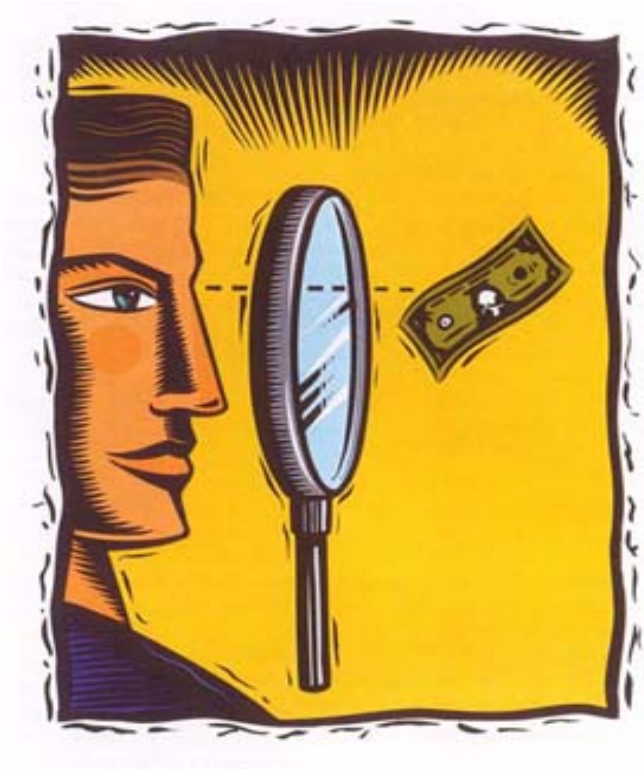

If I *Show* You *the* Money, Can I *Talk* To You About *the* People?

How Local Leadership Affects the Bottom Line for Organizations

By Dr. Dalton Kehoe, York University

Walking the Talk On "Human Assets" – NOT!

It is widely proclaimed that we are in a knowledge-based economy where highly-skilled individual employees are vital to organizational success. In fact, many organizations find themselves competing for the top talent and seek to be "employers of choice." As a result, some variation on, "people are our most important asset" is commonly pronounced. Despite these statements of good intention, the research tells us many companies still see their "valuable human assets" as either instantly expandable or simply expendable.

Even though we have moved from an economy of physical performance to one of mental performance, the central managerial mantra remains: "Do more; do it faster." Our 21st century approach to this management style, so far, has been to add two other stress-inducing commands: "Do it with fewer resources." and "While you're working harder, get up to speed on another new 'app' after work hours or on the weekend." Current management practices demonstrate little recognition that a mentally and emotionally healthy work environment is essential to support knowledge-based work.

Large scale research on the causes and effects of stress in the workplace demonstrates that the traditional approach to efficiency is undermining the knowledge worker's mental and emotional health, the way production line "speed ups" used to numb the minds and break the backs of previous generations of workers. This effect shows up in societal level data recently reviewed by Canada's Business and Economic Roundtable on Mental Health. They give us a "big picture" view of what this approach to efficiency costs us all every year: US - $200 billion in absenteeism costs and $75 billion in depression; Canada - $20 billion in absenteeism and $8 billion in depression.

In a recent national study of a variety of workplaces, Carleton University business professor, Linda Duxbury reveals these significant trends from the last 10 years: job stress has risen, while job satisfaction and employee commitment to organizations has fallen. Technology is seen as increasing both workload and stress. More people are working longer hours and individual efforts to balance home and work life are failing. As she says, "When it comes to a choice between work and home, work always wins."

Given these trends, it may not be surprising that employee mental health has declined over the past ten years. People are simply more stressed and depressed. In fact, several researchers argue that at least 30% of the increase in the levels of depression in the population of Canada and the US can be attributed to individual reactions to unrelenting, poorly executed changes in the workplace.

