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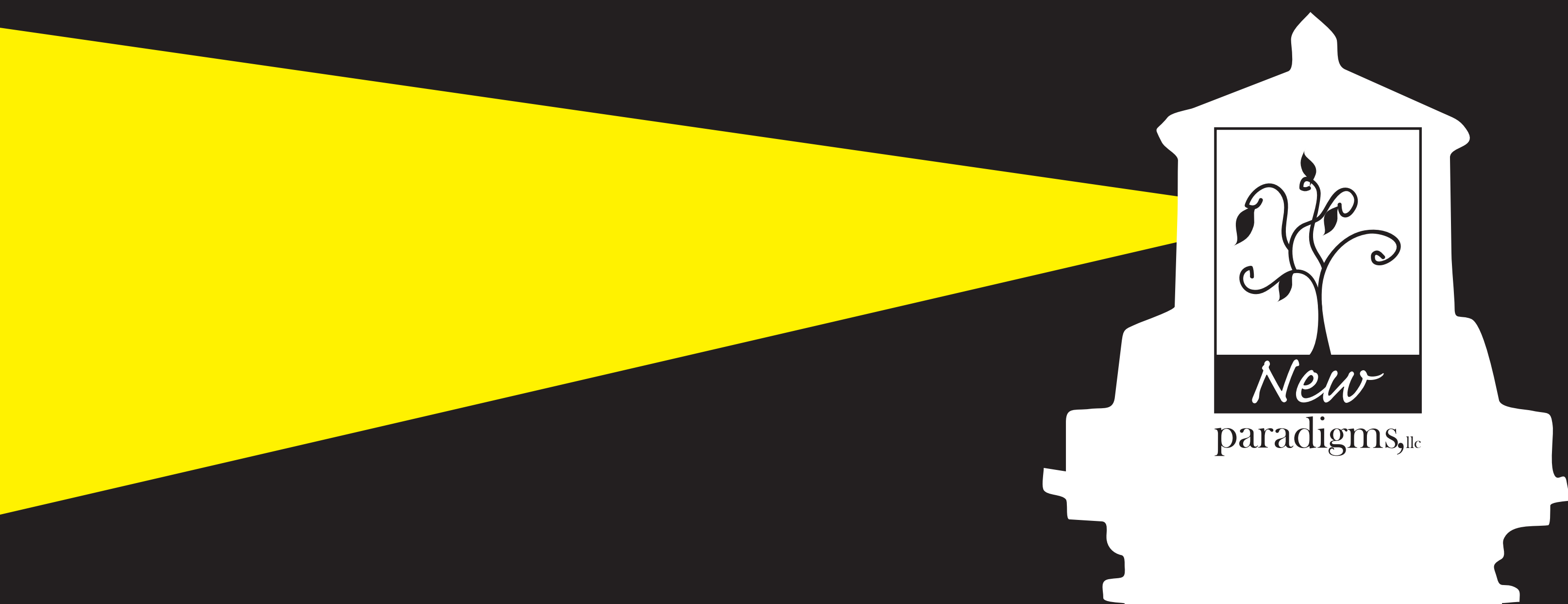
COMPLIANCE *to* COMMITMENT

a FOUNDATION for EMPLOYEE ENGAGEMENT



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It's real money. A 2010 Hay Group study demonstrated that moving an organization from moderate or low engagement to high engagement can improve revenue growth by 250% and reduce unwanted turnover by over 40%.

INTRODUCTION

Fifteen plus years later, it would seem that we are still struggling to understand what Stewart expressed. We are still looking for easy answers and *systemic* solutions. We still describe managing people and relationships as *soft skills.*

> *"Companies have a hard time distinguishing between the costs of paying people and the value of investing in them."*
>
> *Thomas A Stewart, 1997*

The U.S department of Labor estimates that employee turnover; voluntary and involuntary is costing our economy $5 trillion dollars yearly. The American Mental Health Association indicates we lose another $200 billion annually to "*presenteeism*" – employees who fail to perform at full capacity because of dissatisfaction, work related stress or just general apathy.

How much longer will it takes us to understand that people and talent are not a commodity to be harvested and discarded?

Here is a sobering truth: there is something worse employees can do than leave when they are unhappy or disenchanted: they can stay with your organization. If a competent employee stays, you clearly want to move them from a compliant attitude to a committed, healthy team member and brand advocate.

I began my career in the very traditional environment of *Personnel,* in a mining corporation where concepts like Affirmative Action, Total Quality, Materials Management, and the recognition and prevention of gender-based harassment were still relatively new.

