The Failure to Engage

Understanding the Mechanism that Determines Employee Engagement and Micro-Innovation

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Micro-innovation is the Holy Grail of modern management.

Micro-innovation (incremental improvement) that is driven by employees is the secret to transforming the customer experience, accelerating revenue growth, and reducing costs. Yet, the level of employee engagement required for micro-innovation remains one of the most elusive outcomes in modern organizational life. Research shows in aggregate that employee engagement continues a 25-year decline.

In our real-time economy, the most powerful value proposition is the ability to say "yes" to customer's unique needs, and to say it now. Only the people who work on the frontline of a business can take meaningful action in real time. Because of that, the full engagement of people is simply a competitive necessity.

However, employee engagement remains low because fear continues as the dominant management mechanism, and fear kills innovation. Whether its use is intentional or accidental, fear blocks employees' ability to say "yes" to customer needs because they are afraid to act on the opportunities to innovate that present themselves in everyday work life.

Employee engagement is no longer a “nice-to-have”—it is a competitive “must.” High levels of engagement can be achieved and sustained when leaders understand that engagement is caused not by goodwill, but by the architecture of the underlying system of management used to run the business.

How safe is it in your organization to say:

“I disagree with your conclusion.”

“This is not working.”

“That doesn’t make sense.”

“I think we ought to…”

“Is this your opinion or do you have facts to back it up?”

“I think that was a mistake.”

“I believe the problem is…”

“I would like to…”

“Our customer needs…”

When Henry Ford pioneered his way into the new era of Mass Production, he had no idea how pervasive his model would become. The powerful ideas of that industrial model—simplification, centralization, departmentalization, specialization, and what became known as Scientific Management—continue to dominate management thinking today.

Factories are designed for centralized creativity, driven by management and specialized experts. Things have evolved such that today we have manufacturing engineers, design engineers, quality engineers, test engineers, software engineers, network engineers, electrical engineers, civil engineers. We have accountants, marketers, public relations specialists, purchasing agents, incoming inspectors, human resource business partners, and tool and die makers. Specialists rule.

In addition to centralized, expert-driven creativity in the era pioneered by Ford, decision-making became centralized into a whole new class of people whose exclusive job it was to manage other people.

But Ford's model had an unintended cultural consequence on organizations and modern society: The vast majority of workers in his era were required to be non-thinking cogs. Their job was to do the menial, routine work that machines could not do. The Henry Ford factory mindset demanded a compliant workforce, which was achieved through the use of fear. Whether it's

applied with full conscious intent or it emerges as an unintended byproduct of another strategy, the use of fear continues to be pervasive in today's organizations.

It all made sense back then. And the results certainly fueled expansion of these ideals as North America's great middle class came into its own.

Ford's mindset was the ignition for an enormously powerful economic engine and his logic extended well beyond the factory, permeating society. Our schools were (and some will argue still are) designed to mass-produce compliant members of society ready to go to work in the factory. Heads down, mouths shut.

Oddly, our factory mindset continues after more than 60 years of a steep and steady relative employment decline in the U.S. manufacturing sector, from 30 percent in 1950 to below 10 percent today.

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From Mass Production to Mass Customization

Today, Mass Customization has replaced Mass Production, thanks to access enabled by the Internet. Plus, the service sector has expanded during these same 60 years from 25 percent of total employment to in excess of 50 percent today.

Yes, we have a service economy.

In this service economy the speed at which a business can customize solutions for customers is increasingly becoming the driver of the buying decision and is dramatically impacting customer loyalty. Today, saying "yes" to whatever a customer wants is rapidly becoming the only viable value proposition, and "now" is the only acceptable timeframe for meeting that need.

However, real-time customization demands decentralized innovation and decentralized decision-making. A mass production management model and a compliant, fear-based work-force are completely incompatible with our modern mass customization economy.

"This economic crisis doesn't represent a cycle" says Jeffrey Immelt, the CEO of General Electric, of The Great Recession. "It represents a reset. It's an emotional, raw social, economic reset. People who understand that will prosper. Those who don't will be left behind."

Price Tag of Employee Disengagement: $13,000 Per Employee Per Year

Over the years, Gallup's studies of employee engagement have uncovered a surprising reality. No matter how enlightened we might like to think we are as managers today, the numbers reveal this concerning truth: 70 percent of our workforce simply shows up and does just enough to get by. In some cases, they do far less. Gallup data shows that the number of employees who are "not engaged" or are "actively disengaged" in our workforce has only expanded during the past 25 years.

