



## The Human Factor

### Who really holds the keys to business success?

Right now, as you are reading this paper, someone you hired is either contributing to the success of your business or losing your money. Are you wondering which?

Every employer is concerned about employees. Without them, the work does not get done. Volumes of literature have been directed at ways to get more out of our people. Training and consulting companies across the country are constantly focusing on improving technical skills and work processes. File cabinets are full of policies, procedures and process analyses. We all are looking for the same thing. We want the right people in the right place doing the right thing at the right time. Right?

And just how do we do that? With all the books, analyses, policies and procedures we still find ourselves wondering if the plans we have implemented are really working. There is barely enough time in the day to deal with the issues that cross our desks. The constant flow of questions, decisions and challenges leaves little time to watch over the actual work of those we hire. Wouldn't it be great if we could quantify how employees impact the bottom line? Wouldn't it be great if we could identify and improve the employee factors that contribute most to the bottom line? Wouldn't it be great if our employees took care of themselves and enthusiastically contributed to the success of our business? Wouldn't it be great?

How do employees impact financial performance? In his book Practice What You Preach David H. Maister presents an exhaustive statistical analysis of the factors that contribute to financial performance. For his study, a financial performance index is established by using the average of four factors:

1. Two-year percentage growth in revenues
2. Two-year percentage growth in profit
3. Profit margin
4. Profit per employee

Using this data he ranked the financial performance of 139 offices in 29 firms covering 15 countries and 15 different lines of business. The study also used a survey designed to obtain employee opinions on issues such as standards, quality, customer service, communication and management. The survey was made up of 74 statements such as "We listen well to what the client has to say," or "We consistently work well as a team." Each statement had six possible responses from "strongly disagree" with a numeric rating of one (1), to "strongly agree" with a numeric rating of six (6). He demonstrated that increasing the average for employee satisfaction just one (1) point (e.g. from slightly disagree to slightly agree) is consistent with a 42% increase in financial performance.

So, what factors contribute most to the bottom line? As may be expected, this data demonstrated much that we already know or suspect. Maister is quick to remind us that quality and customer service are essential to profitability. However, he (and the data) demonstrated that employee satisfaction is the critical link to obtaining high quality and great customer service. The three top contributors to employee satisfaction were empowerment, coaching and high standards.

Maister's findings also concluded that among the top factors predicting high profitability were **trust** and **respect**. I believe it is significant to note that techniques for establishing trust and respect are rarely, if ever, included in our formal education. It is not surprising that many companies fall short in establishing environments that promote trust and respect. Trust and respect between coworkers is critical to a positive work environment. But, and this is important, it is the skills and behavior of management that most affect employee satisfaction and attitude.

I believe a quote from Maister's book is worth considering here. "Of all the goals that businesses say they have (make money, please clients, attract and develop talented staff), the least well done are those related to managing people." In emphasizing this point, I would like you to consider this statistic from the United States Bureau of Labor Statistics. Sixty-seven percent (67%) of employees are unhappy and/or dissatisfied with their current position. Are you wondering how many of your employees fall into this category?

How do we improve the employee factors that really impact the bottom line? Standard benefits, file cabinets full of policies and procedures, technical training, and typical management styles will never succeed in creating the type of employee satisfaction and enthusiasm needed to produce exceptional profitability. What is needed is a new approach – a model that emphasizes the appropriate blend between high standards of performance and exceptional skills in human interaction.

I have already discussed statistical evidence that high standards and employee satisfaction are critical to profitability. However, before elaborating on this "new approach," I would like to share some actual results obtained by companies who have implemented this approach.

- ◆ A Sherwin Williams auto paint plant boasts of **30 percent higher productivity, 45 percent lower costs and 25 percent fewer employees** for equivalent volume over a sister plant.
- ◆ A Digital Enfield plant yields **equal volume to sister plants with half the people and half the space**, while realizing a 2.5 times higher rate of first-time-perfect modules.
- ◆ A Corning mold machine shop realized **100% improvement in quality and delivery while reducing costs from 15% above to 15% below the competition.**

- ◆ Rocky Mountain Labs reduced turnaround time from 28 to 14 days, reduced internal handoffs by 500%, thereby **improving productivity by 50% and profits by 25%**.
- ◆ Tektronix Portables Division **reduced inventory from \$40 million to \$15 million** and reduced cycle time from twelve weeks to four weeks.
- ◆ Shenandoah Life Insurance Company reduced the **employee-to-supervisor ratio from 7:1 to 37:1**, yet service improved and complaints and errors declined.

Amazing results? Absolutely! They emphasize what can happen when the focus of business shifts from the traditional paradigm known as “scientific management” to a new paradigm known as “high performance.” The above results were obtained using the 360 Solutions approach to high performance. 360 Solutions provides a description of the difference between “scientific management” and “high performance.”

