Chapter 1

Management Summary

The employer-employee relationship has undergone profound change during the 1990s. It has been most significantly affected by two major but conflicting trends. The first is the wave of corporate restructuring aimed at productivity and efficiency improvements that manifested itself through activities such as downsizing, reengineering, process improvement, mergers and consolidations, automation, outsourcing, contracting, and so on. While these practices have had significant positive impact on the financial performance of many companies, they have also had a huge negative impact on the employer-employee relationship. In many cases, employee loyalty, trust and commitment were destroyed. Today's employer-employee relationship is arms-length and transactional, and sometimes strained and dysfunctional. Counter-dependent and independent employee behavior is the norm. Employees act like free agents, continually demanding higher compensation, more flexible work and better benefits. And they may regularly job hop for even small improvements in compensation or benefits.

The second, subtler, but no less important trend, is the shift to a new basis of economic value creation based on information, intellectual assets, knowledge, creativity and innovation. These emerging engines of growth and wealth generation are largely dependent on people. If companies want to excel at leveraging these kinds of intangible assets, then they must master the management of people and develop the capability to attract, motivate and retain top talent.

This report examines the changing employer-employee relationship and explores the role of employee self-reliance and commitment in creating a high-performance organization. It discusses what senior business and HR executives can do to engage employees and inspire their commitment in ways that lead to improved business performance.

Major Research Findings

Our research strongly suggests that improving organizational performance requires far more than increasing employee self-reliance. It also demands people management practices that engage employees and inspire their commitment to pursuing the mission and goals of the organization. The key findings of our research are:

- **Companies expect more of employees yet have reduced the commitment to them.** Companies are expecting employees to take more initiative and accountability for themselves and for business results. They are reducing the supervision and direct monitoring of employees, increasing employee empowerment and input, and generally relying much more on the employees to act in the interests of the organization. Many employees view this as a bad deal – companies want more but are offering less in return.

- **Pursuing employee self-reliance addresses only half the problem.** Self-reliant employees are a good result but a poor objective. Yes, forcing employees to take more responsibility for HR administration and skill development will cut costs, but will it improve performance? Improved performance that is sustainable will not result from imposing greater accountability alone. It must also be nurtured by winning employee commitment.

- **Companies must fundamentally change how they manage people.** It is not sufficient to simply institute marginal changes in policies and practices in response to what are perceived to be temporary changes in labor markets. Managers must become more comfortable with implementation of HR strategy and dealing with people issues. Even the best strategies fail if they are not executed properly.

- **Leadership must shift from compliance-based to engagement-based practices.** The most critical change required to gain employee commitment is for senior executives and line managers to engage employees in processes such as formulating strategies and monitoring key performance indicators of the business. In many organizations, these processes are viewed as the exclusive purview of senior executives and line managers. But many successful companies realize that they cannot operate successfully in dynamic markets unless these processes are distributed down and out to the organization at large. Even rank-and-file employees need knowledge and understanding about, and perhaps input into, the direction of the business and the strategies and performance of the company.

- **Employee engagement and commitment can occur only if two basic prerequisite conditions exist.** The foundations on which employee engagement and commitment must be built are shared context and perception of fairness and trust. Shared context involves three key things: understanding of and participation in strategy; line-of-sight to impact and contribution; and discretion to act. Employees also need to believe in the integrity of their organization and its leaders, and they want to be assured that the company's system of compensation policies, performance measures, and working conditions are proportional and fair.

- **There are six key drivers of employee commitment.** The two requisite/enabling conditions are necessary but not sufficient to build performance-enhancing employee commitment. Our research indicates that there are six specific drivers that determine whether employees are engaged and feel committed to an organization: Compelling Mission/Purpose, Distributed Leadership and Influence, Share of Success, Interesting and Fulfilling Work, Work/Life Quality, and High-Quality Relationships (see Figure 1).

- **Many top performing companies have uniquely appropriate "signatures" of commitment drivers.** Top performing companies typically excel at one or more of the six commitment drivers. They exhibit unique signatures that link to their business strategies and the types of organizations required to implement those strategies. By signature we mean a combination of people management practices that engage employees directly and build their commitment to the organization. The best combinations may be different for various groups of employees. Leading companies understand what signature appeals to their high-value employees, and they create the conditions and employ the specific practices that will enhance key employees' performance and retention.