The cost of disengagement is astounding. Research by Gallup, Towers Perrin and others has shown that the negative impact to the bottom line for every disengaged employee is $13,000 per year to revenue, customer experience, and expenses. This equals $130,000 for every 10-year tenured employee.

Employees who take autonomous action—actions they initiate without permission—improve customer experience, grow revenue and reduce costs and add $13,000 to the bottom line each and every year.

Impact to the Bottom Line

Gallup's findings also point out the difference between companies in the bottom quartile of employee engagement compared with those in the top quartile. Those in the bottom quartile suffer from:

- 37 percent higher absenteeism
- 25-49 percent higher turnover (depending on industry)
- 27 percent more theft
- 49 percent more safety incidences
- 60 percent more defects

Companies in the top quartile of employee engagement compared with the bottom quartile enjoy:

- 12 percent higher customer satisfaction
- 18 percent better productivity
- 16 percent higher profitability

So, it's not hard to understand why high-engagement organizations out-earn their competitive peers by as much as 27 percent, according to engagement research conducted by Towers Perrin.

"If every organization in the United States doubled employee engagement, America would once again surprise the world, just as it did in the dot-com boom," asserts Jim Clifton, Chairman of Gallup, in his 2011 book The Coming Jobs War. "The United States would win by doubling the human energy that drives entrepreneurship and innovation." With these facts in hand, why in the world wouldn't every business leader want every employee to be highly engaged? The economics alone make employee engagement the single most obvious strategic breakthrough every business leader should pursue.

Yet, while we live in the land of the free and the home of the brave, our employees often act more like fearful salary-and-benefits indentured servants than they do thriving citizens in the land of opportunity. Fear is a natural human response to danger, and it can never be eliminated entirely. As Mark Twain said, "Courage is resistance to fear, mastery of fear, not absence of fear." Workplaces in which it is dangerous to speak openly and to share ideas are truly unproductive and, ultimately, uncompetitive.

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Who is to Blame for Low Employee Engagement?

While the widespread failure of management to engage employees is undeniable, it is not for lack of trying, which begs the question: Why have we failed?

The usual suspects used to explain the failure to engage look something like this:

- It's our broken education system, graduating people who can hardly write a decent sentence these days, let alone do basic math.
- It's government regulation tampering with how we do everything.
- It's the unions—they just want more pay and better benefits and don't care about productivity.
- It's the front-line managers who just don't have the people skills they need.
- It's middle management—a bunch of bureaucrats who just add red tape to everything.
- It's greedy executives who don't care about employees and just want another Lamborghini in their five-car garage.
- It's employees who are more interested in what's on Facebook than in doing their jobs.
- It's the lawyers and the lawsuits that make us all do things the way we do them.

All these excuses are hard to accept in light of the fact that there are organizations that consistently achieve very high levels of engagement. The successes of Apple, Google, Toyota, Zappos, USAA, Whole Foods, Starbucks and Nordstrom are all directly tied to how great it is to work for these organizations and to the fact that they know how to engage employees.

While excuses and blame can make for some fascinating conversation and lively debate, employee engagement is not as mysterious as has long been thought.

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What Causes Engagement?

Engagement is the degree to which employees take action without being asked or told to do so—it's initiative taken beyond what has been directed. Think of the employees who go the extra mile and accomplish so much more than the moderately engaged employees.

On one level, what drives engagement is simple, and on another level it is complex.

If an employee feels a part of something that matters to them, if they feel safe to take initiative and that action is valued, engagement is a natural result. That's the simple reality. In this case, engagement, or discretionary effort, is volunteered.

While voluntary engagement is great, and to some degree volunteering always plays a part in engagement, engagement that is simply expected as a normal course of work is the strongest form.

Increased engagement can be caused. The complexity is that for employees to strongly engage, leadership must first do a bunch of work to positively cause engagement. Before an employee can engage, he or she must be able to say the following:

The Full Engagement Checklist

1. I understand the goals and aspirations of our business.
2. I understand how what I do supports the goals.
3. I understand specifically what I am accountable for, and it is measured frequently.
4. I feel safe to be transparent about any problems I am dealing with.
5. I understand the language of the business and can speak it myself.
6. I have the knowledge/skills/resources/tools to do my job competently.
7. I have the skills to effectively solve problems.
8. I have the authority to solve the problems I have in my routine work.
9. I have access to the information I need to make fact-based decisions.
10. I have the authority to make decisions about my work.

