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Giving Employees What They Want: The Returns Are Huge

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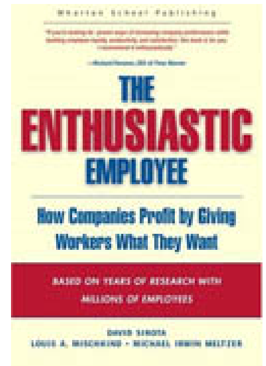

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David Sirota, co-author of *The Enthusiastic Employee: How Companies Profit by Giving Workers What They Want* (Wharton School Publishing), believes far too many managers stifle employee enthusiasm across the board by using bureaucratic or punitive techniques that should be reserved for a troublesome few.

Yet his book, written with Louis A. Mischkind and Michael Irwin Meltzer, finds that firms where employee morale is high -- such as Intuit and Barron's -- tend to outperform competitors. The authors' research is based on the results of 2.5 million employee surveys taken since 1994.

For example, out of 28 companies employing 920,000 studied by Sirota Consulting, the share price of 14 companies -- those considered to have high morale -- increased an average 16% in 2004. Those prices were then compared to the companies' industry averages, where the increase was just 6%. Six "low morale" companies saw their prices increase, on average, by 3%, as against an overall industry average of 16%. Industry comparisons were based on data from 9,240 companies.

In an interview with Knowledge@Wharton, Sirota says managers should rely on common sense principles that allow workers to take pride in their work. He urges them to reject trendy, get-tough tactics that were promoted in the late 1990s, such as trimming staff even at healthy companies in order to improve shareholder value.

Knowledge@Wharton: What do employees want?

Sirota: We find there are three basic goals of people at work. First, to be treated fairly. We call that equity. Employees want to know they are getting fair pay, which is normally defined as competitive pay. They want benefits and job security. These days, employees especially need medical benefits, so those have become significant. On the non-financial side, employees want to be treated respectfully, not as children or criminals. Equity is basic. Unless you satisfy those needs, not much else you do is going to help. If I feel underpaid and if I feel that the company is nickeling and diming me, or wants to pay as little as possible, there is not much else an organization can do to boost my morale. This runs contrary to what a lot of people in my field say -- that pay is not that relevant. Baloney. It's terribly, terribly important.

Second, employees want a sense of achievement from work. The key element is to be proud of what you do and proud of the organization for which you are doing it. People don't want to work for an organization that's run by a bunch of crooks. The third element is camaraderie. This is also not mentioned much in our field, but it's key -- not only in the sense of having a friend, but working well together as a team. That is a tremendous source of satisfaction for people.

Knowledge@Wharton: Do you see a difference in attitudes among different kinds of employees or organizations?

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Sirota: We find these three elements are nearly universal. There is all this talk of new generations -- for example, that Generation X does not care about job security. We find absolutely no evidence of that. We find no difference across countries, between men and women, or in the new economy versus the old economy. One reason a lot of these new economy companies imploded is they forgot about basic management. Our research indicates you don't tamper with some of the basics. All this talk about flattening the organization to eliminate hierarchy is nonsense. There are certain traditional management principles that are important and valid. There are also traditional management principles that are very disruptive, like not giving people a say in the way they do their jobs.

Knowledge@Wharton: Your research shows most workers are happy at a new job for about six months before the honeymoon ends. What goes wrong?

Sirota: We are often asked how to motivate employees. Our response is, that's a silly question. The real question is: 'How do you keep management from destroying motivation?' When we look at the data we find that people coming to a new job are quite enthusiastic. Most of them are very happy to be there and looking forward to meeting their new coworkers. But as you study the data you find morale, or enthusiasm, declines precipitously after five or six months. One theory is that there is a natural honeymoon that is bound to end. And yet we find that in 10% of companies the honeymoon continues throughout a worker's entire career. So there are organizations that are able to maintain enthusiasm.

As a general proposition it is hard to be enthusiastic about an organization that is not enthusiastic about you. Let's look at a few specific things. One is job security. We expect employees to be enthusiastic, loyal and engaged in an organization, but with the slightest downturn or prospective downturn we get rid of them. They are expendable. They are treated like paperclips. How can you be loyal and committed to an organization that seems to have absolutely no concern about your job?

According to one of the trendiest notions so popular during the booming 1990s, job security is not important to people, particularly young people in high tech, because if they lost a job in tech, they could just walk across the street and get another one. But with the collapse of the high-tech companies, surveys found that job security went to the top of the list. Take a high-morale company -- Southwest Airlines. After 9/11 it said: 'We will take a hit in our stock price and not lay off anybody.' That's putting your money where your mouth is.

Other things that suppress enthusiasm are obstacles to performance, such as insufficient training, poor equipment or findings that fit under the general heading of "bureaucracy." These include useless paperwork and the inability to get a decision made, or a decision made on time.

Conflicts across the organization are another obstacle. Some of the most negative findings were between IT and their internal customers, the employees. [The two sides] often find themselves in a battle. Conflict between functions is debilitating. People don't come to work to fight.

Finally, there is the status structure of companies that treat employees as second-class citizens. Consider, for example, the distinction between hourly and salaried workers, as if two different categories of human beings exist. Salaried are professional, the thinking goes, and hourly are the ones you have to watch out for. There are status symbols, such as the parking lot. At large factories in the Midwest, salaried employees have one set of parking spaces and God knows how far away the parking lot is for the hourly workers. The high-morale companies have eliminated a lot of this stuff, which has nothing to do with conducting business. All it does is feed the egos of some people at the expense of the self-esteem of the bulk of the workforce.