The mining environment made the concepts even more abstract. Our corporate leadership was foreign and deeply invested in the concept of *Compliance.* My particular employer had representation by eight different unions and a total of thirteen bargaining units. The relationship between management and employees was codependent at its most positive and adversarial at its worst.

I was able to parlay my experiences there into a position with a Fortune 100 high technology firm. I remain eternally grateful for the opportunities and the mentoring that organization provided me with. They spent thousands of dollars and hundreds of hours shaping and refining my skills and attributes.

As opposed to my mining employer they embraced the concept of *Positive Employee Relations,* bluntly a euphemism for union avoidance. To their credit, they valued and promoted a different model between employees and management. During almost ten years with that organization, I had the chance to work in essentially four different micro cultures in three different locations. My assignments were both in unionized and non-unionized setting and represented essentially venture/start-up types of environments and *brownfields,* highly established cultures.

I translated those experiences into a position with a *medium tech* firm in the Pacific Northwest that saw themselves at the cutting edge of the *socio tech* revolution; the irony is that at least in the early days their management philosophy was closer to the unionized environments than the more *progressive* divisions I worked in.

What I knew when I left them in 1993 was that I was interested in refining and promoting a model that I called moving from Compliance to Commitment™, and I decided it was time to put that model to work.

> *"Change is a threat when done to me, but an opportunity when done by me."*
>
> *Rosabeth Moss Kantor*

CHAPTER 1 – Defining Context

These days we hear an enormous amount of dialogue about the concept of *employee engagement.* For my purposes I want to be clear about what engagement is and is not.

Engage *is not* about happiness, morale, or even necessarily the individual self-actualization of an employee. It is not a program. It is about creating alignment and clear line of sight between organizational and individual goals and performance

In his 1991 book, Why This Horse Won't Drink, Ken Matejka describes commitment: *"Commitment is the act of being physically, psychologically, and emotionally impelled. It means that employees gladly give up other options."* In this model, employees choose you and your organization over any of their other available choices; you have become partners in your organizational mission! This creates a powerful image. If you are a CEO or a business owner, it almost sounds like a fantasy. I would submit to you that creating and sustaining this kind of commitment can indeed occur, but you must commit as a leader to take a systemic approach and follow through to see it become reality.

Roger Deprey created a well-known model, the Human Resources Pyramid, a series of six questions that he believed every employee asks in a particular order. Deprey further stated that less than 15% of organizations in the world have their employees reaching the top of the pyramid and asking the final question: How can I help? I studied this model almost thirty years ago and my experience has convinced me that Deprey was right. Unfortunately, I don't think that organizations have made particularly meaningful or measurable progress with Deprey's principles.

A 2004 study by the Hudson Institute supports my concern; they reported that in a national, multiple industry survey with several thousand respondents, less than 50% of employees felt "loyal" to their employer, and 33% indicated that they did not expect to be with their current employer longer than another 18 to 24 months. The situation was

even more pronounced in certain industries including transportation, communications, public administration, and government, where the dissatisfaction numbers were over 60%. The study also identified a direct correlation between "loyalty" and productivity.

The numbers since that 2004 study have gotten progressively worse. At this point, we have some of the lowest *engagement* scores since we began tracking employee morale and satisfaction. Not only does it cost us trillions annually in productivity "bleed", we now know unequivocally that poor engagement also affects health care expenditures related to work related accidents and injuries, depression, stress and other related costs.

As a context for my Compliance to Commitment model®, it is helpful to review Deprey's six questions:

- What is my job?
- How am I doing?
- Does anyone really care?
- What is our function/mission/goal?
- How are we doing?
- How can I help?

Think about your own organization and whether or not your employees have the answers to the first five questions, and if they are asking themselves or their manager the last question. If you can say yes, congratulations, you have a committed workforce and a management team positioned for change and success. If not, you may want to continue reading.

In my experience, corporations and organizations spend an enormous amount of time and money talking to employees, shareholders and other stakeholders about mission, vision, culture, and values as abstract principles. Before employees can embrace your vision or mission, they need to understand where they personally fit in the organization and how you, as an executive, see them and their contributions. That may not be very sexy, but it is reality!

Another reality: the vision and mission must be embraced at the front line (customer-facing) level, which requires frontline supervisors to both embrace and reinforce the values through actions. Remember that employees live with supervisor expectations and conflicting priorities every day. They see the reality of actions contrasted with the abstractions of vision and mission statements.

For the typical employee, we are much weaker at answering Deprey's first three questions. I have seen system after system that describes the organization's values and culture. However, that same system reinforces a different set of values through its actions: hiring, promotion, performance management, and related operations. Clarity, and through clarity engagement starts with modeling the values you espouse to your employees.

