

# **WHAT IT TAKES TO COMPETE IN THE NEW "FLAT WORLD"**

*by*  
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In "The World Is Flat," Thomas Friedman points out that ubiquitous telecommunications have removed all of the barriers to full-blown international competition. This has created a level playing field where cheap foreign labor is forcing large and small American companies to become even more innovative in order to survive in the 21st century.

To counter this growing threat, a number of analysts have sited the continuously improving productivity of the American worker as a positive sign that the challenge can be met. Many of these same analysts also appear to have concluded that this increase is principally (if not solely) due to technological innovation. In fact, many (including Mr. Friedman) appear to imply that the future survival of American business will depend entirely on continued technological innovation.

## **A Different Perspective**

Our 85 year experience as a CEO and a senior HR Executives of more than a dozen manufacturing and service companies has led us to suggest a much different reason for this critical improvement. Namely, that the key resource for improving productivity in non-IT organizations is not technology, but people. We contend that the principal means of surviving in a Flat World is the combination of such innovations with the creation and retention of an engaged and therefore increasingly productive workforce.

Supporting this view is research indicating that much of the increase in productivity since 2000 has been the result of requiring employees to work longer hours to accommodate increased demand. According to a May 2006 report by Kevin J. Stiroh from the Federal Reserve Bank of New York, since 2000 IT is not the principal source of productivity in non-IT industries. He suggest that this is a signal of a broader range of explanations such as organizational change, human capital, intangible investment, as well as other broader macro forces including cyclical productivity, all motivated by increased competition and pressures.

## **Longer Hours Aren't the Solution**

But simply requiring your employees to work longer hours isn't the solution. Research reported by Evan Robinson makes it clear that simply working your employee long hours isn't the way to achieve sustained increases in productivity. In fact, Robinson makes a persuasive case that in the long run it's the single most expensive way there is to get the work done, suggesting that long-term, longer hours slows development and creates more bugs when compared with 40-hour weeks. He cites a century of studies indicating that long-term useful worker output is maximized near a five-day, 40-hour workweek and that productivity actually drops upon starting overtime. Robinson concludes that longer periods of continuous work drastically reduce cognitive function and increase the chance of catastrophic error. What is needed then is greater employee productivity for each of those 40-hours.

### **Engaged Employees – the key to Productivity, Customer Satisfaction & Profitability**

The good news for employers is that number of important studies (and the hands on experience of the authors) support the position that an engaged employee can achieve this goal by: a) being far more productive in terms of sales, profit per customer, units produced, and quality (or any other measure you can name) than the average employee - they are typically 10 times more productive than the average employee, and often generate 30X more than the lower 10 percent in an organization; b) they also consistently achieve greater customer satisfaction and retention; c) provide breakthrough innovations that increase customer satisfaction & retention, sales, productivity and/or reduce costs; d) generally raise the production and morale of co-workers, and; e) are significantly less expensive in terms of absenteeism, complaints, law suits, work related accidents, and the resulting insurance costs. In fact, dozens of studies over more than 50 years have repeatedly demonstrated the importance of engaged employees on the long-term success (and sometimes survival) of all manner of for-profit and not-for-profit organizations the world over.

### **How to create and retain an Engaged Workforce**

What has to happen for the creation of an engaged and productive employee is for management and HR professionals to gain a clear understanding of the cause and effect relationship between people-productivity-profitability. According to a study appearing in the Gallop Organization's May 2003 Journal, "when executives say, "Our people are our most valuable asset," they're usually expressing an emotion, not citing evidence. That's why it's often difficult for them to justify spending time and money to develop and recognize employees."

Absent this evidence, it is critical that HR professionals begin to develop a clear understanding and systematic approach to the use of employment practices in achieving increased productivity, customer satisfaction and profitability. This also means that HR professionals must be willing to have their contributions evaluated by the inclusion of metrics such as Sales/Productivity/Employee, ROA/Employee, and

Profitability/Employee.

In pursuing this goal it is important for CEO's and HR professionals to appreciate that nearly all of the research on worker engagement and productivity to date is based on studies of larger organizations. This is important because many of the programs and methods being advocated for improving worker engagement call for investments that may be beyond the reach of smaller companies. This is significant when you consider the fact that small companies (fewer than 150 employees) have generated more than 80% of net job growth in the U.S over the past twenty years. It is clear from this fact that America's future prosperity will depend on the development of productivity enhancing methods and programs that are affordable and can be implemented by this nation's small to mid-sized companies.