Knowledge@Wharton: You acknowledge that some employees are "allergic" to work. How should managers deal with them?

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Sirota: About 5% of every workforce is allergic to work. These employees are shirkers. But managers in many companies, especially where there are large numbers of blue-collar workers or back-office operations such as call centers, treat the entire workforce as if it is the 5%. They set up rules and punitive measures for taking too long a rest break, etc. There is close supervision, so people who come in wanting to work, and hoping to take pride in their work, find themselves treated as if they are children or criminals.

About 16% of the companies we deal with have a hostile workforce. But the bulk of the problem is not hostility. It is that people have become indifferent. That is the silent killer. There are people who just don't want to work for whatever reason. They become troublemakers and you have to deal with them in a very tough way. You have to focus on them. But you don't then generalize from them to the rest of the workforce. The mistake we make is we feel we have to be consistent, that we have to have the same rules for everybody. So companies are consistent in treating everybody as a child or a criminal. That's very, very destructive.

Knowledge@Wharton: Workers indicate to you that immediate managers are not the problem. Who is?

Sirota: The conventional wisdom is that if there is a problem, it occurs on the front line. Our data shows that large percentages of employees are quite positive about their immediate bosses. The biggest problem is not the first level of supervision. It tends to come from the middle. Workers see the problem at the levels above the immediate manager. They often consider their own bosses as buffers to middle management. Workers say, 'I like my boss.' Morale goes down when it comes to middle management, then goes up again at the senior level. The top guy can do no wrong. That's a fairly common response. What workers don't realize is that all the pressure is coming from the top. They are the ones telling the middle what to do. The villain is viewed as middle management, but the real villain is senior management.

Knowledge@Wharton: What happens when workers have top managers who are dishonest and greedy?

Sirota: The employees at Enron are not only out of a job, but also out of their pensions and IRAs. Yet what we find in the analysis of the data and in focus groups is concern not just about the hanky-panky we have seen in the last three or four years, but also about cheating the customer. Employees want to be proud of the quality of the work they and their company do. When I was in the auto industry in the 1970s, the unions and the workers were blamed for poor quality. When we interviewed them, they said they felt terrible about the garbage they were producing. They said all management wanted was to get the cars out the door. Workers have a strong need to feel they have done something and done it well.

Knowledge@Wharton: What can managers do to boost enthusiasm?

Sirota: First, provide security. Laying off people should be the last resort, not the first thing you do. Some companies use a ring of defense. If the business is having difficulties, they retrain workers or bring work inside from subcontractors. There are a number of steps you can take before laying people off.

Second, where there are difficulties in getting work done, we talk about self-managed teams. Toyota, which has been an incredibly successful company, is an example. In the 1970s, Toyota wanted to know how to enrich the job of assembly workers and thought about having groups of employees build an entire car. But that would have been so inefficient. Toyota said instead it could have a team of workers manage part of the assembly line. The team could look at quality and at what kind of maintenance and support were needed, and it could decide how to rotate workers. As opposed to the usual top-down management, this approach is tremendously satisfying for workers, reducing the need for bureaucracy because the people essentially are managing themselves.

Recognition is also important. Employees do not have to be told that you love them, but you want to be appreciative of good work. It sounds very corny, but people are corny. People need this kind of feedback.

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A lot of rewards don't work, including the employee-of-the-month one. Organization-wide awards should be like the Nobel Prize, where peers are involved in the selection of the individuals who receive the award for outstanding achievement, not day-to-day work. Some things are so basic it's embarrassing to talk about, but in many focus groups, workers -- when evaluating management -- will say, 'He comes in and he doesn't even say hello to me.' That's the kind of comment we get.

As for systems, we find the traditional merit pay systems with an appraisal and pay increase are quite negative. Workers feel no relation between what they do and their pay increase. A reward has to be felt as a reward. Research has verified a system such as 'gain sharing' in which a group of workers judges its performance over time. If productivity goes up 20% and the workforce increases 10%, then that means there is greater efficiency. That result should be shared with the workers 50% and management 50%. This has a tremendous impact on productivity and morale.

Knowledge@Wharton: All of these recommendations seem so soft-hearted. Are you ever criticized for being naïve?

Sirota: Yes, all the time, mostly by hard-line managers and human resource managers. They are cynical about workers. But there are managers and CEOs who look at this and really run with it. They tend to be optimists and give people the benefit of the doubt.

Knowledge@wharton: Given the evidence, why do managers continue to choke off enthusiasm?

Sirota: What I think happened is that in the 1980s and 1990s we had a reaction to particular forms of management. We talk about four kinds: First there is paternalism, where workers are treated as children. Then there is adversarial where workers are the enemy. Then there is transactional, where workers are like ciphers. Management does not know what they are like as individuals. The attitude is, 'We paid you, now we are even. We don't owe you anything.' That's where most companies have gone today. Loyalty is dead.

The fourth is what we have been talking about, which is the partnership organization. It does not mean that because I paid you, we are now even. You don't treat partners that way because you might need them to help you out sometime, and they might need you. It's more like a relationship between mature adults -- not like children or enemies, but allies.

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