There are three classic strategies commonly pursued to improve employee engagement, all well intended:

Exhortation: The use of words to inspire or cajole employees to take action.

Performance Management: Setting of goals/targets to create and drive accountability.

Tools and Techniques: Use of improvement approaches to tap into employee ideas.

Exhortation | A strategy based on exhortation can actually have some impact, although it is not sustainable. The underlying belief of this attempt at engagement is that for some reason people are holding back on their ideas, and so management needs to motivate or encourage them to stop holding back.

The fatal flaw in this approach is that people are holding back, but for good reason: it's not safe to put forth ideas, let alone implement them, in no small part because such action is in complete conflict with the norms and practices of the organization.

We see this strategy implemented to beneficial effect when at halftime the inspirational coach rallies his team with a moving call to action. Exhortation can work in short bursts of intense, willful execution. But this kind of intensity is not sustainable and does not address underlying

problems or processes that may be causing the current performance. Yes, we can use the force of will and give it our all for that one last push, but this strategy cannot transform day-to-day, enduring employee engagement.

Performance Management | Traditionally known as management by objectives, performance management is a common approach to engaging employees. Its underlying assumption is that if we manage the performance of the individual, we will manage the performance of the organization. The belief is that if management effectively delegates work and holds people accountable to measurable outcomes tied to rewards and recognition the employee may or may not value, things will improve. While there is truth in this, the major shortcoming of performance management is that it optimizes individual performance, not process performance. As a result, it assumes the problem with performance is that people are either unclear about the work they are supposed to do or they are simply not delivering, and it pays little attention to the reality that often, these people are trapped in archaic and broken processes.

Dr. W. Edwards Deming taught that 90-95 percent of performance problems were the results of the processes people work within, not individual performance. Unfortunately, focusing on individual performance increases fear as employees know they will be held accountable for things they cannot control. Fear drives unproductive behaviors such as blaming, withholding information and self-protection. Rather than driving problems out into the open and encouraging collabora-

tive, innovative problem solving and engagement, performance management approaches usually have the opposite impact as individual employees are encouraged to optimize their performance relative to the objectives they are charged with delivering.

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Tools and Techniques | In the search for the Holy Grail of employee engagement, many great books inspire new thinking and drive well-intended actions. Many companies have implemented *Balanced Scorecard* or run *Good to Great* programs or sought transformation in *Five Dysfunctions of Teams* or hoped for a big shift in teaching everyone the *7 Habits of Highly Effective People*. The lessons of these great books are powerful indeed, and they’ve made enormous contributions, but they do not pass The Full Engagement Checklist test.

Lean, Six Sigma, Kaizen and the whole world of process improvement have held great promise for employee engagement. And indeed, engaging employees in initiatives that allow them to fix the broken processes they work within is powerful. When it’s done well, the rewards benefit everyone involved. But the vast majority of these initiatives are in fact only initiatives, efforts

where non-standard behavior is accepted for the duration of the project. But even a series of well-executed Lean efforts, fully supported by management, will not magically transform workforce engagement.

Oddly, most of these efforts barely move the engagement needle, and if they do show success in engaging people, the improvement is rarely sustained. To a casual observer it appears as if management annually spins the wheel to see what new program will finally deliver on the promise of an engaged workforce. With enthusiasm they launch Kaizen, Lean, or some other approach, but the focus on tools and techniques once again misses the desired mark. At first the results are encouraging, but it takes a lot of “extra work” and eventually even the enthusiasts grow weary at pushing the giant boulder up the proverbial hill. Then, the program dies quietly, and the boulder returns to its place on the flatland.

Once again management prepares to spin the wheel in pursuit of the next “this could be it” solution. But there is no winning number, no pot of gold at the end of the rainbow, no silver bullet or golden key. And yet, we keep trying.

Is it Culture?

Peter Drucker, one of the great management thinkers and writers of modern time, had many words of caution about trying to change cultures. He was often credited with saying that "Culture trumps strategy," meaning that even the most brilliant corporate strategy will not succeed unless the strategy fits within a healthy, established organizational culture. Culture consumes everything in its path because it is an invisible and often mysterious force.

That said, the only greater mystery than culture itself is how to change it so it is healthy and inspires high engagement.