The good news for small to mid-sized employers is that increased workforce engagement and productivity can be achieved without a huge investment by understanding a number of principals and the systematic application of a number of management/employment practices.

### **A Holistic Approach**

Before describing each step in this process and its impact on productivity, it is important to emphasize that they should be viewed as flexible parts of an interdependent whole, or system. A change in one practice affects all the others. To be effective, managers need to know how each practice interacts with (and impacts) the other practices within the system. No single practice should be viewed in isolation, or as some kind of panacea for boosting productivity.

This approach also underlines the importance of tracking the impact of management/HR practices on engagement, productivity, customer satisfaction, and profitability, rather than the efficiency of HR functions (cost of hire, cost of turnover, etc.).

Here then are the basic steps and practices that will boost the engagement and productivity of your workforce:

#### Management Practices

1. Be sure your company is Customer Driven and Employee Focused.  
Research has shown that just 3% of all small companies produce more than 80% of all net job-growth. These companies are not just hi-tech, but are found in roughly equal numbers in all industries. They succeed by providing uniquely effective, "hassle-free," and reasonably priced solutions to their customer's ever-changing needs. They also recognize and acknowledge that engaged employees are the key to their success.
2. Develop and communicate useful Mission & Values Statements based on customer needs and your company's uniquely competitive (and employee

driven) approach to meeting those needs. Since this is the foundation for everything that follows, be sure this vital information is known and understood by all of your employees, and that it guides the development of all of your systems, procedures, and practices. Success starts with where you are going, and how your values & strengths are going to help you (and your employees) get there. All performance should be measured against these guiding statement and principals.

3. Develop fundamental Procedures and Systems to support the operation of your business. This process doesn't always require telephone book sized binders and elaborate computer software to be effective. But it must provide the basic direction and tools need to deliver uniform service and quality. Also be sure that you (and your employees) know which processes and practices are the most important to the company's success. Knowing which practices are critical to success and continually refining them is a vital prerequisite for getting there.
4. Develop an annual Operating Plan with the participation of your key employees. Again this doesn't always have to involve hundreds of pages of fine print and figures, just enough detail to provide the blueprints for reaching your short and long-term goals. And since your employees are your most important asset, you are much more likely to succeed if they know where you are going and have contributed their ideas on the best way to get there. A good plan increases employee engagement and performance by optimizing allocation of resources and providing benchmarks for performance.
5. Quantify and monitor the impact of your plans and practices on workforce engagement, as well as productivity, sales, and customer satisfaction. You can't hope to prosper without establishing performance metrics for the functions and departments that are the most critical to your success.
6. Adjust plans and practices based upon actual performance, and direct feedback from your workforce and customers. Nothing ever goes exactly as planned and successful companies are extremely sensitive to changes that can affect their business. Failing to recognize and make timely changes is a sure way to lose the support and commitment of your best employees.

## Recruiting Practices

1. Profile your Top-Performers. We've found this is one of the most important exercises for improving overall performance. Profiling will increase the productivity of your entire workforce by highlighting and adopting the characteristics and work habits of the top performers in your key departments and functions. They are also useful in developing position descriptions, standards, and incentive plans, as well as, benchmarks for tracking improvements in the overall workforce. Since these profiles are based on superior performance inside your own firm,

they are generally better than relying solely on universal hiring criteria developed by outside firms.

2. **Develop Results Focused Position Descriptions, Performance Standards & Metrics.** The emphasis here is on Results Focused. It is not going to help performance to merely describe the duties and responsibilities of a position without also telling the employee what is expected of them. The focus is on the skills required, results expected, how performance is measured, and how the position contributes to personal and company success.
3. **Develop an Effective Hiring Process** using your internally developed profiles and results-focused position descriptions. It goes without saying that hiring the wrong person in the first place isn't going to contribute to your success. Also be sure you are satisfied that the candidate has the prior work experience and track record required to achieve the results you expect, and is strongly committed to doing so. Last but not least, directly verify employment claims, check references, and complete authorized background investigations.
4. **Develop Exit Interview Plan & Monitor Employee Engagement.** One of the most important ways of making sure all of your practices are congruent, are being followed, and are producing the desired ends. It your window into the effectiveness and compatibility of all of your systems, procedures, plans, and provides feedback for needed to make timely adjustments. The exit interview process is especially important when one of your top-performers decides to exit!

