I agree with Heskett, in fact I apply that same standard to all employees, not just managers. I would also agree with him that management “getting on board” is most critical. People join organizations, but they leave managers.

So where do you go from here? As you might suspect I have several suggestions:

- **Define your culture.** As leaders creating the culture and ensuring clarity is your key role.

- **Hire hard- manage easy.** My colleague Joseph Skursky uses this motto to describe his technique of investing the time to hire the right people, don't try to "train" them to be right.
- **Hire for congruency.** The more alignment you have between the employee's values and the elements described in Dr. Willingham's model the more likely you will have alignment and engagement.
- **Ensure managers have the "tool kit" and that they reinforce your values.** Leadership and management are different skills, but there are an essential set of management competencies that all managers must have and be able to demonstrate. I would submit the closer to the frontline the more critical those skills become.
- **Give employees a chance to commit rather than comply.** The numbers speak for themselves. The model works.
- **Be flexible about process and ruthless about principle.** People who cannot or will not embrace your values will never be engaged. You owe it to them and yourself to "free up" their future.

The great thing about this model is that properly applied you gain a competitive edge that supersedes any business environment. Organizations that are in the "spillover zone" will weather this recession and come out stronger.

I am not going to kid you; embarking on this journey takes time, commitment, tenacity, and hard work. I would submit that the financial metrics I shared with you regarding the competitive advantage enjoyed by organizations employing this strategy make a pretty good case for implementation. When you add the 21% per capita productivity advantage and the savings from turnover I talked about in the Business Case for Compliance to Commitment™ it only gets stronger.

I leave you with this thought from Margaret Wheatley: "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."

As my friends at Lowe's Home Improvement stores like to say, *You can do it, we can help!*

*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.*