Culture, in part because of its invisible nature, more often than not has tenets that engender fear. Because we cannot see it and much of it is unspoken, its invisible hand creates caution as our human desire to "fit in" has us holding back until we learn the rules. Often we learn of the rules when we step across unspoken boundaries, which increases our unwillingness to risk engagement.

How do we shift culture?

Inspiring missions, values and visions, 360-degree feedback, coaching, sensitivity training, management training, leadership summits, book study teams, consensus building skills and team building. All of these are good and helpful and contributory.

But do they really change the culture?

Over time these efforts certainly do make small shifts, but the reality is culture itself cannot readily be changed—at least not directly. Culture is the result of expected patterns of behavior. And behavior is shaped by our stories, artifacts, taboos and rituals.

If we can't change culture to end fear and engage our employees in the innovation our businesses need to succeed, then what's left?

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It's the System

James Carville, a colorful Democratic political strategist, gave then-presidential hopeful Bill Clinton the famous phrase, "It's the economy, stupid."

The words stuck, and many believe that Carville did much more than cleverly turn a phrase when he spoke them. He also shifted the focus of the election to an issue that rendered incumbent George H. W. Bush—once thought to be unbeatable—vulnerable. The rest is history.

As for Bush it was about the economy. For leaders today struggling to engage employees it is all about the system: the underlying system of management is what causes culture and, yes, culture determines the degree to which employees engage.

A management system is a set of defined business routines and the supportive behaviors connected to the system that leadership uses to accomplish its goals.

Prior to latching onto the possibility that their employees might engage at higher levels, leaders must honestly assess their underlying beliefs about employees. In other words, does management believe that their employees want to make meaningful contributions, or does management believe that their employees are "lazy" and need to be controlled and managed?

That said, few leaders give much thought to their management system primarily because as critical as such a system is, it's not something often taught, discussed or even written about. In fact, "management system" is not in the business lexicon of many leaders because we are not taught to distinguish between "management" and "management system."

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Why do we talk so little about management systems? We have been so successful for so long using the Mass Production-based management system that generations of managers have grown up knowing only that. When you grow up in a system, it is easy to not see the system and instead believe that this is just the way things work.

While it is one thing to recognize the world has shifted, it is another to challenge the fundamental assumptions of traditional and highly successful management thinking. Taken even further, engineering a new system of management isn't a simple thing to do.

Let's go back to the time in the early 1900s when Henry Ford was figuring out a new logic for how a business ought to be run. There were many, many drivers, including the compelling attraction of high volume/low cost, which would allow the business to meet the expanding consuming masses' demand for affordability. Today we still have an ever-growing expansion of consumers, but thanks to the Internet we have access to many options, which is leading us into the era of Mass Customization in which we can get whatever we want at a low cost.

Another significant dynamic was the workforce Ford and his generation of business leaders had to draw from. He needed lots of workers at a time when farm productivity was skyrocketing and crop prices were falling, which left family farms unable to support the growing generations. These workers were uneducated (many could not read or write, were unsophisticated and largely unsocialized). Contrast this with today, when many of our larger organizations are dominated by college-educated workers. It is commonplace today to discover that the receptionist has a bachelor's degree, that a claims processer in an insurance company has an MBA, and that a factory worker is a degreed educator.

We live in a different economy, one that demands a great deal of customization. And we have a workforce that is far more educated and sophisticated. Sounds like the potential for an ideal match.

But we remain stuck in an old system of management, a system that is so much a part of how organizations work that it is unconscious.

Designed to Engage

If Henry Ford were starting Ford Motor Company today, he'd likely take a very different approach, as this is a very different time and competitive realities are in sharp contrast to those of yesterday. He would need an organization that could readily customize its products and services to meet customer needs quickly, easily, efficiently and effectively. He would need a workforce that was free to take action as needed to improve the customer experience, to grow revenue, and to reduce costs.

If Ford were starting today he would recognize that management's primary job is to fully enable employees to make the day-to-day decisions core to the businesses routine work in the now.

To do that, management must complete the work defined in the Full Engagement Checklist. A NOW-centered management system not only enables, but also effectively causes, employee action in routine work—action to improve processes, resolve customer issues and eliminate waste. Competitive advantage is earned one improvement at a time in response to the hundreds of improvement opportunities employees encounter.

I suggest a NOW Management System (explored more extensively in *Business at the Speed of Now* published by Wiley in 2011) that redefines the basic management constructs and moves the challenge of engaging employees from a "program" to the way a business operates.