## Performance Practices

1. **Develop Merit Based Compensation, Incentive, and Recognition Programs.** More than 50 years of empirical studies have proven that behavior that is rewarded is repeated. The reward doesn't have to be exclusively monetary, or large, but it must be based on a fair and above board recognition of meritorious performance. So it is very important that the behavior you are rewarding is consistent with your mission, values, and goals. It has been our experience in large and small organization that "Meritocracy" is an absolute requirement for success. Certainly rewarding high producers has always led to higher overall productivity. And just as important to any CEO or HR manager, treating everyone the same drives the producers out, leaving the mediocre to collect their paychecks.
2. **Develop & Strictly Administer Results-Oriented Performance Review and Advancement Process.** As is the case with position descriptions and incentives, the focus here is on results. Nothing that we know of is more essential to the engagement of productive employees than a fair and objective performance review and advancement program. It also facilitates the early departure of disengaged/unproductive employees. Sadly, this is among the most common disconnects in unsuccessful businesses. If you

don't tell your employees what you want them to do, how it relates to their success, provide them with a timely and objective feedback, and reward them accordingly ...the producers will leave and those who remain will decide for themselves how to do their jobs at your expense.

3. Develop Effective New-Hire Orientation Programs, including Employee Value Formula™. This is your chance to give every new employee everything they need to know to be successful while helping the company do the same. In our experience the CEO should always play a key role in this process in order to stress the importance of the mission, values, and how their value (Value Formula™ ) will be determined within the organization. This program is important step in developing and retaining an engaged and productive workforce, and also protects the company against complaints, litigation, and safety losses.
4. Develop On-the-Job and Management Training and Education Development Programs. Recent research by Allied Signal and Laurie Bassi, co-founder of McBassi and Co. has established a clear link between strong leadership and metrics related to strong company performance. Our own experience confirms the extreme importance of leadership and employee training in creating an engaged workforce and the resulting increased productivity in companies of all sizes and shapes.
5. Regularly Publish Individual, Team & Company Performance Metrics. This is another time-tested means of increasing productivity, profitability, and customer satisfaction by acknowledging meritorious performance, while also shinning a bright light on less-than satisfactory performance.
6. Provide means for Timely Communication & Feedback. This may be a bit redundant, but we feel it is worth special mention. Our experience and that of many other company executives and researchers has made it abundantly clear that frequent and candid communication with employees is essential for your company's success. The Gallup studies of thousands of organizations and their employees highlight open and trusting relationships between employees, managers, and top leadership as a primary contributor to strong commitment and successful operations and results. And nothing fosters trusting relationships than open and timely communication!

These programs and practices aren't meant to cover every aspect of managing a company. Instead they represent a set of affordable practices that our experience as a CEO and a senior HR executive of more than a dozen manufacturing and service companies has demonstrated can increase engagement and productivity in your small to mid-sized company.

It is important to remember that a change in one practice can, and usually does, impact the effectiveness of the others. This is especially true when changes are made in any of the management practices, such as mission or values. The hiring criteria and incentive programs originally designed to foster rapid growth must be modified if a new mission

emphasizing unit profit is to succeed. And the chances of maintaining an engaged and productive workforce are remote if the new appraisal and advancement program (no matter how leading-edge) is inconsistent with the stated mission and values of the company.

These statements also hold true regardless of the characteristics of a company's top management. An empathetic leader isn't going to be effective if their policies and practices are inconsistent, or based on favoritism rather than merit. Human centric theories and practices are important, but it has been our experience that they are only marginally effective in a dysfunctional environment. It's not the individual, or the environment – it's the combination that drives results. The same can be said for the idea that simply hiring the best will lift the performance of an organization. Focusing solely on hiring top-talent often leads to a revolving door – in a dysfunctional organization, the top-performers go out the back door as fast as you can bring them in the front!

### **Summary**

There is a broad consensus that continued growth in U.S. productivity is vital to meeting the challenges presented by cheap foreign labor in the 21st century. In fact, productivity growth has always meant a rising standard of living for everyone and no other statistic is as important for determining long-run economic welfare. Less well known is the fact that more than eighty percent of net job growth in the U.S. is now being created by small companies and that America's future prosperity will depend on the ability of these smaller companies to effectively use their limited resources to consistently increase productivity.

These facts make it essential that companies of sizes overcome the common misperception that increased productivity can be obtained by deploying the latest technology. The authors believe that contrary to popular belief, the principle resource for achieving sustained increases in productivity, customer satisfaction, and profitability is an engaged workforce. It is therefore vital for CEO's and HR professionals to avoid reliance on technology alone. To survive they must become proficient in the systematic application of the management and employment practices required to attract and retain the loyalty of a highly engaged workforce.

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