### **The Traditional Paradigm**

The model that has dominated most modern businesses has been based on a set of principles and practices formally defined by Frederick Taylor in 1903 and known as "scientific management." The principles of scientific management were very useful a century ago when this country was moving from a rural society in which people were self employed, produced their own food, made their own clothes, and educated themselves to an urban society based on mass production and interdependence. With these changes in the structure of society and the way in which work was organized, it was necessary to create bureaucratic organizations to manage and control masses of untrained people. Taylor believed that work could best be accomplished by breaking it down into simple and repetitive tasks for workers and that management's job was to control the means and speed of production. Some major features of job design that came out of the industrial revolution are the following:

- ◆ Simple, narrowly defined jobs.
- ◆ Division of labor that keeps different functions separate.
- ◆ One best way to do a job.
- ◆ Uniform and strictly enforced policies.
- ◆ Management's role to control the means and speed of work.

Although this paradigm may have been useful in moving us to an industrial society, it does not fit with the complex and changing nature of the economy, market place, technologies and people today. It is seriously flawed in two primary ways.

First, traditional organizations are structured around functions, e.g. engineering, manufacturing and sales in a manufacturing company or customer service, accounting, and billing in a service company. The problem this creates is that work is fragmented in such a way that people do not see or feel responsibility for a "whole process." They over identify with their own jobs and fail to understand or care about the overall good of the company or customers they serve. This leads to poor communication, redundancies of effort, turf battles, delays in decision-making and general inefficiency. It is most noticeable when a piece of work is completed and "thrown over the wall" to another department to be forgotten. Or, when an urgent decision that directly impacts a customer is delayed for a couple of days because it needs someone else's signature. Or, when work is inspected after it has been built.

The former Soviet Union was the paragon of inefficiency and bureaucracy. It took five years for the government to approve construction of the first McDonald's restaurant. And to change a single ingredient in ketchup took numerous levels of government approval.

A second flaw of the traditional paradigm is the assumption that it is management's job to control the work of employees. Management sets goals, makes decisions, measures progress, evaluates performance, etc. Managers are the thinkers and planners, and employees are the doers. These organizations fail to tap the tremendous intelligence and creativity of their people. Power exists at the top and people on the "front lines" and closest to the core process of the business have less authority to make decisions, solve problems or significantly contribute to the mission or goals of the organization.

Most people do routine, repetitive and somewhat unchallenging jobs without much sense that they really make a difference in the overall direction or success of the business. This results in organizations that are bureaucratic, rigid, unconcerned about quality, lacking innovation, unresponsive to customer needs and generally unsatisfying places of employment. Unfortunately, in spite of such limitations, the traditional paradigm continues to dominate the practices of most businesses throughout this country today.

### **The High Performance Paradigm**

There has emerged in recent years an exciting new paradigm known as **high performance** work systems that is changing the way we think about people and how work is organized. A high performance organization could be defined as *an organization in which each person is a contributing partner to the business*. High performance work environments require a deep respect and trust in people. People are not viewed as extensions of machines, objects to be manipulated nor costs to be controlled but rather as thinking and feeling human beings who bring enormous energy, creativity and talent to their work.

Most people want jobs that are meaningful and allow them autonomy to make decisions and contribute to the company in significant ways. Effective organizations are those moving beyond attempting to control people to trusting and empowering them with the resources, information, tools, skills and support to manage their work processes and create products and services of unprecedented quality.

Of course, lots of companies espouse a philosophy that values people and yet are not experiencing the kinds of performance achieved by the companies mentioned above that employed the 360 Solutions approach. That is because they are not designed to do so. Only a holistic and systemic view of the organization in which all aspects of the organization are aligned behind that philosophy will realize the true value of their people.

*In high performance organizations people understand the business, are committed to getting results and are organized into self-contained, multi-functional and customer-focused business units or teams that take full responsibility for making decisions, solving problems and continuously improving the quality of their work.*

Everyone involved with a particular core process is a member of the same team and is empowered with full authority for the success of a whole product, service or major segment of work. Roles and responsibilities are much broader and more meaningful in scope than in a traditional organization. The team is responsible for setting goals, coordinating and scheduling work, interfacing with the customer, training, making decisions and problem solving, monitoring quality, and even measuring performance and making hiring and selection decisions. The role of management changes from that of controlling workers and solving day-to-day problems to being facilitators and coaches. The managers define outcomes, manage boundaries, interface with other departments and, in general, ensure that the team has the resources, training, information and support they need to carry out the job.