I support Deprey's key point that in order for employees to really sign-up and support the corporate vision, you must answer the first three questions –

- What is my job?
- How am I doing?
- Does anyone care?

Just as starving people do not focus on self- actualization, if employees do not understand the basic context of their job and how it contributes to the big picture, they are not going to focus on the corporate mission or achieve their personal best.

Typically, leaders get the results for which they manage; if you manage for excellence, you get it. If on the other hand you manage for “good”, you get average. The critical path here is the behavior for which you manage at the frontline level!

How many times do you see an organization where the *average* level of performance is assessed as a 3.5 or 4 out of 5, yet they fail to meet their organizational goals?

Rarely do I encounter C-level executives having daily conversations with frontline employees about where they fit into the big picture. That is not your role as an executive or senior manager; however, your role is to ensure that the systems and culture are in place to reinforce the values and behaviors you want to see in your company. Do your front line managers have the required people skills and understand the criticality of their role in this process? Are they being hired, trained and rewarded for these skill sets? Or, are they being hired solely for their “technical” skills?

CHAPTER 2 – Commitment is Superior to Compliance

I would like to describe a system that moves companies and their employees from little "c" – compliance – to big "C" – commitment. We will start with the problem of operating out of compliance and then explore the solution of moving to commitment provided by the model.

THE PROBLEM

Compliance is essentially fear-based. When people stay with an organization or support an objective only because they are afraid of the consequences, you will not get their best effort. In so many cases, conventional models are based on "do this or you will be terminated," or compensation or advancement is withheld – a win-lose model. You simply do not get sustained, excellent performance by using fear or sanctions.

"compliance is essentially fear-based"

Employees who stay with you because they do not see an alternative will ultimately cost your organization millions of dollars annually through healthcare expenditures, absenteeism and other costs. Or worse, they spread their discontent using pseudonyms on blogs! They can also block other employees from achieving peak performance in the workplace. Negativity spreads like cancer.

Statistics show that 50% of employees who quit actually leave their supervisor, not the organization. They are not driven by your mission; they are being compelled not impelled!

In the best case scenario, compliance produces poor to average results, never superior results. Think about situations in your own career where you came to work every day because you did not recognize a meaningful alternative. There are numerous studies linking compliance-based models to high turnover, excessive utilization of health care benefits and excessive "sick" time. You have probably seen the statistics and the numbers support common sense.

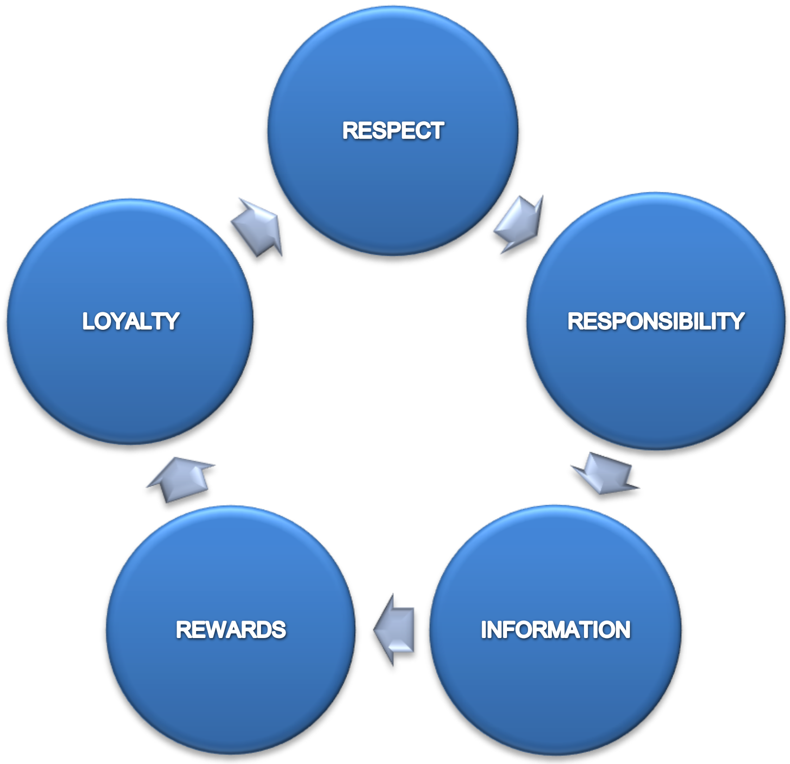
It makes equal sense that commitment produces better results. Contrast the compliant (or disenfranchised) employee culture with organizations that have employees coming in every day committed to the job with a clear understanding of the mission and motivation to excel. I am referring to organizations such as Zappo's, Apple, Google, and similar organizations that have earned reputations for customer service with dedicated, engaged employees. Without commitment, apathetic brand loyalty by employees contributes to the problem.