- **There are minimum threshold levels that must be maintained for each of the six commitment drivers.** By "minimum threshold" we mean a minimum set of people management practices that are essential to keeping the employees you value most. Threshold levels for each commitment driver are difficult to measure and challenging to maintain. They are often individual to employees. They may be relative – for example, with perceived value based on comparison to what other companies may be offering. And they are dynamic – they must be monitored and adjusted on a frequent, even ongoing basis. Falling below the minimum threshold in even one driver can quickly compromise the engagement and commitment of employees.

Figure 1: Commitment Drivers and a Sample "Signature"

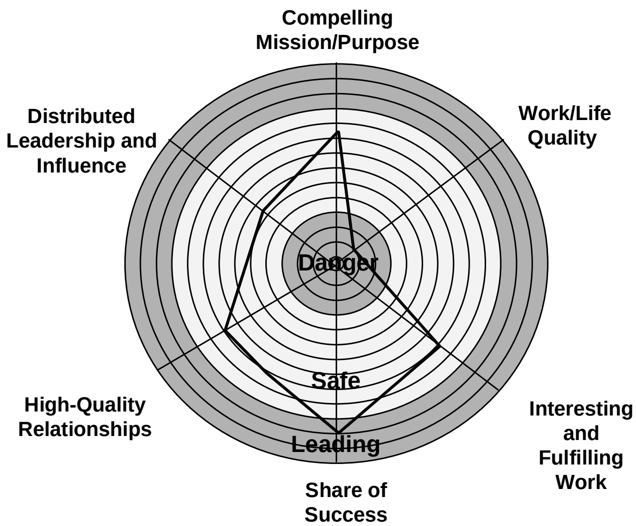

Figure 1 is a device for charting the six basic employee commitment drivers, each on its own axis. For each driver, dangerously low levels of performance – below the minimum threshold for retaining employees – are at the center of the diagram. Leading practices – that distinguish an employer and provide special attraction for employees – are at the perimeter. In between is a safe zone of common and adequate practices. Superimposed on the diagram is the signature of a hypothetical company (or organization within a company). It is in the safe zone in four of the six commitment drivers, but dangerously low with respect to balancing Work/Life Quality, while probably attempting to compensate with high financial rewards and other forms of Share of Success. Such a company is likely to see high turnover among even high performers, as they "burn out" and "cash in." But some basic adjustments and accommodations on the Work/Life Quality axis may enable the company to avoid expensive turnover without harming business performance. The "signature" analysis process enables a company to pinpoint its most serious shortcomings and then make the changes that matter the most.

Key Recommendations

HR executives are moving beyond the role of tactical implementers of HR policies to acting as strategic catalysts of business success. A key challenge for HR executives is to get the CEO and other top executives both to understand the competitive importance and benefits of engaging employees and inspiring their commitment, and to recognize that this is a CEO-level issue with strategic implications for business performance. To accomplish these objectives, we recommend that HR executives use the findings of this research to take the following actions:

- **Assess your current signature.** Like a product's brand, an organization's signature is based on perception. Gauge your company's signature(s) by assessing organizational behaviors and management practices. Get the views of your current signature from your key constituencies such as top executives, middle managers, HR managers, high-potential employees and rank-and-file employees.

- **Determine your target signature.** Assess your company's competitive strategy and desired business model. Then assess the implications for the kinds of people – and skills, behaviors and values – that will be needed to execute the strategy and implement the business model. Also determine from your high performing and high-potential employees what organizational signature would most engage their discretionary energy and inspire their commitment to the business strategy and goals.

- **Redesign your organizational model to fit your target signature.** Developing an organization of high-performing, engaged and committed employees takes more than simply making changes to HR policies and practices. It may demand a complete redesign of the organization – its culture, work processes, organizational structure, skill sets, information systems, measurement and reward systems and leadership style.

- **Adopt new management and HR practices to achieve your target signature.** Adjust management and HR practices to create the unique organizational signature that will best inspire commitment and high performance. Adopt those management and HR practices that best shape the commitment signature to which you aspire.

- **Start a conversation with senior executives about the importance of pursuing employee engagement and commitment.** Be credible by coming equipped with data about your organization's signature, what high-potential employees think of it, and what it should be.

- **Make a compelling case for pursuing employee commitment by emphasizing those benefits that best fit your organization and culture.** There are at least five motives that can be tapped in building a strong business case for raising employee commitment: reduced costs, increased revenue, profit or shareholder value, increased organizational agility, first-mover market advantage, and the organizational legacy of the CEO. Don't address all five – you need only address the ones that appeal most to your top executives and that best fit your business strategy and culture.

About this Report

Chapter 2 describes the key changes in the employment relationship and the drivers of these changes.