Perhaps this movement could be summarized by four basic principles:

1. People are the greatest resource of the organization and need to be trusted and empowered.
2. Work must be designed so that people are allowed to do "whole and meaningful" tasks that integrate all work aspects into a singular and total system.
3. Cross-functional teams are the natural work units of high performance companies and are responsible for managing all of the tasks and processes to accomplish business goals.
4. The role of management must change from controlling workers to providing resources and training as well as managing the environment so teams of workers can be most effective.

And how do we get enthusiastic workers who take care of themselves? The previously cited statistical evidence and success stories point to the value of a "high performance" paradigm. Moving into that paradigm requires a willingness to develop and change. That takes us back to our most valuable asset – our people. The final piece to this transformation puzzle is evident in the wishes stated at the beginning of this article. We want the right people in the right place... The two essential elements to getting the right people in the right place are the process for hiring and the process for promoting.

First, let's look at the hiring process. According to Profiles International, the top three reasons people fail in their jobs are

- ◆ Incompetence
- ◆ Incompatibility
- ◆ Dishonesty

A Society for Human Resource Management study reported in *USA Today* revealed that “63% of all hiring decisions are made during the first 4.3 minutes of an interview.” Peter Drucker, a well known author and management consultant, tells us, “Chances are good that up to 66% of your company's hiring decisions will prove to be mistakes in the first twelve months.”

Clearly, we have a lot of room for improvement in the area of hiring. In today's fast-paced business environment, it is imperative that we establish a hiring process that provides excellent decisions in a short amount of time. In 1999, the Employment and Training Department of the US Department of Labor pointed us in the right direction. Their paper, Testing and Assessment: An Employer's Guide to Good Practices, states “The appropriate use of professionally developed assessment tools on average enables organizations to make more effective employment-related decisions than the use of simple observation or random decision making.”

The traditional process for determining promotions is not much better. This methodology is perhaps best described by the Peter Principle.

The Peter Principle is a concept introduced by Laurence J. Peter in his book (of the same title). It describes the problems with traditional processes for promotion in bureaucratic organizations. The original principle states that “*in a hierarchically structured administration, people tend to be promoted up to their level of incompetence.*” The principle is based on the observation that new employees usually start at the bottom with relatively easy tasks. As they prove their technical proficiency with these tasks they get promoted to more difficult tasks, typically at a higher rank. This promotional process of ever increasing rank and difficulty can go on indefinitely. Most generally, however, the employee will eventually reach the point where he or she is no longer competent.

It is interesting to see how that might apply on promotions to management. I find it striking that many, if not most, decisions to promote someone to management are based on the technical competence of the individual. The logic is that someone very good at doing a task is the best one to manage others who will be doing the same task. Perhaps this explains Maister's point that the tasks least well performed are “those related to managing people.” In order to implement the type of changes suggested in this paper we must base decisions regarding promotion to management on an assessment of the individual's leadership ability rather than their ability to perform the tasks.

## **Summary**

There is no quick fix. Moving into a new paradigm based on the human factor, while extremely rewarding for all involved, requires commitment and a systematic approach. Traditional (and problematic) thinking describes the business structure as two very distinct groups. This “us and them” concept of separatism must be replaced by a more cohesive and cooperative environment.

The transformation comes from the movement of management and employees toward each other. Employees must be trained to accept higher levels of responsibility and accountability. At the same time, management must be trained to let go of control while focusing on the skills of empowering, encouraging and inspiring. At the heart of this transformation is trust. As employees and managers take steps toward each other, trust grows and provides the stimulus to take larger steps. Over time, they merge into one dynamic, cooperative, enthusiastic and successful team.

Some of the critical actions addressed in this paper are worth repeating. Any one of these activities may have a significant impact on financial performance. However, the maximum potential of your business can only be obtained by using them in combination.

1. Create a common vision that recognizes the importance of the human factor and establishes employees as your most valuable asset.
2. Build a climate of trust and empowerment that rewards teamwork and encourages individual growth.
3. Invest in the training and development of your people, particularly in your managers and especially in the skills associated with human interaction.
4. Establish high standards of performance through clearly-defined expectations.
5. Celebrate success and reward both individual and team efforts.
6. Base hiring and promotion decisions on well developed and validated assessments of the individual’s interests and skills relative to the expectations for that position.

## **A Final Thought**

The human factor is the most critical link to the success of our business. While this paper discusses success in terms of financial performance and profitability, some organizations are less motivated by profit and focus on other missions. The “high performance” paradigm will also bring positive results to churches, non-profit and volunteer organizations. Understanding the human factor is critical to the ability of any group to reach high standards and achieve its goals. In the end, whether we are talking about a multi-million dollar corporation or a small non-profit organization, it’s all about results.