THE COMPLIANCE TO COMMITMENT MODEL®

There are five distinct elements to my model, and I believe each to be essential and directly correlated to Deprey's questions. These are the elements:

- RESPECT
- RESPONSIBILITY
- INFORMATION
- REWARDS
- LOYALTY

Each of these five elements has strategic and tactical values absolutely impacting the competitive viability of an enterprise and its bottom line. Let's examine each of these distinct elements separately, define how they work together, and provide suggestions for achieving a committed group of employees.



RESPECT

Respect is the cornerstone of any healthy relationship and especially important in the employment environment. Respect means that you describe my job to me in a way that has context, and I can see where my role fits into the bigger picture. It means that there are clear performance expectations and that I receive balanced, meaningful feedback as to how to improve my performance and contributions. If I am not meeting expectations, that information is presented to me in a timely and constructive manner with the objective to eliminate the variance between my expected and actual performance. It also means that I am held accountable for working up to my potential and meeting expectations.

Respect means we have a social contract between equals. I do not expect you to "parent" or take care of me. I'm not just talking about diversity here. This value must be consistently reinforced by every level of management every day. We must be prepared to explicitly state to employees, “I respect you too much to tolerate less than your best performance. I respect you too much to nag you about independently executing your tasks and responsibilities. I will not be co-dependent with you.”

RESPONSIBILITY

Similar to respect, responsibility means that I have clear expectations, periodic feedback and a reasonable level of control over as many dimensions of my work as possible. I am allowed to demonstrate personal curiosity and creativity and that you, the management or executive, measure my work in terms of the results as well as the process. In concert with respect, responsibility means that I carry out my activities independently and competently to the best of my ability. If I need assistance, I ask for it. If I am unclear, I ask for clarification.

I hear a lot about empowerment. I like to say to employees that the flip side of empowerment is accountability. If you “own” the process, you also “own” the result. We should not let employees off the hook for simply appropriate performance. Employees who “own” the process and the result demonstrate higher levels of productivity, lower absenteeism and reduced turnover. This refers again to clarity of purpose: What is my job? How does it fit in the Big Picture? Management owns the responsibility for clearly answering these questions.

INFORMATION

Information is critical to creating an atmosphere of commitment. I have often said to employees that I reserve the right to answer a question they ask me in one of three ways:

- I know the answer and it is ________.
- I don’t know the answer, but I will do my best to obtain it for you.
- I know the answer, but I am not able to share it with you for reasons of confidentiality or related concerns.

My experience has always benefited by sharing as much relevant information with employees as possible. By providing them with context, they arrived at solutions that were much more effective than what I could design working in isolation. By creating an environment of collaboration, they feel invested in the solution.

> *"The CEO defines the business problems for everyone else."*
>
> *Richard Rumelt, UCLA Anderson School of Management*

Marcus Buckingham, author of First Break All The Rules and other new leadership "bibles", states very eloquently in his book, The One Thing You Need To Know...About Great Managing, Great Leading, and Sustained Individual Success: "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."

Richard Rumelt, professor of Management and Strategy at UCLA's Andersen School of Management, puts it even more succinctly in his article, Strategy's Strategist: An Interview with Richard Rumelt in the McKinsey Quarterly Report: "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 deal of the ambiguity in the situation and gives much less ambiguous problems to others… In a highly focused organization, the CEO does this for the entire organization by examining the overall competitive environment and providing enough guidance to let the organization get to work. The CEO defines the business problems for everyone else."

What both of these gentlemen are talking about is providing appropriate information. If you don't provide clarity and remove the ambiguity, you will not get genuine and sustained commitment. I am not saying that every employee participates in every decision or needs access to all of the data that goes into each decision, but they should have information that provides meaningful context and directly contributes to their ability to excel at their job.

REWARDS

Rewards are always an interesting area to explore. In my definition, rewards include appropriate compensation as well as other areas that directly relate to employee's sense of fairness and equity. I include everything from base compensation and incentive programs to awards for excellence and access to specialized training. I recommend to my clients that they ask their employees, "What represents meaningful rewards and recognition to you?"