The NOW system intentionally causes employees to engage, putting their ideas to work in the part of the business they run by clarifying their accountabilities, giving them access to the data they need to make decisions, and ensuring they have the skills and authority to solve the problems they encounter.

The NOW Management System enables every employee to act on every opportunity every time in order to transform the customer experience, grow revenue and reduce costs. This system prioritizes, connects and drives the execution of all work in an organization, ensuring that every resource is focused on the goals and that every human being has the maximum authority to act.

Henry Ford once said that "Any customer can have a car painted any color that he wants so long as it is black." That cost him customers, even in an era of industrial decision-making, when other companies began rolling out various models in a wide array of colors. In today's world, in which the decision begins with what the customer wants, organizations must be able to customize their

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production on the fly to meet customer needs, and front line employees need to be able to make decisions to meet that demand.

The NOW system eliminates the waste caused by management through the lack of clarity about organizational goals and priorities, the lack of clarity about what role employees play and what they are accountable for and the lack of clarity about employees' authority to solve problems and make decisions.

The NOW Management System is the result of the application of Lean concepts to the management of the enterprise. This is important because the actual process of managing an enterprise is rarely addressed the way many other processes are.

The system is a framework designed to manage and improve the two primary aspects of running an organization:

- Day-to-day operations (Fundamentals, or the routine work)
- Strategic initiatives
  (Breakthroughs, or the major projects)

Managing the Fundamentals

The NOW Management System includes an integrated framework that clarifies and organizes all routine work—the fundamentals—which represents 90-95 percent of what an organization needs to do extremely well in order to succeed. Next, the system translates the fundamentals into a set of customized and real-time Scorecards. These Scorecards are the focus of Quarterly Target Reviews (by peer groups) and cause employees to initiate problem-solving projects to drive out waste and costs while improving quality and customer satisfaction. The scorecards also identify the organization's primary constraints, pinpointing the highest return targets for Lean/Six Sigma initiatives.

Managing the Initiatives

With the fundamentals under control, resources can more effectively be dedicated to create a system that clarifies and organizes its initiatives—the Breakthroughs. These initiatives either improve existing fundamentals or provide new capabilities essential to achieve the organization's goals.

Ultimately, the system establishes unambiguous ownership with every manager and employee through a clear line of sight from top-level goals to the daily work. Both fundamentals and

breakthroughs leverage high-visibility methods so that when a measure falls below expectation it stimulates quick action. In addition, the system enables unfiltered access “in the NOW” to people, documents, facts and ideas that transform organizational culture from a legacy of “trying” to a new reality of effective execution.

NOW Management System Outcomes

Successful implementation of the NOW Management System results in:

- Leadership alignment on how to run the enterprise
- Increased accountability and transparency
- Complete visibility of primary constraints to organizational performance
- Improved customer experience and satisfaction
- Reduced waste through fast and efficient Lean and problem solving
- Improved resource utilization
- Highly engaged employees
- Common language throughout the enterprise

Summary

Human beings are a creative lot. Look around you and look how our world has been made better by the millions of micro-improvements in everything that makes up what we know to be the world. To create—to innovate—is a fundamental human act.

Our traditional ways of managing, born 100 years ago at the beginning of the era of Mass Production, were designed at a time when centralized innovation led to far greater efficiency and when human beings were seen as extensions of machines. The rules of engagement today are far different.

A Mass Customization economy demands mass engagement and mass ingenuity. Success in this innovation-demanding world requires a safe, creative and agile workforce. Fear remains the primary obstacle to innovation in most organizations. **And nothing determines the level of fear more in organizations than the system of management chosen by the leader.**

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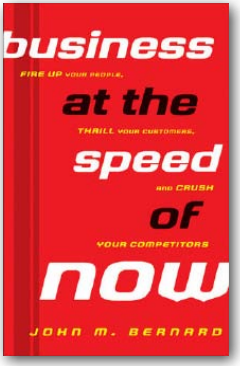

BUY THE BOOK | Get more details or buy a copy of Business at the Speed of Now.

ABOUT THE AUTHOR | John is a top-rated speaker for the Conference Board, his monthly newspaper column is syndicated to 41 Business Journals across the U.S., and he is a columnist for Governing.com. For 30 years, John has been building and reengineering organizations to enable them to aggressively grow the top and bottom line. As the principal architect of the NOW Management System, his passion focuses on leveraging best-practice management with social media INSIDE the organization to engage employees, sharpen focus and accelerate execution.

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