When 'soft' numbers have a hard impact

Why managers should care about employee loyalty

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The Ipsos Loyalty Study, the largest study of its kind ever conducted, found that less than 30 percent of U.S. employees strongly agree that they are loyal to their company. Only about 25 percent of U.S. employees think their employer has earned their loyalty.

The long-term success of any company depends heavily upon the quality and loyalty of its people. Few corporate executives would disagree with this idea conceptually. But it is also true that most treat the economic value of employees as "soft" numbers, unlike the "hard" numbers they use to manage their operations, such as the cost of labor.

Employees are obviously critical to a company's production and in enhancing customer relationships along with company profits, but the problem is that when the going gets tough, managers focus on the hard numbers alone and are all too quick to disengage from the soft aspect of their businesses.

The result is that today we are overwhelmed with downsizings and restructurings. Layoffs make the front pages of our newspapers regularly. And while Wall Street often rewards layoffs by treating them as a sign that management is serious about getting a company's financial house in order, the reality is quite different. Most organizations that downsize fail to realize any long-term cost savings or efficiencies, which necessitates further restructurings and layoffs.

And the truth is that at some point every company will go through tough times. That is the nature of business cycles. But just as the contraction cycle of business inevitably forces many to overlook the impact of these soft numbers, the inevitable growth cycle quickly rekindles the importance of what employees bring to their roles as both the engines of company production as well as the portal to client relationships. The problem is that what is unceremoniously neglected in downturns is difficult to reinvigorate when healthier markets return.

snapshot

In tough times, staff downsizing is almost inevitable. But rather than focusing on the cost savings that result from letting workers go, companies must conduct research with the remaining employees to measure their opinions and attitudes.

All too real

Although the cost benefits of downsizing tend to be mirages that dissipate in the longer-term, the corresponding pain to customers and employees is immediate and all too real. Research using the American Customer Satisfaction Index found that those firms that engaged in substantial downsizing experienced large declines in customer satisfaction. Unfortunately for those firms, this index has proven to be a good predictor of future earnings.

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The Ipsos study's authors note that "The current trend toward downsizing in U.S. firms may increase productivity in the short term, but the downsized firms' future financial performance will suffer if repeat business is dependent on labor-intensive customized service." This means that any business that relies on a serviceable client ought to be tuned in to its soft numbers prior to reconfiguring the service model and consider what impact a possible change to that model might have.

The impact on the organization's culture is also severe. Downsizings result in rumor-filled paranoia and desk-loading, whereby a staffing cut occurs and the remaining employees are left with the task of carrying the burden of the recently-evicted. Typically, such cost-saving gimmicks are wrought with overwork and underappreciation, resulting in disengaged or volatile working environments.

When Coca-Cola instituted a restructuring that resulted in the loss of thousands of jobs, the company became so awash in far-fetched stories that executives were forced to take the unusual step of intervening to quash them. Worse still, the employees who do remain often find themselves jaded. It isn't hard to find employees who feel exactly like Dan after his company's layoffs in Mitchell Lee Marks' *Charging Back Up the Hill*:

"There is no loyalty here; no one is going the extra mile after this. Two years ago, we worked 65-hour weeks. People were willing to do it, because it was a great place to work and we were doing something that mattered. ... From here on in, it's just a job for me. I'll put in my 40 hours and that's it."

Let's be clear: No CEO relishes the thought of layoffs. They understand that real people and real families are affected by these cuts, but they also understand clearly that their companies are floundering and in need of strong action. History, however, has shown us that the pain often outweighs any long-term financial gains.

If companies are going to grow their way out of difficult times (and excel in good times), they need two things: 1) for their customers to stick with them, and 2) to improve their productivity. But this only happens through an organization of committed, loyal employees.

Greater payoff

Benjamin Schneider, professor emeritus at the University of Maryland, has shown conclusively that the employee's loyalty-related attitudes precede a firm's financial and market performance. And there is a much greater payoff in working on improving the "human factor" than people think. Researchers at the University of Pennsylvania found that spending 10 percent of a company's revenue on capital improvements increases productivity by 3.9 percent. But investing that same amount in developing the employee capital more than doubles that amount, to a whopping 8.5 percent.

It is one thing to believe that employee loyalty results in positive financial outcomes, it is quite another to quantify those outcomes. But if we are going to be able to resist our natural inclinations to focus exclusively on short-term solutions in difficult times, then we need to become very proficient at understanding what the real implications are for employee loyalty and, in turn, the long-term health of businesses.

The place to begin at your company is by asking, "How loyal are our employees really?" Doing this requires that you meaningfully solicit feedback from all employees (management included). Not only should this be treated as a real research investigation - employee surveys are worthless if not executed impartially and anonymously - but you must also be willing to ask truly tough questions. For example:

- How do our managers' relationship styles impact the organization's service climate and employee loyalty?
- Does the company provide the necessary tools and training for employees to perform their jobs well?
- Is a commitment to serve customers rewarded and encouraged by the organization?
- Does the company demonstrate that it deserves the loyalty of its employees?

There will of course be other dimensions that are of concern for your particular organization or industry. The key is to identify those few, vital dimensions that are most essential for your success. Once you have identified these dimensions, you must measure them in a clear, objective, and rigorous manner.

Once you know where you stand vis-à-vis employee loyalty, you must then link this information to the performance drivers of your business. Typically, these come down to four drivers: productivity, employee turnover, customer loyalty and revenue.

The ability to statistically link each of these measures to employee loyalty is relatively straightforward. The key is to aggregate employee data into groups that meaningfully link to turnover, customer loyalty and revenue. For example, a retail chain might find store-level analysis to be the most relevant unit, since customer loyalty and revenue are tracked at this level, and stores typically have semi-independent management.

Always meaningful

Though any proper research effort comes with an investment of both time and energy, the correlation between employee-loyalty-related attitudes and business outcomes is always meaningful from a practical and managerially-relevant perspective; so it is worth the effort. In fact, a large-scale study conducted by researchers Harter, Schmidt and Hayes presented compelling evidence that employee-loyalty-related attitudes were positively linked to each of the four performance drivers.

Managers can also elevate the level of data effectiveness by studying the performance of their most loyal business units and scrutinize how their success is influenced by managers' own relationship styles with the customers they serve and the employees under their charge.

Despite the ability to develop research and obtain this information - and thereby gain invaluable managerial insight - most companies do nothing (or next to nothing) in this regard. But the problem of linking the soft numbers to the hard numbers is not that the information doesn't exist or that there aren't professionals to consult with on putting the data to work. The No. 1 problem is simply a lack of willingness to pull the data contained in various departments together and undertake a challenging process through which underlying fissures might be discovered.

Why isn't all the extra effort put in to assemble the data? We don't want to hear bad news. And without question, this kind of internal examination always yields some bad news. But managers and CEOs who are honestly committed to enhancing their business are willing to take in all news, good and bad, in order to effectively mend what ails their companies and prevents them from being more productive. And the path to profitability is through the effectiveness, drive, efforts and loyalty of their employees.

Deserves their loyalty

The reality is that employees are only as loyal to their company as they believe their company is loyal to them. This is true almost everywhere in the world! So in the end, building an organization of committed, loyal employees ultimately comes down to demonstrating to employees that the company deserves their loyalty. And with their most powerful asset harnessed, businesses will see their hard numbers of revenue and production climbing. | Q