It is interesting to me how few senior managers, much less employees, can describe with any degree of confidence their organization's compensation and reward philosophy and system. Sibson and Company, an international compensation and rewards consulting organization, surveyed 18,000 employees in 2003: While a significant majority of employees surveyed (65%) indicated they were satisfied with their pay level (compared to other positions) and 71% indicated they were satisfied with their current pay, 57% indicated that they were dissatisfied with the how their pay was determined. What criteria were considered for my pay and pay increases?

Think about today where C-level salaries increased on average over 24% while the average non-management employee saw about 1.5 %. The Associated Press and Equilar reported that CEO compensation at the nation's largest companies exceeded that of 2007, before the crash (when the stock market set a record high and unemployment was roughly half what it is today). Try explaining that one! A recent study (2011) by Right Management noted that 84% of current employees would choose change employers, compared to 60% two years ago.

An interesting insight from this survey is that these results crossed gender and generational boundaries.

Most important about any organization's compensation and rewards strategy is that it:

- Clearly articulates the compensation and rewards to the stakeholders;
- Describes the process;
- Connects the compensation and rewards to an objective standard.

I have a personal bias towards market-based compensation and performance-based compensation. There are hundreds of salary surveys and other tools to create a sense of objectivity and frame of reference for your compensation decisions. When you can say to an employee that the rate of compensation for your position was determined using information from x sources, it is much more objective.

When you define performance standards before the fact, you have discrete measures to describe how a raise was determined. It provides clarity!

By market-based compensation, I mean that it is competitive within the environment where you compete for the skills, abilities and knowledge we "rent" from our employees. I define that market as "from whom do you recruit?" and "to whom do you lose people?"

Another consideration is that you only break-even with compensation and rewards. Rarely will an employee who feels you are "overpaying" them work extra hard because they feel guilty. Employees will, however, withhold personal initiative or potential performance contributions if they feel underpaid. I believe in communicating with

employees the specific reasoning of compensation philosophy (i.e. who we see as our competitors, our "target" market, and other related areas).

"employees will withhold initiative and performance if they feel underpaid"

I also tell employees that "market compensation" is an artificial value that the market imposes on a particular set of skills and abilities based on supply and demand, as well as criticality to the mission of the organization. Compensation is not meant to represent the <u>value</u> of the employee. Are doctors and professional athletes "better" people than anyone else? If we use the standard of compensation to determine the value of a person, drug dealers are at the top of the food chain and people like Mother Teresa at the bottom.

When I talk about performance-based compensation, I mean that there should be a direct link between organizational and individual performance and their compensation. Employees should have a clear understanding and some dimension of control over actions that differentiate excellent from average performance. Great compensation systems exist where the employee is knowledgeable enough about the pay system that there are no surprises at times for performance review or for the distribution of incentives.

Rewards should also encompass work environment, training opportunities, and other non cash factors such as recognition. The more personalized, the better. People are very different and your reward systems need enough elasticity to accommodate those differences. Some people like to be publically acknowledged, others would loathe that exposure. The reward system needs to be appropriate to the organizational culture and personalities of the employees.

The most important dimension of rewards is the perception of equity. In this context, I mean equity in terms of perceived fairness, not actual ownership. One of the most important concepts we grow up with is fairness. Employees have reasonable questions.

"Do I feel that my compensation and promotional opportunities are consistent with my contributions? Am I valued? How did you decide to pay me? Can you explain why someone else got the promotion instead of me?" Your wording is critical; explain it rather than justify it.

I don't like "bonuses". They seem arbitrary and capricious if they are not tied to specific events or behaviors that are within the employee's control. If the employee doesn't know why they received it or how it was calculated, it isn't likely the productive behavior will be repeated. When an employee clearly understands the relationship between how "success" is measured and how it correlates to something meaningful to them, it is almost self-managing.

At the leadership level, you can inject the concept of job security related to enterprise success, e.g. implementing our new strategy increases our market share and competitive strength. This translates into increased job security, promotional opportunities and larger incentive pools. Employees get this!

I read an article a few years ago written by an extremely successful plaintiff's attorney (representing employees) who indicated that more than 70% of his lawsuits were matters of perceived fairness, not legality. He stated that, in the majority of decisions, the jury used the standard of fairness not law in awarding the verdict. Cultivate fairness and you produce more loyal and productive employees.

LOYALTY

I often hear that the Gen X and Millenials are not loyal. I disagree. The new generations have a different view of loyalty. They expect reciprocation. They will give their loyalty to organizations that invest in them. They understand the concept of “at will” employment at its most literal. They stay with an organization as long as they see the relationship as being mutually beneficial. They do not subscribe to blind loyalty or arbitrary authority. Is that wrong?