It tends to look like this: management cuts costs on the "front side" of the bottom line, so they look good to shareholders or taxpayers. They reduce headcount and add techno-fixes to speed up work. This is often done quickly, without employee involvement and with little real study of the consequences. Thus, no one seems to notice that such changes are simultaneously raising operating costs on the "back side" of the bottom line, i.e., increasing rates of

workplace absenteeism, turnover, and the rising costs of short- and long- term disability claims and prescription drug benefits. Line managers call these outcomes "HR problems", but when it comes to running a profitable and cost-effective business or a public sector organization, these are everybody's problems. *This approach to management is costing real money.*

The Hard Facts about Soft Skills: They Make Money

Many corporate and political leaders *do* get the picture, but bluntly assert that rapid technological change is inevitable, and everybody else is "running lean". Their approach is, "We all just have to manage".

Nothing could be further from the truth. There are a number of large, widely recognized, multi-industry studies that provide some clear answers to stemming the rising tide of costs associated with workplace stress. They emphasize one clear theme: positive work relationships between local leaders (i.e., managers and supervisors) and their employees have many powerful effects. Positive relationships make money, retain customers, promote creativity, encourage commitment to go the extra mile, provide a competitive edge against the competition, *and* reduce the costs of workplace stress.

Positive workplace relations are essential to success. They aren't just the "right or nice thing" to do, they are the efficient and effective thing to do. By enhancing the commitment of your workforce - whose efforts will expand your base of loyal customers – you will generate more revenue and increase your profits.

The most widely read research linking positive work relationships to a positive bottom is the Gallup study *First, Break All the Rules*, authored by Marcus Buckingham and Curt Cuffin. It demonstrated that 12 questions asked of over 108,000 employees, across 24 different companies in 12 different industries, could measure the degree of engagement of employees in their work.

These questions were developed as the authors mined one million survey questionnaires that Gallup had archived from previous workplace studies. What emerged were simple, almost innocuous questions. The first (and most important) six questions ask employees the following:

(1) If they know what's expected of them at work
(2) If they have the tools and equipment to their job right and
(3) If they have an opportunity to do what they do best everyday.

These first three questions seem to reflect the basic decisions and actions we would expect of all local leaders around engaging people in their work. The next three of the key six questions ask about how the manager or supervisor treated employees:

(4) Did they seem to care about them
(5) Did they encourage their development and
(6) Did they offer praise or recognition for good work.

One might think that these practices are so basic to effective management and supervision that every local leader would be doing them. The bad news is, they're not. In their huge survey sample Buckingham and Cuffin found that only 26% of the employees studied were truly engaged in their work (gave "high fives" to all or most of the 12 questions); 55% were unengaged ("quit and stayed"); and 19% were actively disengaged (openly undermining the workplace).

The great news is that where employees *were* actively engaged, the units they worked for – e.g. departments in larger manufacturing organizations or individual stores in retail chains – led the way in terms of hard measures of productivity, profitability, employee retention and customer satisfaction. For example, a national retail chain with 300 identical stores throughout the US found the following: stores whose employee engagement scores were in the top 25% of all stores in the chain, ended the year almost 14% over their profit goals, while the bottom group missed their profit goals by 30%. Also, each store in the top group retained, on average, 12 more employees per year than each store in the bottom 25%.

More Hard Facts about Soft Skills: They Save Money (And People)

So, local leadership skills create commitment and cash flow *and* they also help contain the costs created by the high stress workplace. Moreover, work relationships with local leaders based on trust, care and open communication seem to buffer employees against the worst effects of relentless change, growing dependence on technology to speed up work, and the damage done to morale and attitude by repeated down-sizing. Just like high speed, high stress can kill – it can kill commitment, productivity, and eventually, the emotional and physical health of employees. These outcomes, in turn, raise the costs of running the business, in terms of absenteeism, turnover, short- and long-term disability and prescription drug benefit payments.