My definition of loyalty: while someone is working in my organization or in collaboration with me, our relationship has integrity and respect. We hold each other accountable and meet our mutual obligations. I do not measure loyalty in terms of tenure or “obedience”.

Loyalty is a personal relationship. Typically we are “loyal” to individuals or groups with whom we have shared values and trust. To the average employee, his or her direct report is their “world”. If they feel that their immediate supervisor has their best interest in mind and treats them with respect and fairness, their loyalty will be earned and authentic (not political loyalty).

I enjoy sharing an unconventional example with groups: Ross Perot and his tenure as CEO of EDS. During the Iran Hostage crisis, a number of his employees were taken hostage. Some of us remember that the U.S. government failed miserably in their efforts to recover the “official” hostages. Mr. Perot hired former Special Forces operatives who successfully recovered his employees. You can bet that those rescued employees and their families had a bond of loyalty to EDS.

The key to authentic loyalty: you earn it through action and time. I also submit to you that if the organization does a good job of executing on the first four elements of respect, responsibility, information, and rewards, loyalty will follow.

I believe that if you examine these five elements, you will see the interrelationship between them and the parallels with Deprey's pyramid.

You see interplay such as the effect of the communication process on compensation. You will notice that the individuals in Sibson's survey didn't have particular issues with the amount of their pay; they simply did not understand – and therefore didn't trust – the decision-making process. No clarity, therefore no trust.

Information that I have garnered on the "emerging" workforce – our future employees, customers, shareholders, and stakeholders – make these issues even more relevant. From an employment standpoint, Gen X and Millenials have stated five requirements for them to form a meaningful relationship with an employer:

- Satisfying work content.
- Association with an organization that they <u>respect</u> and that respects <u>them</u>.
- 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.

Maybe I was just born too early as a Boomer, but I don't think these expectations are unreasonable. I think that if we are honest with ourselves, we all desire those same things. In addition, the new work environment calls for integrated decisions and more team-oriented approaches. The key difference: these new generations see themselves much more as “partners” and embrace the concept of “at will” employment: “either party may terminate the employment relationship at any time for any legal reason, with or without notice.” Gen X and Millenials understand this concept having grown up in households where lifetime employment was a fable, a legacy lost to the previous generation.

EMERGING ENVIRONMENTAL FACTORS

In this era of globalization, immediate and pervasive internet communications, proliferation of knowledge (and misinformation), and accelerating rates of change, employees, especially Millenials and Gen Y understand that there are no guarantees. The proliferation of “knowledge” is both a positive factor and a negative influence. (The reason I put “knowledge” in quotation marks is that internet information can be wildly inaccurate and equally malicious.)

Information is available at an astonishing rate of speed to millions of potential customers. Employees who are unhappy with their employer can turn to social networking sites such as FaceBook and Twitter to vent their vehement displeasure. They voice their objections in popular blogs to communicate what cannot be said within the workplace. These internet tools have launched revolutions; they can certainly hurt a brand. This will become increasingly significant as more and more people leverage the power of the internet to have their voice heard.

Many of these employees have demonstrated a willingness and talent to use new online venues to bypass official “channels” and go directly to stockholders, partners, senior management, and others to present issues and concerns. This rapid deployment of opinion demands action; the management team who tries to “wait out” a situation and allow it to “blow over” is rarely successful.

Of course, the reverse scenario can be a tremendous boost to viral marketing: employees can be brand evangelists throughout social networking sites and blogs. Referrals and friends can exponentially promote products and services. This is where an employee in today’s world can demonstrate the highest level of loyalty and commitment.

As part of my engagement work, here are recommended actions that have been successful for driving compliance (little “c”) to Commitment (big “C”):

- Treat your employees with respect by providing clear expectations, meaningful feedback, and an opportunity to collaborate with you in achieving your goals and theirs.
- Treat them as intelligent adults by holding them accountable for performing their tasks independently and competently, given clear direction and guidance. Provide clear boundaries of acceptable and unacceptable behaviors and performance, and enforce them consistently.
- Provide them with the big picture and context of how their jobs, skills, and activities fit into the larger purpose of the organization- answer their question “What is my job?”
- Provide a clear “line of sight” between their performance and their compensation and rewards. If it takes you longer than 20 minutes to explain the basic structure of how you make decisions about employee compensation, it is too complicated. If you are afraid to explain the targets you use and how you make decisions, your model is flawed. Remember that human nature is to distrust what we do not understand.
- Do not expect more “loyalty” than you are willing to provide. I define loyalty as a mutual agreement that, while someone is my employee, they commit

themselves to being engaged 100% and fulfill their responsibilities with our mutual respect. If they need additional clarity or information, they make me aware of that, and if they have an issue, they allow me to address it. Envision loyalty as an agreement between adults: we will continue in our relationship as long as it is mutually beneficial to both parties.

By treating employees with respect, providing them with context, and by ensuring that you're hiring employees who share your values, performance management and reward systems reinforce your desired values, you address Deprey's questions and invite employees to join you in a mutually beneficial social contract. They also become partners in brand advocacy. (Frederick Taylor's model of "scientific management" in which employees perform rote operations over and over again is no longer relevant or desirable.)

You also need to create your own organizational model. Jack Welch, Ross Perot, and Steve Jobs would never be identified as "touchy-feely" leaders but, if you examine their organizational models, they incorporated meaningful answers to Deprey's six questions and achieved a high degree of success.

As Buckingham and Rumelt previously discussed they provided clarity and removed or decreased the ambiguity. They answered the six questions and they linked their organizational systems to the mission. It became a cohesive world in which commitment became viable and an integral driver to improve competitive positioning and shareholder value.

Here are things to avoid when developing authentic commitment:

- Avoid creating a model of corporate socialism where everybody is involved in every decision. In today's environment, we don't have the luxury of providing everyone with the training, experience and information to participate in every decision. We can, however, provide "boundaries" or circles of decision-making that are appropriate to the person and position. This defines when being inclusive can be relevant and productive.

- Avoid enabling your employees and tolerating performance or behavior that you find unacceptable. When I hear employers talk about "taking care of their employees", I find that well-intentioned but fundamentally disrespectful. Your employees are adults. You "take care of" someone with diminished capacity, not someone contributing to your success.
- Avoid compromising fiscal confidentiality. It is not necessary to open your books. A certain degree of transparency about business decisions creates trust, but you can be accountable while retaining appropriate confidentiality to protect competitive and other business information.
- Avoid paying everyone the same or disclosing personal salary information. As part of the respect premise, I have found that when I disclose how I make compensation and reward decisions as objectively as possible, employees respect my perspective. They feel they are being given an opportunity to make an informed choice and to evaluate rewards and compensation in the context of their total employment.
- Avoid promising your employees lifetime employment or expecting a similar commitment from them. I constantly remind leaders that we work for our employees, not the other way around.

This is a paraphrase of Buckingham and Rumelt, who both talk about leadership's role in creating clarity and removing ambiguity. By understanding this principle and creating that "line of sight" between an employee's personal goals and objectives as

well as the organization's goals and objectives, you create mutual loyalty and address the questions in Deprey's pyramid. Is expecting answers to his six questions really all that unreasonable? Are the five "requirements" expressed by the new generations unrealistic?

My partner and I have field-tested the Compliance to Commitment model over a period of thirty years with consistent results in diverse sectors, ranging from public education to high technology and from manufacturing to behavioral research. I would like to summarize with some key drivers for this model:

- This is hard work. It takes time and commitment.
- This approach must be applied systemically. You cannot pick and choose from the five elements. They are interrelated and mutually dependent.
- This approach requires a team effort; it cannot be implemented or sustained by the power of a charismatic leader. The critical link is at the front line.
- The results are worth it!

Among the many recent studies validating engagement, a June 2011 Accenture study reported that high engagement companies outperform their low engagement counterparts on average by 12% on return on assets and 11% on profitability!

“12% on return on assets and 11% on profitability”

Consider this: a workforce that is physically, psychologically, and emotionally impelled. You can create an environment in which employees gladly give up other employment options to be on your team.

CHAPTER 3 – Defining Employment Engagement

The Compliance to Commitment Model™ shares much of the foundation of what over the last few years we have come to refer to as employee engagement***.*** In my mind employee engagement **is not** morale, tenure, happiness or other attributes of an engaged employment setting. Those elements are attributes and outcomes of engagement; they are not engagement *per se*.

In my mind engagement is the voluntary and discretionary effort provided by employees to advance the goals and performance of the organization. Before the vernacular of *engagement* became prevalent, I used *commitment* to describe what we currently call engagement, and I think the definition provided by Ken Matejka in his book, Why This Horse Won't Drink!, provides a great description: *"Employees feel physically, psychologically, and emotionally impelled. They voluntarily give up other options."*

Engagement is both a process and a culture. It is based on relationships and trust rather than technology. It is about people.

A 2008 Peppers and Rogers (an international human resources consulting firm) Study provided some additional information I think is very valuable for any organization considering implementing an engagement strategy.