Michael Koscec of Entec Corporation, and a multi-disciplinary team of experts from strategic management, OD, psychiatry, and social and industrial psychology, developed an insightful and easy-to-use tool – the Organizational Health Survey™ - to demonstrate relationships between a set of critical organizational variables and the hard cost numbers of organizational health (absenteeism and turnover rates, disability payments, etc.), as well as employee self-reports of burnout and emotional wellness. The organizational variables measured include employee perceptions of:

(1) The behavior of their local leader
(2) The practices apparent in their immediate workplace
(3) The organization-wide policies and practices that might affect their lives and
(4) The impact of the organization's values and vision on them.

Unlike many other workplace surveys, the questions asked in each area are very specific and behaviorally-focused. Employee ratings provide real clarity about what exactly needs to be changed in the structure of their local workplace, the behavior of their local leader or the organization as a whole, to improve organizational health.

Entec Corporation has studied and helped a wide variety of organizations (from colleges and hospitals to large utilities and retail sales firms) to locate the sources of declining organizational health and rising costs, as well as to help senior management develop intervention programs that work, and work quickly.

In the case of a utility, for instance, the survey was able to pinpoint key factors contributing to high absenteeism

rates that were costing the company over $6 million a year. The company hoped to reduce absenteeism by an average of one person-day-per-year over three years. However, by improving managerial training, making absenteeism a key performance indicator for each manager, adding absenteeism to the company's balanced scorecard and integrating health into management and labor training programs in general, the company was able to achieve the reduction in only eight months, netting an savings of $875,000 per year.

In another market sector, when a national Canadian retail chain took on the Organizational Health Survey™, they wanted to reduce the 39% turnover rate for their store managers, which they estimated was costing them $1.56 million per year. After using the data to change workplaces practices (eliminate back-to-back shifts), to improve organizational practices (pay and benefits packages, promotion requirements), and to improve communications, turnover fell to 13% per year, saving about $1.04 million.

Other benefits also resulted from acting on the survey data. For instance, the quality of the service provided in the stores also improved and their "secret shopper" ratings rose by 5% in the same year. In addition, stores whose managers had the highest leadership ratings also ranked among the highest in organizational health and profits. Finally, stores with low organizational scores at the time of the original survey, were taken on by managers with high leadership scores. After two years, all of them have become top producers. Leadership scores are a "leading indicator" of future performance.

Like the studies mentioned earlier, Entec's survey data reinforces the centrality of the relationship between local leadership and their employees.

Organizational health scores vary from unit to unit. Where employees rated their local leaders highly:

- Self-ratings of burnout and stress were lower
- Hard measures of poor organizational health in the unit – absenteeism, turnover, short- and long-term disability costs, etc. - were lower
- Employees regarded their overall quality of work life as high, even when their ratings of larger organizational policies and directions were lower.

Unlike other studies in which the data tends to be too general to provide specific direction, data from the Organizational Health Survey™ can:

- Clarify which workplace practices need to be changed
- Pinpoint exactly where in the organization local leaders are in trouble
- Describe the particular behaviors that need changing to improve work relationships, and
- Help senior management decide who is trainable and who is transferable.

What Should Senior Management Do?

Senior management needs to promote changes in the way organizational health is seen, i.e., not as an accidental result of individual health, but as a result of the organization of work and quality of leadership. They must move toward changes in values and practices that focus on developing high capacity and productivity, while lowering the costs associated with individual emotional and physical health.

To do this, they can:

- Do the survey and locate the organization's strengths and weaknesses at the local level, in terms of both leadership behavior and workplace practices
- support effective management practices and transfer those who do not respond to training into positions where they can add value, but do not manage people.

Most importantly, senior management has to require two things of local leaders:

(1) Successful completion of training and skill development programs that directly relate to patterns that emerge from the survey data, and most importantly

(2) Commitment to key performance indicators (such as absenteeism rates) as health issues, rather than indicators of employee character.

As in every other aspect of their managerial work, local managers will have to come to understand all of the factors that contribute to this problem – including their own behaviors - and develop appropriate solutions and action plans to fix it. In the process, they and the rest of the organization will discover that managing the organizational health "bottom line" at the local level not only saves money in the short run, but also contributes to the emergence of a thriving and engaged work force that, in turn, *makes money.*

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