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. 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.

- Engagement involves the *whole employee,* it is not a purely intellectual model, so traditional explicit memory or learning models will not create and sustain engagement.
- The role of frontline management and supervision is critical to implementing and sustaining an engaged culture. It may be *born* in the Boardroom, but it *lives* on the frontline.

Because of its prevalence today, I think it is also important to talk about the role of Social Media as it relates to engagement. There can and should be a relationship, however Social Media is a tactic, *engagement* is a culture.

A June 2011 Study from Accenture defines engagement and its importance succinctly. They define engagement on four different levels:

- *Devoted*- employees who come to work every day and put their heart and soul into their efforts. They strive to improve their own performance and the success of the organization every day. This is what Matejka describes as impelled.
- *Plugged In*- employees who are plugged in contribute consistently. They push themselves to meet challenging goals. *Most of the time* they are willing to go the extra mile to do their job well.
- *Cruise Control*- these employees show up every day, but they only occasionally stretch themselves to provide that extra effort.
- *Checked Out*- these folks represent what the National Mental Health Association describes as operating in the mode of *presenteeism.* They only do what is minimally required to keep their job and will typically only invest more energy under duress and infrequently.

I suspect anybody who has ever managed a department or an enterprise recognizes these four categories of employee. The scary thing is that I wonder how many of us realize that people in the *checked out* category are no more likely to look for alternative opportunities than people in *plugged in* or *cruise control;* they just stick around and put drag on the organization.

Although the *checked out* employee represents only about *17%* of the workforce, their impact is disproportionately large; they consume huge amounts of managerial energy and investment. They are not interested in finding solutions and improving things, and they cost us billions annually.

- 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 the above group, 62% felt that they were noticeably less productive or attentive to work.
- 46% missed at least one day of work in the preceding six months, with 22% of those absences related to family matters.
- The U.S Department of Labor estimates that employee turnover costs the U.S economy $5 trillion annually.

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; it 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 since 2008! I would venture to say that the scores have not improved over the last few years.

So at this point I hope I have created a somewhat compelling answer to the question – *So What?* Let's look at the case for authentic engagement.

CHAPTER 4 – The Compelling Case for Engagement

All of the studies I have read indicate that the critical foundation that engagement is based upon is *trust.* Stephen MR Covey in his bestselling book, *Moving at the Speed of Trust,* asserts that every organization collects either a *trust dividend* or pays a *trust tax* and I agree with him.

Without a trust-based relationship, the rest of any engagement initiative is wasted effort; trust is built at the frontline level between the immediate supervisor and the employee. The trust factor is addressed by the five elements of Compliance to Commitment; respect, responsibility, information, rewards, and loyalty. There is also a clear relationship to Deprey's Human Resources Pyramid that I have described earlier.

This model also takes into account both employee and customer engagement and argues they are inextricably linked. Studies by Peppers and Rogers and Rhoads and Whitlark say that true engagement affects three critical elements that every organization should be concerned about: Productivity, Performance, and Sustainability.

> *"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."*
>
> *Margaret Wheatley*

PRODUCTIVITY

Depending upon your business, 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.

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 than "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.

More recent information from studies by the Hay Group and Towers Watson from 2010 and 2011 validate the same conclusions:

- Hay Group studies show that high engagement can improve *revenue growth* by 250 % and reduce *turnover* by as much as 40%.
- 70% of organizations with high engagement exited the downtown with higher levels of employee motivation than pre-recession.
- 90% of the *Fortune Magazine* Worlds’ Most Admired Companies have developed and maintained an explicit employment brand. An *employment brand* is systemic. It permeates the entire organizational culture at every touch point from recruitment and selection to interactions with customers, community and other shareholders. It lives at the C-level, not in HR.
- The World’s most admired companies incorporate building *human capacity, teamwork, and customer loyalty* into their performance rewards and management programs.

In fact, the internationally respected research and polling organization Gallup in a 2010 study stopped just short of saying that *engagement* may be the most important long-term measure of organizational success and sustainability!

Specific next steps:

- 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 and future recessions 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 it only gets stronger.

"embarking on this journey takes time, commitment, tenacity, and hard work"

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 then 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 frontline 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, states it 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.*

What Kulesa is describing is a culture, not a process or a program and if the last 30 plus years have taught me one object lesson it would be that culture defeats strategy every time! As a leader, you define your culture… whether you intend to or not.

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<u>About the author</u>

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Other Publications by Mark F. Herbert:

Managing Whole People- One Man's Journey. Real House Press December 2008

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